2019

FINANCIAL STATEMENTS

For the year ending 31 March 2019

FIRST MORTGAGE TRUST

INVESTMENTS | PROPERTY FINANCE

FIRST MORTGAGE TRUST
INVESTMENTS | PROPERTY FINANCE

CONTENTS

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

Director

Director

Date: 13 June 2019

DIRECTORY

The Manager
First Mortgage Managers Limited
First Mortgage Trust
15 First Avenue
Tauranga 3110
PO Box 13083
Tauranga 3141
New Zealand
Telephone 07 578 0754
Freephone 0800 321 113
E-mail team@fmt.co.nz
www.fmt.co.nz

Directors of the Manager
Michael John Smith *(Chairman)*
Jonathan Shane Marshall
Ian James Farrelly
Craig Norman Haycock
Greig Anthony Allison (Appointed 1 February 2019)
Phillip Graeme Bell (Appointed 1 February 2019)
Peter Anthony Treacy (Appointed 1 February 2019)

The Supervisor
Trustees Executors Limited
Level 7
51 Shortland Street
PO Box 4197
Auckland

The Auditors
KPMG
Level 2
247 Cameron Road
Tauranga

CHAIRMAN'S REPORT

I have pleasure in presenting the accounts for First Mortgage Trust for the year ending 31 March 2019.

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 5.42%.

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.

MJ Smith
Chairman of Directors
First Mortgage Managers Limited

STATEMENT OF FINANCIAL POSITION

As at 31 March

	Note	2019 $000's	2018 $000's
Assets			
Cash and cash equivalents	11a	118,494	88,163
Short term deposits	11b	54,864	30,243
Interest receivable	15b	4,050	3,297
Prepayments		-	57
Loans to customers – current portion	10a	330,314	311,951
Total current assets		**507,722**	**433,711**
Loans to customers – non-current portion	10a	300,839	212,372
Total non-current assets		**300,839**	**212,372**
Total assets		**808,561**	**646,083**
Liabilities			
Trade and other payables	12	2,625	3,818
Taxation payable		132	97
Distributions payable		6,102	5,085
Total current liabilities		**8,859**	**9,000**
NET ASSETS		**799,702**	**637,083**
Equity			
Retained earnings	14	4,841	3,547
Investors' funds	13	794,861	633,536
TOTAL INVESTORS EQUITY		**799,702**	**637,083**

The notes on pages 8 to 39 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March

	Note	2019 $000's	2018 $000's
Interest income - Loans to customers		47,688	37,458
Interest income - Bank deposits		3,917	3,138
Total interest income		**51,605**	**40,596**
Management fees	6	11,133	8,901
Supervisor fees	7	489	393
Other expenses	8	280	216
Change in impairment provision	10b	140	160
Bad debts (recovered)/written off	10c	(336)	28
Total expenses		**11,706**	**9,698**
Net profit for the year before tax		**39,899**	**30,898**
Income tax expense	9	503	317
Other Comprehensive Income		-	-
Net profit for the year and total comprehensive income		**39,396**	**30,581**

The notes on pages 8 to 39 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March

	Note	Retained earnings $000's	Investors' funds $000's	Total equity $000's
Balance at 1 April 2018 as previously reported		**3,547**	**633,536**	**637,083**
Impact of adopting IFRS 9 at 1 April 2018	3	89	-	89
Restated balance at 1 April 2018		**3,636**	**633,536**	**637,172**
Total comprehensive income		39,396	-	39,396
Distributions to Investors		(38,191)	-	(38,191)
Units issued during the year		-	290,163	290,163
Units redeemed during the year		-	(128,838)	(128,838)
Total contributions by and distributions to Investors		(38,191)	161,325	123,134
Balance at 31 March 2019		**4,841**	**794,861**	**799,702**
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**

The notes on pages 8 to 39 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 March

