2018

FINANCIAL STATEMENTS

For the year ending 31 March 2018

FIRST MORTGAGE TRUST

INVESTMENTS | PROPERTY FINANCE

CONTENTS

Signed for on behalf of the Manager, First Mortgage Managers Limited:

Director

Director

Date: 26 June 2018

DIRECTORY

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First Mortgage Managers Limited
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Directors of the Manager
Peter Edmond Washer (Chairman)
Jonathan Shane Marshall
Bruce Ellett Page
Ian James Farrelly
Michael John Smith
Craig Norman Haycock (Appointed 1 July 2017)

The Supervisor
Trustees Executors Limited
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51 Shortland Street
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The Auditors
KPMG
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247 Cameron Road
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CHAIRMAN'S REPORT

I have pleasure in presenting the accounts for First Mortgage Trust for the year ending 31 March 2018.

While maintaining our conservative lending policies we have still been able to provide our investors with a competitive return on their investments with an average distribution for the year of 5.21%.

We continue with our policy of building a portfolio of quality first mortgages for our investors. The result of this is that no investor has lost any capital through their investments with First Mortgage Trust, nor have they failed to receive a competitive return on those investments on each quarterly interest date.

Our twin aims are to continue to protect our investors' capital by providing them with a well managed portfolio of first mortgages and to continue to achieve a competitive interest return on their investments, protected by those securities.

We thank you for your ongoing support.

PE Washer
Chairman of Directors
First Mortgage Managers Limited

STATEMENT OF FINANCIAL POSITION

As at 31 March

	Note	2018 $000's	2017 $000's
Assets			
Cash and cash equivalents	10a	88,163	44,753
Short term deposits	10b	30,243	28,093
Interest receivable	14b	3,297	2,702
Accounts receivable		-	2
Prepayments		57	42
Loans to customers – current portion	9a	311,951	254,218
Total current assets		**433,711**	**329,810**
Loans to customers – non-current portion	9a	212,372	167,340
Total non-current assets		**212,372**	**167,340**
Total assets		**646,083**	**497,150**
Liabilities			
Trade and other payables	11	3,818	2,946
Taxation payable		97	98
Distributions payable		5,085	-
Total current liabilities		**9,000**	**3,044**
NET ASSETS		**637,083**	**494,106**
Equity			
Retained earnings	13	3,547	2,771
Investors' funds	12	633,536	491,335
TOTAL INVESTORS EQUITY		**637,083**	**494,106**

The notes on pages 8 to 32 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March

	Note	2018 $000's	2017 $000's
Interest income - Loans to customers		37,458	28,003
Interest income - Bank deposits		3,138	2,235
Total interest income		**40,596**	**30,238**
Management fees	5	8,901	6,687
Supervisor fees	6	393	302
Other expenses	7	216	260
Doubtful debts – increase in provision	9b	160	30
Bad debts written off/(recovered)	9c	28	(60)
Total expenses		**9,698**	**7,219**
Net profit for the year before tax		**30,898**	**23,019**
Income tax expense	8	317	301
Net profit for the year and total comprehensive income		**30,581**	**22,718**

The notes on pages 8 to 32 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March

	Retained earnings $000's	Investors' funds $000's	Total equity $000's
Balance at 1 April 2017	**2,771**	**491,335**	**494,106**
Total comprehensive income	30,581	-	30,581
Contributions by and distributions to Investors			
Distributions to Investors	(29,805)	-	(29,805)
Units issued during the year	-	221,046	221,046
Units redeemed during the year	-	(78,845)	(78,845)
Total contributions by and distributions to Investors	(29,805)	142,201	112,396
Balance at 31 March 2018	**3,547**	**633,536**	**637,083**
Balance at 1 April 2016	**1,996**	**349,571**	**351,567**
Total comprehensive income	22,718	-	22,718
Contributions by and distributions to Investors			
Distributions to Investors	(21,943)	-	(21,943)
Units issued during the year	-	215,199	215,199
Units redeemed during the year	-	(73,435)	(73,435)
Total contributions by and distributions to Investors	(21,943)	141,764	119,821
Balance at 31 March 2017	**2,771**	**491,335**	**494,106**

The notes on pages 8 to 32 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 March

	Note	2018 $000's	2017 $000's
Cash flows from operating activities			
Interest received		31,670	23,288
Cash paid to suppliers		(8,918)	(6,702)
Income taxes paid		(318)	(304)
Net cash from operating activities	15	**22,434**	**16,282**
Cash flows from investing activities			
Repayment of loans by customers		263,628	136,606
Advances of loans to customers		(358,633)	(267,562)
Increase in short term deposits		(2,150)	(4,093)
Net cash used in investing activities		**(97,155)**	**(135,049)**
Cash flows from financing activities			
Proceeds from issue of units		202,960	198,160
Distributions to investors		(17,849)	(17,003)
Repayment of units		(66,981)	(61,852)
Net cash from financing activities		**118,130**	**119,305**
Net increase in cash and cash equivalents		43,410	538
Cash and cash equivalents at beginning of year		44,753	44,215
Cash and cash equivalents at end of year	10a	**88,163**	**44,753**

The notes on pages 8 to 32 are an integral part of these financial statements.

1. REPORTING ENTITY

First Mortgage Trust Group Investment Fund (the "Fund") is an unlisted open end Group Investment Fund domiciled in New Zealand. First Mortgage Managers Limited (the "Manager") in its capacity as manager of the Fund is an FMC reporting entity in terms of the Financial Markets Conduct Act 2013.

Trustees Executors Limited (the "Supervisor") is the trustee and supervisor of the Fund.

The Fund was established on 20 February 2001, pursuant to a trust deed between the Supervisor and the Manager as varied by deed dated 13 August 2003 and a deed of amendment and restatement dated 14 September 2015 ("Trust Deed").

The financial statements of the Fund have been prepared for the year ending 31 March 2018 for the Fund by the Manager in accordance with the Trustee Companies Act 1967, the Financial Reporting Act 2013, the Financial Markets Conduct Act 2013 and the provisions of the Trust Deed.

The Fund is primarily involved in facilitating the collective investment in loans secured by first ranking mortgages over land and buildings.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS"), and other applicable Financial Reporting Standards, as appropriate for tier 1 profit-oriented entities. The financial statements also comply with the requirements of International Financial Reporting Standards ("IFRS").