	Note	2019 $000's	2018 $000's
Cash flows from operating activities			
Interest received		37,997	31,670
Cash paid to suppliers		(13,293)	(8,918)
Income taxes paid		(440)	(318)
Net cash from operating activities	16	**24,264**	**22,434**
Cash flows from investing activities			
Repayment of loans by customers		350,227	263,628
Advances of loans to customers		(444,564)	(358,633)
Increase in short term deposits		(24,621)	(2,150)
Net cash used in investing activities		**(118,958)**	**(97,155)**
Cash flows from financing activities			
Proceeds from issue of units		266,572	202,960
Distributions to Investors		(27,661)	(17,849)
Repayment of units		(113,886)	(66,981)
Net cash from financing activities		**125,025**	**118,130**
Net increase in cash and cash equivalents		30,331	43,410
Cash and cash equivalents at beginning of year		88,163	44,753
Cash and cash equivalents at end of year	11a	**118,494**	**88,163**

The notes on pages 8 to 39 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 2019 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 13 June 2019.

(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 5.

(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 affect on the amount recognised in the financial statements are described in notes 10(b) and 15(b) and relates to measurement of loans to customers.

3. CHANGE IN ACCOUNTING POLICY

The Fund has adopted NZ IFRS 9 'Financial Instrument: Classification and Measurement' (NZ IFRS 9) with an initial application date of 1 April 2018.

This standard sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

As a result of the adoption of NZ IFRS 9 the Fund has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about the current period but have not been applied to comparative information.

The classification and measurement and impairment requirements are applied prospectively by adjusting the opening statement of financial position at the date of initial application, with no requirement to restate comparative periods. The Fund did not restate comparatives.

The following table summarises the impact, net of tax, of transition to NZ IFRS 9 on the opening retained earnings (for a description of the transition method, see 3(iv)).

Retained earnings	Note	Impact of adopting IFRS 9 on opening balance $000's
Recognition of expected credit losses under NZ IFRS 9	3(ii)	124
Related tax		(35)
Impact at 1 April 2018		**89**

i. Classification and measurement of financial assets and financial liabilities

NZ IFRS 9 contains three principle classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under NZ IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. NZ IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. NZ IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. The adoption of NZ IFRS 9 has not had a significant affect on the Fund's accounting policies related to financial liabilities and derivative financial instruments. For an explanation of how the Fund classifies and measures financial instruments and accounts for related gains and losses under NZ IFRS 9, see Note 4(a).

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under NZ IFRS 9 for each class of the Fund's financial assets and financial liabilities as at 1 April 2018.

The effect of adopting NZ IFRS 9 on the carrying amounts of financial assets at 1 April 2018 relates solely to the new impairment requirements.

3. CHANGE IN ACCOUNTING POLICY (continued)

i. Classification and measurement of financial assets and financial liabilities (continued)

	Original classification under IAS 39	New classification under NZ IFRS 9	Original carrying amount under IAS 39 $000's	New carrying amount under NZ IFRS 9 $000's
Financial assets				
Cash and cash equivalents	Amortised Cost	Amortised Cost	88,163	88,163
Short term deposits	Amortised Cost	Amortised Cost	30,243	30,243
Interest receivable	Amortised Cost	Amortised Cost	3,297	3,297
Loans to customers*	Amortised Cost	Amortised Cost	524,323	524,447
Total financial assets			**646,026**	**646,150**
Financial liabilities				
Accounts payable	Financial liabilities	Financial liabilities	3,818	3,818
Taxation payable	Financial liabilities	Financial liabilities	97	132
Distributions payable	Financial liabilities	Financial liabilities	5,085	5,085
Total financial liabilities			**9,000**	**9,035**

*Loans to customers that were classified at amortised cost under IAS 39 continue to be so under NZ IFRS 9. A decrease of $124,000 in the allowance for impairment over these Loans to customers was recognised in opening retained earnings at 1 April 2018 on transition to NZ IFRS 9.

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under NZ FRS 9 on transition to NZ IFRS 9 on 1 April 2018.

Reconciliation of impairment allowances between 31 March 2018 and 1 April 2018

	NZ IAS 39	NZ IFRS 9 Restatement due to ECL	
	31 Mar 2018		1 Apr 2018
	$000's	$000's	$000's
Loans to customers	525,463	-	525,463
Collective Provision	(1,140)	1,140	-
Expected Credit Losses			
Stage 1	-	(996)	(996)
Stage 2	-	-	-
Stage 3	-	(20)	(20)
Total loans to customers	**524,323**	**124**	**524,447**

ii. Impairment of financial assets

NZ IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments.

The ECL must also consider forward looking information to recognise impairment allowances earlier in the lifecycle of a product. NZ IFRS 9 consequently is likely to increase the volatility of impairment allowances as the economic outlook changes, although cash flows and cash losses are expected to remain unchanged.

3. CHANGE IN ACCOUNTING POLICY (continued)

ii. Impairment of financial assets (continued)

IFRS 9 introduces a three-stage approach to impairment as follows:

- Stage 1 - the recognition of 12 month ECL, that is the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date, if credit risk has not increased significantly since initial recognition;
- Stage 2 - lifetime ECL for financial instruments for which credit risk has increased significantly since initial recognition; and
- Stage 3 - lifetime ECL for financial instruments which are credit impaired.

In contrast, the IAS 39 impairment allowance assessment was based on an incurred loss model, and measured on assets where there was objective evidence that loss had been incurred, using information as at the balance sheet date.

The Fund has determined that the application of NZ IFRS 9's impairment requirements at 1 April 2018 results in a reduction in the allowance for impairment as follows:

	$000's
Loss allowance at 31 March 2018 under IAS 39	1,140
Reduced impairment recognised at 1 April 2018 on Loans to customers	(124)
Loss allowance at 1 April 2018 under NZ IFRS 9	**1,016**

Impairment allowance reconciliations

Reconciliation from IAS 39 to IFRS 9 - financial assets under IFRS 9 subject to an increase in impairment allowance

The table below, reconciles the closing impairment allowances for financial assets in accordance with IAS 39 and provisions for loan commitments in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets as at 31 March 2018 and the opening impairment allowances determined in accordance with IFRS 9 as at 1 April 2018.

Reconciliation of impairment allowance and provisions	Impairment allowance under IAS 39 or provision under IAS 37 $000's	Additional IFRS 9 impairment allowance $000's	Impairment allowance under IFRS 9 $000's
Loans to customers at amortised cost	1,140	(215)	925
Total on-balance sheet	**1,140**	**(215)**	**925**
Provision for undrawn contractually committed facilities	-	91	91
Total impairment and provision	**1,140**	**(124)**	**1,016**

- The introduction of IFRS 9 has decreased the total impairment allowance held by the Fund by approximately $0.124m, from $1.140m as at 31 March 2018 to $1.016m as at 1 April 2018.

Additional information about how the Fund measures the allowance for impairment is described in Note 4(c).

iii. Hedge accounting

NZ IFRS 9 revises the requirements on hedge accounting, adoption of which is optional. The Fund does not hedge account so there is no impact from adopting the hedge accounting disclosure requirements.

3. CHANGE IN ACCOUNTING POLICY (continued)

iv. Transition

Changes in accounting policies resulting from the adoption of NZ IFRS 9 have been applied retrospectively, except as described below.

- The Fund has used an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of NZ IFRS 9 are recognised in retained earnings and reserves as at 1 April 2018. Accordingly, the information presented for the prior periods do not generally reflect the requirements of NZ IFRS 9, but rather those of IAS 39.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.
- If an investment in a debt security had low credit risk at the date of initial application of NZ IFRS 9, then the Fund has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements with the exception that the Fund has initially applied NZ IFRS 9 from 1 April 2018 but this does not have a material affect on the Fund's financial statements.