The financial statements were approved by the Manager on 26 June 2018.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis. The going concern concept and the accrual basis of accounting have been adopted.

The methods used to measure fair values for disclosure purposes are discussed further in note 4.

(c) Functional and presentation currency

The Fund only holds investments in New Zealand which are denominated in New Zealand dollars.

These financial statements are presented in New Zealand dollars ($), which is the Fund's functional currency. All financial information presented in New Zealand dollars has been rounded to the nearest thousand dollars.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

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

In particular, information about significant areas of estimation uncertainty in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in notes 9(b) and 14(b) and relates to measurement of loans to customers.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in loans to customers, other receivables, cash and cash equivalents, short term deposits and trade payables.

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

A financial instrument is recognised if the Fund becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Fund's contractual rights to the cash flows from the financial assets expire or if the Fund transfers the financial asset to another party without retaining control or substantially all the risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at settlement date, i.e., in the case of loans to customers the date that a loan is advanced or repaid. Financial liabilities are derecognised if the Fund's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances, call and short term deposits with a remaining term to maturity of three months or less.

Short term deposits comprise deposits with a remaining term to maturity of greater than three months but less than twelve months.

(b) Investors' funds

The Fund classifies financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

The Fund units are puttable instruments and meet the criteria required under NZ IAS 32 Financial Instruments to be classified as equity.

A puttable financial instrument that includes a contractual obligation for the Fund to repurchase or redeem that instrument for cash or another financial asset is classified as equity if it meets all of the following conditions:

- It entitles the holder to a pro rata share of the Fund's net assets in the event of the Fund's liquidation;
- It is in the class of instruments that is subordinate to all other classes of instruments;
- All financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features;
- Apart from the contractual obligation for the Fund to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any other features that would require classification as a liability; and
- The total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Fund over the life of the instrument.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Impairment

The carrying amounts of the Fund's assets are reviewed at each reporting date to determine whether there is any objective evidence of impairment.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in profit or loss.

The recoverable amount of the Fund's loans to customers and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Loans to customers and receivables with a short duration are not discounted.

Impairment losses on an individual basis are determined by an evaluation of the exposures on a loan by loan basis. All individual loans that are considered significant are subject to this approach.

Loans to customers that are not individually significant and loans to customers for which, based on their individual assessment, it is determined that no objective evidence of impairment exists, are collectively assessed for impairment in groups with similar risk characteristics.

The required provision is estimated on the basis of historical loss experience of assets with credit risk characteristics similar to those in the collective group.

(d) Interest income

Interest income comprises interest on funds invested in bank deposits or loaned to customers. Interest income is recognised as it accrues, using the effective interest method.

(e) Income tax expense

This is a Category B Group Investment Fund, therefore, no taxation is payable by the Fund on amounts distributed to investors within 6 months of balance date. The income distributed to investors is liable for tax in the hands of the investor, unless the investor is exempt from tax.

The Fund is liable to pay tax on any undistributed surplus.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(f) Current / Non-current assets and liabilities

Items classified as current are those which the Fund expects to realise within twelve months after the reporting period. Items classified as non-current are those that do not meet the definition of current.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) New standards and interpretations not yet effective

A number of new or revised standards are not effective for the year ended 31 March 2018, and have not been applied in preparing these financial statements. Those that are applicable to the Fund are:

- NZ IFRS 9 'Financial Instruments: Classification and Measurement' (NZ IFRS 9) is effective 1 January 2018.

  This standard will replace NZ IAS 39 Financial Instruments: Recognition and Measurement. It introduces a forward looking expected credit loss (ECL) impairment model, changes to the classification and measurement of financial instruments, as well as how hedge accounting can be applied. An impact assessment of this standard has been performed by the Fund. The major changes under the standard are outlined below:

  Impairment

  The biggest area of change will affect how the Fund accounts for credit impairment provision on its loan portfolio. The ECL model will require considerable judgement as to how changes in economic factors affect ECLs. This approach includes the adoption of lifetime expected credit losses for those facilities which have had a significant change towards impairment since origination. The ECL model uses a three-stage approach based on the extent of credit deterioration since initial recognition.

  Classification and measurement

  NZ IFRS 9 contains a new classification approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. No material impact is expected from the adoption of this standard.

  Hedge accounting

  The general hedge accounting requirements aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks, management considers this will have no impact on the Fund.

  Transition

  The requirements of NZ IFRS 9 will be adopted from 1 April 2018. The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods. The Fund does not intend to restate comparatives.

  The current estimated impact of transitioning to NZ IFRS 9 at 1 April 2018 on the financial statements of the Fund is not expected to be material. The Fund will continue to revise, refine and validate the impairment model are related process controls.

There are a number of other standards and interpretations which are not yet effective and management consider they will have no impact on the Fund.

4. DETERMINATION OF FAIR VALUES

A number of the Fund's policies and disclosures require the determination of fair value, for both financial assets and liabilities. Fair values have been determined for disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

4. DETERMINATION OF FAIR VALUES (continued)

(a) Loans to customers and other receivables

The fair value of loans to customers and other receivables determined for disclosure purposes is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(b) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

5. MANAGEMENT FEES

	Year to 31 Mar 2018 $000's	Year to 31 Mar 2017 $000's
Average daily balance of the Fund	571,428	425,201
Management fees	8,695	6,473
Additional costs	206	214
Total management fees	**8,901**	**6,687**

The Manager is entitled to a management fee of 1.5% plus GST (if any) per annum calculated on the average daily balance of the Fund. The Manager charged the full management fee during the year ending 31 March 2018. To reimburse the Manager for expenses incurred in collecting overdue mortgages, the Manager may charge an amount equal to half of the penalty interest (if any) received on those loans. During the year this amount was charged in some instances when penalty interest was recovered. In addition, the Manager is permitted to be reimbursed out of the Fund for all costs, expenses and liabilities incurred whilst acting for the Fund.

6. SUPERVISOR FEES

	Year to 31 Mar 2018 $000's	Year to 31 Mar 2017 $000's
Average daily balance of the Fund	571,428	425,201
Supervisor fees	357	273
Additional costs	36	29
Total Supervisor fees	**393**	**302**

The Supervisor receives an amount not greater than 0.1% plus GST (if any) per annum calculated on the average daily balance of the Fund. In addition, the Supervisor is permitted to be reimbursed out of the Fund for all costs, expenses and liabilities incurred whilst acting for the Fund.

7. OTHER EXPENSES	**Year to 31 Mar 2018 $000's**	**Year to 31 Mar 2017 $000's**
Administration expenses	130	163
Auditor's remuneration to KPMG comprises:		
Audit of financial statements (note 1)	79	79
Audit-related services (note 2)	2	3
Non-audit fees:		
Tax services (note 3)	-	2
Offer documents costs	-	4
Legal Fees (note 4)	5	9
Total other expenses	**216**	**260**

Notes:

1. The audit fee includes the fees for the annual and interim audits of the financial statements of the Fund.
2. Audit-related services comprise the provision of statutory Supervisor reporting and the audit of the Investor Register.
3. Tax services relate to tax compliance work and advice in relation to the Product Disclosure Statement of the Fund.
4. Legal Fees comprise the provision of legal services to the Fund in relation to compliance with the Financial Markets Conduct Act 2013.

8. INCOME TAX EXPENSE	**Year to 31 Mar 2018 $000's**	**Year to 31 Mar 2017 $000's**
Current tax expense	317	301
Deferred tax expense		
Origination and reversal of temporary differences	-	-
Total income tax expense	**317**	**301**
Reconciliation of effective tax rate:		
Net Profit for the year before tax	30,898	23,019
Beneficiary income	(29,765)	(21,943)
Total	1,133	1,076
Income tax using the Fund's domestic tax rate of 28%	317	301
Total	**317**	**301**

9. LOANS TO CUSTOMERS, PROVISIONS FOR DOUBTFUL DEBTS AND BAD DEBTS WRITTEN OFF

a) Loans to customers

	31 Mar 2018 $000's	31 Mar 2017 $000's
Gross loans to customers	525,463	422,538
Provision for doubtful debts – collective	(1,140)	(980)
Total loans to customers	**524,323**	**421,558**
Current portion	311,951	254,218
Non-current portion	212,372	167,340
Total loans to customers	**524,323**	**421,558**

Loans to customers have stated interest rates ranging between 5.00% and 9.75% (2017: 6.00% to 9.75%). Up to 7% per annum interest, in addition to the stated interest rate, may be charged in instances where a loan is in default.

The following movements in loans to customers occurred during the year:

	31 Mar 2018 $000's	31 Mar 2017 $000s
Opening balance	421,558	283,332
New mortgages paid out	357,363	268,404
Capitalised interest	7,886	6,078
Expenses and fees charged	1,338	320
Repayment of existing mortgages	(263,662)	(136,546)
Provision for doubtful debts – loan principal	(160)	(30)
Total loans to customers	**524,323**	**421,558**

b) Provision for doubtful debts

The following movements in provisions for doubtful debts covering both principal and interest arrears occurred during the year:

	31 Mar 2018 $000's	31 Mar 2017 $000s
Collective provision		
Opening balance	980	950
Provisions made during the year	160	30
Closing balance	**1,140**	**980**
Total provision for doubtful debts (including principal and interest)	**1,140**	**980**

Total provision for doubtful debts is split as follows:

	Note	31 Mar 2018 $000's	31 Mar 2017 $000's
Principal	9b	1,140	980
Interest	14b	-	-
Total provision for doubtful debts		**1,140**	**980**

9. LOANS TO CUSTOMERS, PROVISIONS FOR DOUBTFUL DEBTS AND BAD DEBTS WRITTEN OFF (continued)

b) Provision for doubtful debts (continued)

Total movement in provision for doubtful debts and bad debt expense for the year was:

	$000's	$000's
Charged to profit or loss:		
Increase in provision	160	30
Bad debts written off - principal	3	3
Bad debts reversed - principal	(39)	(63)
Bad debts written off - interest	64	-
Total provision for bad debt expense	**188**	**(30)**

Provisions for doubtful debts are regularly assessed by management. If the estimated value of the security is reassessed as being greater than the outstanding balance of the loan the provision for doubtful debts is reversed.

It is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year are different from management's assumptions which could require a material adjustment to the carrying amount of loans to customers.

c) Bad debts written off

When a bad debt is written off the amount written off is charged to bad debt expense and the provision for doubtful debts is reduced by the amount of the specific provision in relation to that debt.

	31 Mar 2018 $000's	31 Mar 2017 $000's
Bad debts written off - principal where no specific provision had been made	3	3
Bad debts written off - subsequently recovered	(39)	(63)
Bad debts written off - interest where no specific provision had been made	64	-
Total bad debts written off	**28**	**(60)**

10. CASH AND CASH EQUIVALENTS AND SHORT TERM DEPOSITS

a) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits, and short term deposits with a remaining term to maturity of three months or less.

Cash and cash equivalents	31 Mar 2018 $000's	31 Mar 2017 $000's
ANZ Bank New Zealand	68,775	34,656
Bank of New Zealand	10,186	6,081
Heartland Bank	9,202	4,016
Total cash and cash equivalents	**88,163**	**44,753**

10. CASH AND CASH EQUIVALENTS AND SHORT TERM DEPOSITS (continued)

b) Short term deposits

Short term deposits comprise deposits with a remaining term to maturity of greater than three months but less than twelve months.

Short term deposits	31 Mar 2018 $000's	31 Mar 2017 $000's
ANZ Bank New Zealand	14,000	16,000
Bank of New Zealand	8,000	6,000
Heartland Bank	8,243	6,093
Total short term deposits	**30,243**	**28,093**

c) Interest rates

The effective interest rates on deposits held with financial institutions as at year end were as follows:

	31 Mar 2018	31 Mar 2017
Call deposits:		
ANZ Bank New Zealand	2.25%	2.25%
Bank of New Zealand	2.19%	3.20%
Heartland Bank	3.58%	3.59%
Short term deposits:		
ANZ Bank New Zealand	3.54%	3.51%
Bank of New Zealand	3.74%	3.68%
Heartland Bank	3.70%	3.65%

Cash and cash equivalents and short term deposits are held with bank and financial institution counterparties, which are rated BBB to AA-, based on rating agency Fitch Ratings Inc. ratings.