Due to the transition methods chosen by the Fund in applying this standard, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards, except for separately presenting impairment loss on trade receivables and contract assets (see Note 4(a)).

The effect of initially applying this standard is mainly attributed to a decrease in impairment losses recognised on financial assets at 1 April 2018 (see Note 3(ii)).

(a) Financial assets and liabilities

i. Recognition and initial measurement

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

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.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Financial assets and liabilities (continued)

ii. Classification and subsequent measurement

Financial assets – Policy applicable from 1 April 2018

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cashflows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Fund may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income (OCI). This election is made on an investment-by-investment basis. The Fund does not have any equity instruments.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets (see Note 15(g)). On initial recognition, the Fund may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets – Business model assessment

The Fund makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Fund's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Fund's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Financial assets and liabilities (continued)

ii. Classification and subsequent measurement (continued)

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest.

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Fund considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual Cash flows such that it would not meet this condition. In making this assessment, the Fund considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- Early repayment and extension features; and
- terms that limit the Fund's claim to cash flows from specified assets (e.g. non-recourse features).

An early repayment feature is consistent with the solely payments of principal and interest criterion if the amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract.

Financial assets – Subsequent measurement and gains and losses

Financial assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

iii. Derecognition

Financial assets

The Fund derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Fund neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Fund enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Fund derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Fund also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Financial assets and liabilities (continued)

iii. Derecognition (continued)

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

iv. Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Fund currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(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.

(c) Impairment

Policy applicable from 1 April 2018

i. Financial instruments

The Fund recognises loss allowances for ECLs on financial assets measured at amortised cost.

The Fund measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Fund considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Fund's historical experience and informed credit assessment and including forward-looking information.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Impairment (continued)

i. Financial instruments (continued)

The Fund assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

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; or
- the borrower is in default.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Fund is exposed to credit risk.

ii. Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Fund expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

iii. Credit-impaired financial assets

At each reporting date, the Fund assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Fund on terms that the Fund would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

iv. Presentation of allowance for ECL in the Statement of Financial Position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

v. Write-off

The gross carrying amount of a financial asset is written off when the Fund has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Fund individually assesses the financial assets, with respect to the timing and amount of write-off, based on whether there is a reasonable expectation of recovery. The Fund expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Fund's procedures for recovery of amounts due.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Impairment (continued)
Policy applicable before 1 April 2018

Financial assets not classified as at FVTPL were assessed at each reporting date to determine whether there was objective evidence of impairment.

Objective evidence that financial assets were impaired included:

- default or delinquency by a debtor;
- restructuring of an amount due to the Fund on terms that the Fund would not consider otherwise;
- indications that a debtor or issuer would enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security because of financial difficulties; or
- observable data indicating that there was a measurable decrease in the expected cash flows from a group of financial assets.

(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.

(g) New standards and interpretations not yet effective
A number of new or revised standards are not effective for the period ended 31 March 2019, and have not been applied in preparing these financial statements as management consider they will have no impact on the Fund.

5. 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.

(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.

6. MANAGEMENT FEES

	Year to 31 Mar 2019 $000's	Year to 31 Mar 2018 $000's
Management fees	10,939	8,695
Additional costs	194	206
Total management fees	11,133	8,901

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 2019. 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.

7. SUPERVISOR FEES

	Year to 31 Mar 2019 $000's	Year to 31 Mar 2018 $000's
Supervisor fees	442	357
Additional costs	47	36
Total Supervisor fees	489	393

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.

8. OTHER EXPENSES

	Year to 31 Mar 2019 $000's	Year to 31 Mar 2018 $000's
Administration expenses	190	130
Auditor's remuneration to KPMG comprises:		
Audit of financial statements (Note 1)	87	79
Audit-related services (Note 2)	2	2
Offer documents costs	1	-
Legal Fees (Note 3)	-	5
Total other expenses	280	216

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. Legal Fees comprise the provision of legal services to the Fund in relation to compliance with the Financial Markets Conduct Act 2013.