11. TRADE AND OTHER PAYABLES

	Note	31 Mar 2018 $000's	31 Mar 2017 $000's
Trade payables		1,151	885
Management fees payable	16b	2,446	1,890
Supervisor fees payable	16b	97	78
Accrued expenses		53	54
Other payables		71	39
Total trade and other payables		**3,818**	**2,946**

12. INVESTORS' FUNDS

	Year to 31 Mar 2018 Number of Units / $000's	Year to 31 Mar 2017 Number of Units / $000's
On issue at beginning of year	491,335	349,571
Units issued during the year	221,046	215,199
Units redeemed during the year	(78,845)	(73,435)
On issue at end of year	**633,536**	**491,335**

The investors receive quarterly distributions within 3 working days of being declared. Distributions of $29,804,424 were declared by the Fund for the year ended 31 March 2018 (2017: $21,942,559).

12. INVESTORS' FUNDS (continued)

The following table shows the number of investments in the Fund and First Mortgage PIE Trust* in various investment dollar bands to show funding exposure risk:

	31 Mar 2018 Number of Investments	31 Mar 2017 Number of Investments
Does not exceed $100,000	2,111	1,854
Exceeds $100,000 and not $250,000	726	595
Exceeds $250,000 and not $500,000	388	293
Exceeds $500,000 and not $1,000,000	174	129
Exceeds $1,000,000 and not $2,500,000	74	51
Exceeds $2,500,000 and not $5,000,000	12	10
Exceeds $5,000,000 and not $7,500,000	4	2
Exceeds $7,500,000 and not $10,000,000	2	1
Exceeds $10,000,000 and not $12,500,000	-	1
Exceeds $12,500,000	-	-
Total number of investments	**3,491**	**2,936**

* First Mortgage PIE Trust is managed by the Manager and invests in the Fund.

13. RETAINED EARNINGS

	Year to 31 Mar 2018 $000's	Year to 31 Mar 2017 $000's
Balance at beginning of year	2,771	1,996
Profit for the year	30,581	22,718
Distributions to investors	(29,805)	(21,943)
Balance at end of year	3,547	2,771

Retained earnings represent the net proceeds from the Fund's investment activities which the Manager, in consultation with the Supervisor, and in accordance with the Trust Deed have not yet distributed or credited to investors. Retained earnings includes interest in relation to some loans with interest payments in arrears that is not distributed until such time as it is received.

14. FINANCIAL INSTRUMENTS

The Fund has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risks (interest rate risk)

This note presents information about the Fund's exposure to each of the above risks, the Fund's objectives, policies and processes for measuring and managing risk, and the Fund's management of capital.

a) Risk management framework

The Fund's risk management policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions.

14. FINANCIAL INSTRUMENTS (continued)
b) Credit risk

Credit risk is the risk of financial loss to the Fund if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Fund's loans to customers and deposits with banks. For risk management reporting purposes, the Fund considers and consolidates all elements of credit risk exposure (such as individual obligor default risk and sector risk) and has a credit policy, which is used to manage the risk.

Management of credit risk
As part of this policy the Supervisor has approved the following specific policies:

The policy of the Manager is to establish and maintain a broad range of loan investments secured by first registered mortgage over land and buildings. The skill of the Manager lies in maintaining a loan portfolio with a mix of loan types, interest rates, maturity dates and physical locations of the mortgaged properties.

Specific Policy Guidelines
Specific investment policy guidelines are agreed between the Manager and the Supervisor from time to time. These guidelines are as follows:

(i) Mix of loan types
The loan portfolio will be spread between residential and commercial (including farming) properties within New Zealand, but with an emphasis on properties in the Bay of Plenty, Waikato and Auckland areas. Lending on residential properties is limited to a minimum of 10% and a maximum of 75% of the total funds of the Fund. Lending on commercial properties is limited to a maximum of 50% and, lending on rural properties is limited to a maximum of 50% of the total funds of the Fund.

(ii) Lending limits
There are limits on the maximum size of any loan in relation to both the value of the property provided as security and to the total funds of the Fund at the time the loan is advanced. The limits are:

- **Residential** - 75% of an independent valuation for residential land and buildings in fee simple, 70% on developed residential sections, 50% of the lessee's interest in approved leasehold land and buildings, and 50% for vacant undeveloped residential land, or the amount of the valuer's recommendation;
- **Rural** - 60% of an independent valuation for rural properties in fee simple (in some instances for dairy farming, this lending margin may be increased to 66.67%), 50% of the lessee's interest in approved leasehold land and buildings, and 50% for vacant rural land or the amount of the valuer's recommendation. However advances to farming clients operating solely on leasehold land will be exceptions rather than the rule and the mortgagors will need to have substantial financial assets; and
- **Commercial** - 66.7% of an independent valuation for commercial land and buildings in fee simple (including developed commercial sections), 50% of the lessee's interest in approved leasehold land and buildings, and 50% for vacant undeveloped commercial land, or the amount of the valuer's recommendation.
- No more than 5% of the net asset value of the Fund will be invested in any one mortgage or advanced to any one borrower or related group of borrowers at the time of lending. The total of the six largest loans in the Fund may not exceed 25% of the value of the Fund.

(iii) Ranking
The Manager's policy is to maintain the bulk of investments in loans secured by registered first mortgages. The balance of the Fund is held in bank deposits at New Zealand registered banks.

14. FINANCIAL INSTRUMENTS (continued)
b) Credit risk (continued)

Exposure to credit risk

Collateral

The Fund holds collateral against loans to customers in the form of mortgage interests over property. Estimates of fair value are based on the value of collateral assessed at the time of borrowing or renewal, and generally are not updated except when a loan is individually assessed as impaired.

It is not practicable to establish an estimate of the fair value of collateral held against all other loans. All loan value ratios are written within the parameters of the lending policy at the time a loan is advanced or renewed and the Manager considers that the collateral held is greater than the carrying value of the loans to customers (see note 9).

Past due loans	Note	31 Mar 2018 $000's	31 Mar 2017 $000's
Loans to customers - principal:			
Neither past due nor impaired		523,629	411,500
Loans with principal past due but loan not impaired:			
0-30 days		-	-
30-60 days		991	391
60-90 days		-	-
90-180 days		-	850
180-365 days		258	-
365 days +		-	-
Loans with interest past due but loan not impaired:			
0-30 days		585	766
30-60 days		-	5,050
60-90 days		-	-
90-180 days		-	2,263
180-365 days		-	1,718
365 days +		-	-
Collective provision for doubtful debts	9b	(1,140)	(980)
Carrying amount - principal	9a	**524,323**	**421,558**

Past due interest receivable	Note	31 Mar 2018 $000's	31 Mar 2017 $000's
Interest receivable:			
Neither past due nor impaired		3,289	2,529
Past due but not impaired:			
0-30 days		8	57
30-60 days		-	58
60-90 days		-	27
90-180 days		-	19
180-365 days		-	12
365 days +		-	-
Carrying amount		**3,297**	**2,702**
Deposits with banks:			
Neither past due nor impaired		118,406	72,846
Carrying amount	10	**118,406**	**72,846**

14. FINANCIAL INSTRUMENTS (continued)
b) Credit risk (continued)

Past due but not impaired loans
Loans are considered past due but not impaired where contractual interest or principal payments are past due but the Fund believes that impairment is not appropriate on the basis of the level of collateral available or the stage of collection of amounts owed to the Fund. Included in past due loans are loans where interest payments continue to be made however the original term of the loan has expired, or the Fund has paid costs in relation to the loan or security property that the borrower is required to reimburse and therefore the loan meets the definition of a past due asset that is not impaired. In these instances the property has been sold or refinanced with another lender and is pending completion of the transaction, or the Manager is working with the borrowers to renew the loan where appropriate, realise the security property, reduce the balance of the loan, or provide additional security. As at 31 March 2018 loans with interest in arrears had a principal loan balance of $585,000 (2017: $9,797,000). Included in this total are $585,000 (2017: $9,797,000) of loans not considered to be impaired which are secured against properties with estimated values of $1,295,000 (2017: $18,450,000).

Impaired loans
Impaired loans are loans for which the Fund determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan. As at 31 March 2018 no loans were determined to be impaired nor were any loans determined to be impaired at the preceding reporting period.

Allowances for impairment
The Fund establishes an allowance for impairment losses that represents its estimate of losses likely to be incurred in its loan portfolio. The Manager's assessment of impairment losses takes into account registered valuer's assessments of the property held as security in conjunction with other information available regarding the property. The allowance for impairment is subject to estimation and uncertainty in relation to the future recoverable amount and the expected repayment date. Allowances for impairment are applied against interest receivable in relation to loans identified as specifically impaired in the first instance.

Write-off policy
The Fund writes off a loan balance (and any related allowances for impairment losses) when the Fund determines that the loan is uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Concentration of credit risk

The Fund monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk at the reporting date is shown below:

	Note	31 Mar 2018 $000's	31 Mar 2017 $000's
Bank and short term deposits	10	118,406	72,846
Loans over commercial property		89,987	84,728
Loans over residential property		360,585	285,840
Loans over rural property		74,892	51,970
Collective provision for doubtful debts		(1,140)	(980)
Interest receivable		3,297	2,702
Carrying amount		**646,027**	**497,106**

14. FINANCIAL INSTRUMENTS (continued)
b) Credit risk (continued)

At the reporting date the Fund had aggregate credit exposure to ANZ Bank New Zealand of 13.1% (2017: ANZ Bank New Zealand of 10.3%). There is no other aggregate exposure to individual counterparties which equals or exceeds 10% of the Fund's equity at the reporting date.

The concentration of credit risk in counterparty loan holders owing the 6 largest amounts is 9.41% (2017: 9.30%). The above table represents the maximum exposure to credit risk. At the reporting date there were no loans which exceeded 5% of (2017: there were no loans which exceeded 5% of investors' funds) investors funds.

The following table shows the number of loans held by individual counterparties in various loan dollar bands to show credit exposure risk:

	31 Mar 2018	31 Mar 2017
<$200,000	75	55
$200,000 - $500,000	184	147
$500,001 - $1,000,000	164	118
$1,000,001 - $2,000,000	88	82
$2,000,001 - $3,500,000	40	28
$3,500,001 - $5,000,000	8	8
$5,000,001 - $7,500,000	8	6
$7,500,001 - $10,000,000	3	4
>$10,000,000	1	-
Total number of individual counterparties	**571**	**448**

The loan portfolio will be spread between properties within New Zealand, but with an emphasis on properties in the Bay of Plenty, Waikato and Auckland areas.
The Fund monitors concentrations of the loan portfolio credit risk by geographic region. An analysis of concentrations of credit risk at the reporting date is shown below:

	31 Mar 2018 $000's	31 Mar 2017 $000's
Auckland	320,588	267,424
Bay of Plenty	82,099	52,805
Canterbury	28,900	24,175
Hawke's Bay	1,045	2,659
Manawatu-Wanganui	8,239	8,860
Marlborough	2,903	3,479
Nelson	300	2,035
Northland	9,533	8,376
Otago	535	-
Southland	4,301	1,250
Taranaki	1,628	790
Tasman	403	300
Waikato	41,184	26,458
Wellington	23,805	23,927
Carrying amount	**525,463**	**422,538**

14. FINANCIAL INSTRUMENTS (continued)
b) Credit risk (continued)

Loan-to-Value ratios (LVRs) are calculated as the current loan secured by a first mortgage divided by the Fund's valuation of the security property at origination of the exposure. The Fund monitors concentrations of the loan portfolio credit risk by LVRs. An analysis of concentrations of credit risk at the reporting date by percentage of loans by LVR range is shown below:

LVR Range	31 Mar 2018 Percentage of Loans	31 Mar 2017 Percentage of Loans
Does not exceed 45%	24.5%	31.8%
Exceeds 45% and not 55%	29.4%	22.4%
Exceeds 55% and not 65%	33.7%	31.5%
Exceeds 65% and not 75%	12.2%	14.3%
Exceeds 75% and not 85%	-	-
Exceeds 85%	0.2%	-

Valuation of the security property at origination is the valuation at the time of loan approval, or the valuation at the time the loan is increased if an increase has occurred which requires a more up-to-date valuation.

c) Liquidity risk
Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with its financial liabilities.

Management of liquidity risk
The Fund's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. The Fund takes monies invested by investors and lends to customers for longer periods. If an investor wishes to withdraw from the Fund, the Manager has up to 90 business days to repay the investor. For this financial structure to be viable, a high level of confidence must be preserved that the Fund's investor funds will be maintained. The contractual cash flow analysis below sets out the liquidity position of the Fund's assets.

Cash reserves
The Manager has agreed with the Fund's Supervisor to maintain a portion of the Fund in liquid investments to provide for withdrawals and running expenses. This portion of the Fund may be partially invested in bank deposits, government securities or other managed funds.

14. FINANCIAL INSTRUMENTS (continued)
c) Liquidity risk (continued)

Exposure to liquidity risk

The key measure used by the Fund for managing liquidity risk is the ratio of net liquid assets to deposits from customers (i.e. investors' funds). For this purpose net liquid assets are considered as including cash and cash equivalents and debt securities for which there is an active and liquid market less any borrowings and commitments maturing within the next month. A similar, but not identical, calculation is used to measure the Fund's compliance with the liquidity limit established by the Fund's Supervisor. Details of the reported Fund ratio of net liquid assets to investors' funds at the reporting date and during the reporting year were as follows:

	31 Mar 2018	31 Mar 2017
As at year end		
Cash and cash equivalents and short term deposits	18.7%	14.9%
Average for the year	20.0%	17.5%
Maximum for the year	24.3%	21.7%
Minimum for the year	14.4%	13.1%

Cash and cash equivalents comprise cash balances, call deposits, and short term deposits with a remaining term to maturity of three months or less. Short term deposits in the statement of financial position includes short term deposits with a maturity of greater than 3 months but less than one year.

The following table combines cash and cash equivalents and all short term deposits:

		31 Mar 2018 $000's	31 Mar 2017 $000's
Cash and cash equivalents	10a	88,163	44,753
Short term deposits	10b	30,243	28,093
Total cash and cash equivalents and short term deposits		**118,406**	**72,846**

14. FINANCIAL INSTRUMENTS (continued)

c) Liquidity risk (continued)

Residual contractual maturities for financial assets and liabilities

The following table sets out the contractual cash flows for all financial assets and liabilities

31 March 2018	Carrying value $000's	Contractual cash flows $000's	On demand $000's	6 months or less $000's	6-12 months $000's	1-2 years $000's	2-5 years $000's	More than 5 years $000's
Assets								
Cash and cash equivalents	88,163	88,163	66,988	21,175	-	-	-	-
Short term deposits	30,243	31,265	-	14,447	16,818	-	-	-
Loans to customers	524,323	568,284	1,250	155,215	182,543	173,453	54,785	1,038
Interest receivable	3,297	3,297	8	3,167	122	-	-	-
Total assets	646,026	691,009	68,246	194,004	199,483	173,453	54,785	1,038
Liabilities								
Accounts payable	3,818	3,818	-	3,818	-	-	-	-
Taxation payable	97	97	-	97	-	-	-	-
Distributions payable	5,085	5,085	-	5,085	-	-	-	-
Total non-derivative liabilities	9,000	9,000	-	9,000	-	-	-	-
Net financial assets	**637,026**	**682,009**	**68,246**	**185,004**	**199,483**	**173,453**	**54,785**	**1,038**

14. FINANCIAL INSTRUMENTS (continued)

c) Liquidity risk (continued)

Residual contractual maturities for financial assets and liabilities (continued)

31 March 2017	Carrying value $000's	Contractual cash flows $000's	On demand $000's	6 months or less $000's	6-12 months $000's	1-2 years $000's	2-5 years $000's	More than 5 years $000's
Assets								
Cash and cash equivalents	44,753	45,164	31,753	13,411	-	-	-	-
Short term deposits	28,093	28,950	-	14,398	14,552	-	-	-
Loans to customers	421,558	453,928	6,004	141,563	127,288	139,236	38,933	904
Accounts receivable	2	2	-	2	-	-	-	-
Interest receivable	2,702	2,702	173	2,443	86	-	-	-
Total assets	497,108	530,746	37,930	171,817	141,926	139,236	38,933	904
Liabilities								
Accounts payable	2,947	2,947	-	2,947	-	-	-	-
Taxation Payable	96	96	-	96	-	-	-	-
Total non-derivative liabilities	3,043	3,043	-	3,043	-	-	-	-
Net financial assets	**494,065**	**527,703**	**37,930**	**168,774**	**141,926**	**139,236**	**38,933**	**904**

14. FINANCIAL INSTRUMENTS (continued)
c) Liquidity risk (continued)
Residual contractual maturities for financial assets and liabilities (continued)

Loans to customers are repayable on demand if payments are not made when contractually due. Accordingly amounts in relation to loans to customers where the original term of the loan has expired, including loans that may have interest past due or loans that are impaired, have been included in the on demand category of the above contractual maturity tables.

The actual repayment of loans to customers may not occur at the contractual maturity date. In the normal course of business loans are advanced for a further period of time, borrowers repay loans early, or borrowers are unable to repay the loan when it falls due. The Fund is managed based on contractual maturity of loans to customers and liquidity risk is managed primarily by holding a portion of the Fund in bank deposits.

The liquidity table on the previous page does not include investors' funds due to the fact that they are classified as equity in the statement of financial position however they consist of puttable instruments that are, by their nature, capable of being put to the Fund within 6 months of the reporting date.

The Manager has calculated expected maturity for loans to customers using estimated repayment dates for loans to customers with a contractual repayment date that is past due and assumed that 53% (2017: 33%) of maturing loans will be renewed for a further term of 12 months on an ongoing basis.

In the normal course of business loans to customers that are not renewed will be repaid earlier or later than the contractual maturity date. In calculating the estimated maturity it has been assumed that loans that are not renewed are repaid on the contractual maturity date and no adjustment has been made for early or late repayment of those loans.

In the normal course of business loans are advanced for a further period of time. When renewing loans the Manager takes into account the current and expected liquidity requirements of the Fund at the time the decision is made to renew the loan. Accordingly the expected maturity schedule may change depending on the liquidity requirements of the Fund.

Contractual maturity is estimated to be the same as expected maturity for financial assets and liabilities other than loans to customers.

14. FINANCIAL INSTRUMENTS (continued)

c) Liquidity risk (continued)

Residual contractual maturities for financial assets and liabilities (continued)

The following table sets out an estimate of expected cash flows for all financial assets and liabilities.

31 March 2018	Carrying value $000's	Expected cash flows $000's	On demand $000's	6 months or less $000's	6-12 months $000's	1-2 years $000's	2-5 years $000's	More than 5 years $000's
Assets								
Cash and cash equivalents	88,163	88,163	66,988	21,175	-	-	-	-
Short term deposits	30,243	31,265	-	14,447	16,818	-	-	-
Loans to customers	524,323	607,960	-	81,475	94,250	175,599	233,019	23,617
Interest receivable	3,297	3,297	-	3,175	122	-	-	-
Total assets	646,026	730,685	66,988	120,272	111,190	175,599	233,019	23,617
Liabilities								
Accounts payable	3,818	3,818	-	3,818	-	-	-	-
Taxation payable	97	97	-	97	-	-	-	-
Distribution payable	5,085	5,085	-	5,085	-	-	-	-
Total liabilities	9,000	9,000	-	9,000	-	-	-	-
Total financial assets	**637,026**	**721,685**	**66,988**	**111,272**	**111,190**	**175,599**	**233,019**	**23,617**

14. FINANCIAL INSTRUMENTS (continued)

c) Liquidity risk (continued)

Residual contractual maturities for financial assets and liabilities (continued)

31 March 2017	**Carrying value $000's**	**Expected cash flows $000's**	**On demand $000's**	**6 months or less $000's**	**6-12 months $000's**	**1-2 years $000's**	**2-5 years $000's**	**More than 5 years $000's**
Assets								
Cash and cash equivalents	44,753	45,164	31,753	13,411	-	-	-	-
Short term deposits	28,093	28,950	-	14,398	14,552	-	-	-
Loans to customers	421,558	468,935	148	100,960	89,802	158,713	116,779	2,533
Accounts receivable	2	2	-	2	-	-	-	-
Interest receivable	2,702	2,702	-	2,616	86	-	-	-
Total assets	497,108	545,753	31,901	131,387	104,440	158,713	116,779	2,533
Liabilities								
Accounts payable	2,947	2,947	-	2,947	-	-	-	-
Taxation payable	96	96	-	96	-	-	-	-
Total liabilities	3,043	3,043	-	3,043	-	-	-	-
Total financial assets	**494,065**	**542,710**	**31,901**	**128,344**	**104,440**	**158,713**	**116,779**	**2,533**

14. FINANCIAL INSTRUMENTS (continued)

d) Interest rate risk

Interest rate risk is the risk that changes in interest rates will affect the Fund's income or the value of its financial instruments. The objective of interest rate risk management is to manage and control interest rate risk exposures within acceptable parameters, while optimising the return on risk.

Management of interest rate risk
Most investments will be in loans with floating interest rates but the Manager may maintain some fixed rate loans to help protect investors against falls in interest rates. The interest rates of the loans are disclosed in note 9.

A change of 100 basis points in interest rates would have increased or decreased profit by $6,450,000 (2017: $4,954,000). There would be no impact on equity as any increase or decrease in profit would affect distributions to investors by an equal value.

As at 31 March 2018 loans to customers totalling $2,700,000 have fixed interest rates (2017: $4,832,000). All other loans are subject to interest receivable at floating interest rates. Interest rates on loans are continually reviewed by the Manager and these rates are varied in accordance with movements in the market. Loan agreements provide for adjustments to the interest rate on existing loans by giving 14 days written notice to loan holders.

Exposure to interest rate risk
Interest rate risk – repricing analysis

	Total	0-6 months	6-12 months	1-2 years	More than 2 years
31 March 2018	**$000's**	**$000's**	**$000's**	**$000's**	**$000's**
Fixed rate instruments					
Cash and cash equivalents	21,175	21,175	-	-	-
Short term deposits	30,243	14,000	16,243	-	-
Loans to customers	2,700	2,700	-	-	-
Total fixed rate instruments	**54,118**	**37,875**	**16,243**	**-**	**-**
Variable rate instruments					
Cash and cash equivalents	66,988	66,988	-	-	-
Loans to customers	521,623	521,623	-	-	-
Total variable rate instruments	**588,611**	**588,611**	**-**	**-**	**-**
Total	**642,729**	**626,486**	**16,243**	**-**	**-**
31 March 2017					
Fixed rate instruments					
Cash and cash equivalents	13,000	13,000	-	-	-
Short term deposits	28,093	14,000	14,093	-	-
Loans to customers	4,832	4,832	-	-	-
Total fixed rate instruments	**45,925**	**31,832**	**14,093**	**-**	**-**
Variable rate instruments					
Cash and cash equivalents	31,753	31,753	-	-	-
Loans to customers	416,726	416,726	-	-	-
Total variable rate instruments	**448,479**	**448,479**	**-**	**-**	**-**
Total	**494,404**	**480,311**	**14,093**	**-**	**-**

14. FINANCIAL INSTRUMENTS (continued)

e) Capital management

The Fund's capital consists of retained earnings and investors' funds, and is not subject to any externally imposed capital requirements. See discussion on liquidity risk in Note 14(c) for capital management techniques for investors' funds.

f) Sensitivity analysis

The quarterly interest distribution to investors is the quarterly net profit arising from operations, after allowing for expenses, bad debts, taxes and any other amount the Manager considers prudent to set aside in the reserve fund. If the Manager determines that it is appropriate, interest in relation to some loans with overdue interest payments may not be distributed until such time as it is received.

The key driver of this distribution is interest income from loans to customers. Given the nature of the Fund's structure, any increase in interest rates (i.e. income) is materially passed on to investors via the distribution, and thus an increase in one factor is mirrored in the other.

g) Classification and estimation of fair values

The methods used in determining the fair values of financial instruments are discussed in note 4.

The following table sets out the carrying values of each class of financial instruments and their respective fair values.

	Loans and receivables $000's	Other financial liabilities $000's	Fair value $000's
31 March 2018			
Assets			
Loans to customers	212,372	-	212,372
Total non-current financial assets	**212,372**	**-**	**212,372**
Loans to customers	311,951	-	311,951
Interest receivable	3,297	-	3,297
Cash and cash equivalents	88,163	-	88,207
Short term deposits	30,243	-	30,268
Total current financial assets	**433,654**	**-**	**433,723**
Total financial assets	**646,026**	**-**	**646,095**
Liabilities			
Accounts payable	-	3,818	3,818
Taxation payable	-	97	97
Distribution payable	-	5,085	5,085
Total current financial liabilities	**-**	**9,000**	**9,000**
Total financial liabilities	**-**	**9,000**	**9,000**

14. FINANCIAL INSTRUMENTS (continued)

g) Classification and estimation of fair values (continued)

	Loans and receivables $000's	Other financial liabilities $000's	Fair value $000's
31 March 2017			
Assets			
Loans to customers	167,340	-	167,340
Total non-current financial assets	**167,340**	**-**	**167,340**
Loans to customers	254,218	-	254,218
Interest receivable	2,702	-	2,702
Cash and cash equivalents	44,753	-	44,777
Short term deposits	28,093	-	28,066
Accounts receivable	2	-	2
Total current financial assets	**329,768**	**-**	**329,765**
Total financial assets	**497,108**	**-**	**497,105**
Liabilities			
Accounts payable	-	2,946	2,946
Taxation payable	-	98	98
Total current financial liabilities	**-**	**3,044**	**3,044**
Total financial liabilities	**-**	**3,044**	**3,044**

The carrying value of loans to customers with variable interest rates is deemed to be equal to their fair value in accordance to note 4(a).

Loans to customers includes a $2,700,000 (2017: $4,832,000 of loans) loan with a fixed interest rate of 6.95% (2017: rates range between 6.50% and 7.50%) and the latest date at which the fixed interest period of this loan expires is August 2018 (2017: August 2017). Due to the short term nature of the fixed interest period the carrying value of these loans is materially equal to the fair value.

15. RECONCILIATION OF THE PROFIT FOR THE YEAR WITH THE NET CASH FROM OPERATING ACTIVITIES

	31 Mar 2018 $000's	31 Mar 2017 $000's
Profit for the year	30,581	22,718
Adjustments for:		
Non cash interest adjustments *	(8,267)	(6,492)
Change in interest receivable	(656)	(458)
Change in prepayments	(15)	(2)
Change in accounts payable	605	551
Change in accounts receivable	2	(2)
Change in taxation payable	(1)	(3)
Bad Debts written off/(recovered)	25	(60)
Provision for doubtful debts – loan principal	160	30
Net cash from operating activities	**22,434**	**16,282**

* Non cash interest adjustments consists of capitalised interest of $7,886,000 (2017: $6,078,000) and units refunded to pay interest of $381,000 (2017: $414,000).

16. RELATED PARTIES

a) Nature of relationship

The Fund is managed by the Manager as outlined in the product disclosure statement. The Manager makes all decisions relating to administration, investment management, investment applications, loan applications and the management of the Fund's mortgage portfolio. The Manager's responsibilities are set out in detail in the registered Trust Deed between the Manager and the Supervisor. The Manager does not hold or own any of the assets of the Fund. The Manager does not guarantee the return of principal or income to investors.

The trustee and supervisor's role is performed by the Supervisor. The role of the Supervisor is to hold all of the assets of the Fund on behalf of investors and to monitor compliance by the Manager with the requirements of the Trust Deed. The Supervisor's responsibilities are set out in detail in the Trust Deed. The Supervisor is required to exercise reasonable diligence to ascertain whether or not a breach of the terms of the Trust Deed or the offer of units has occurred.

The Supervisor and Manager are indemnified by the Fund on the terms set out in clause 18 of the Trust Deed. The Supervisor and Manager are entitled to be reimbursed out of the Fund for all expenses, costs or liabilities incurred by them acting as Supervisor or Manager. The Supervisor and Manager are entitled to be indemnified against any expense or liability which may be incurred by them in relation to the Fund, with the exception of fraud, wilful breach of trust or dishonesty or breach of trust by the Supervisor or Manager.

First Mortgage PIE Trust is managed by the Manager and invests in the Fund.

Directors of the Manager are also considered related parties of the Fund.

b) Transactions and balances

As at 31 March 2018 directors and key management personnel of the Manager, either individually or through related interests, held units to the value of $1,350,332 in the Fund or First Mortgage PIE Trust which invests in the Fund and received $79,391 of distributions during the year (2017: $2,199,214 units held and $111,082 of distributions received for the year).

Directors of the Manager may be trustees in their professional capacity as solicitors of trusts that borrow from or invest in the Fund. In these cases the director is not a named beneficiary of the trust.

Except for loans where a director of the Manager is a trustee in a professional capacity there are no loans to related parties as at the reporting date.

Management fees paid to the Manager are detailed in note 5. Within accounts payable in the statement of financial position is an amount owing to the Manager of $2,445,686 (31 March 2017: $1,890,265).

Supervisor fees paid to the Supervisor are detailed in note 6. Within accounts payable in the statement of financial position is an amount owing to the Supervisor of $97,281 (31 March 2017: $78,174).

As at 31 March 2018 First Mortgage PIE Trust held units to the value of $199,427,756 (31 March 2017: $156,304,841) in the Fund and received $9,434,719 of distributions during the year (2017: $6,840,318). The value of units issued by the Fund to First Mortgage PIE Trust during the year was $61,024,208 (2017: $76,743,245) and the value of the units redeemed by the Fund to First Mortgage PIE Trust during the year was $17,901,294 (2017: $21,850,289).

17. SUBSEQUENT EVENTS

There have been no material events subsequent to the reporting date that require disclosure in these financial statements.

Independent Auditor's Report

To the investors of First Mortgage Trust Group Investment Fund

Report on the financial statements

Opinion

In our opinion, the accompanying financial statements of First Mortgage Trust Group Investment Fund (the Fund) on pages 4 to 32:

i. Present fairly in all material respects the Fund's financial position as at 31 March 2018 and its financial performance and cash flows for the year ended on that date; and

ii. Comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

— The statement of financial position as at 31 March 2018;

— The statements of comprehensive income, changes in equity and cash flows for the year then ended; and

— Notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

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

We are independent of the 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.

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

Our firm has also provided other services to the Fund in relation to tax advisory services and audit of the investor register. Subject to certain restrictions, partners and employees of our firm may also deal with the Fund on normal terms within the ordinary course of trading activities of the business of the Fund. These matters have not impaired our independence as auditor of the Fund. The firm has no other relationship with, or interest in, the Fund.

Other information

The Directors of the Manager, on behalf of the Fund, are responsible for the other information included in the entity's financial statements. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

The Chairman's Report and Directory are expected to be made available to us after the date of this Independent Auditor's Report. In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Use of this independent auditor's report

This independent auditor's report is made solely to the investors as a body. Our audit work has been undertaken so that we might state to the investors those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the investors as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

Responsibilities of the Directors of the Manager for the financial statements

The Directors, on behalf of the Fund, are responsible for:

— The preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;

— Implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and

— Assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objective is:

- 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 independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

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

This description forms part of our independent auditor's report.

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

For and on behalf of

KPMG

KPMG

Tauranga

26 June 2018

Notes:

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