9. INCOME TAX EXPENSE IN THE STATEMENT OF COMPREHENSIVE INCOME

	Year to 31 Mar 2019 $000's	Year to 31 Mar 2018 $000's
Current tax expense	503	317
Deferred tax expense		
Origination and reversal of temporary differences	-	-
Total income tax expense	503	317
Reconciliation of effective tax rate:		
Net Profit for the year before tax	39,899	30,898
Beneficiary income	(38,103)	(29,765)
Total	1,796	1,133
Income tax using the Fund's domestic tax rate of 28%	503	317
Total	503	317

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

See accounting policies in Note 4(a), the effect of initially applying NZ IFRS 9 is described in Note 3.

a) Loans to customers

	Note	31 Mar 2019 $000's	31 Mar 2018 $000's
Gross loans to customers		632,373	525,463
Collective provision for doubtful debts under NZ IAS 39	10b	-	(1,140)
Provision for ECL under IFRS 9		(1,220)	-
Total loans to customers		631,153	524,323
Current portion		330,314	311,951
Non-current portion		300,839	212,372
Total loans to customers		631,153	524,323

Loans to customers have stated interest rates ranging between 6.25% and 10.00% (2018: 5.00% 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 2019 $000's	31 Mar 2018 $000s
Opening balance	524,323	421,558
Change to Opening Balance due to IFRS 9	124	-
New loans paid out	442,560	357,363
Capitalised interest	12,599	7,886
Expenses and fees charged to customers	2,019	1,338
Repayment of existing loans	(350,268)	(263,662)
Provision for doubtful debts – loan principal	-	(160)
Provision for ECL	(204)	-
Total loans to customers	631,153	524,323

10. LOANS TO CUSTOMERS, PROVISIONS FOR DOUBTFUL DEBTS AND BAD DEBTS WRITTEN OFF (continued)
b) Provision for doubtful debts

Expected Credit Losses

The table below presents a breakdown of gross financial assets where there has been a change in impairment allowance with stage allocation by asset classification, including off balance sheet exposures.

				Gross exposure				Impairment allowance
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
As at 31 March 2019	$000's	$000's	$000's	$000's	000's	$000's	$000's	$000's
Loans to customers at amortised cost	626,527	1,911	4,007	632,445	1,065	6	85	1,156
Off balance sheet loan commitments	49,844	-	542	50,386	61	-	3	64
Total	676,371	1,911	4,549	682,831	1,126	6	88	1,220

				Net exposure
	Stage 1	Stage 2	Stage 3	Total
As at 31 March 2019	$000's	$000's	$000's	$000's
Loans to customers at amortised cost	625,462	1,905	3,922	631,289
Off balance sheet loan commitments	49,783	-	539	50,322
Total net exposure 31 March 2019	675,245	1,905	4,461	681,611

- Stage 1: 99.1% of gross exposure is in Stage 1 and has not experienced a significant increase in credit risk since origination.
- Stage 2: 0.3% of gross exposure is in Stage 2 and has seen an increase in credit risk since origination.
- Stage 3: 0.6% of gross exposure is in Stage 3 which is credit impaired including defaulted assets.

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

b) Provision for doubtful debts (continued)

Expected Credit Losses (continued)

Analysis of loans to customers at amortised cost

The table below presents Gross exposure, Impairment allowance and Coverage ratio by stage allocation and business segment. The net exposure is provided in order to reconcile to the balance sheet and excludes provisions for off-balance sheet loan commitments.

	Gross exposure				Impairment allowance				Coverage ratio (Impairment allowance / Gross exposure)			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
As at 31 March 2019	$000's	$000's	$000's	$000's	$000's	$000's	$000's	$000's	%	%	%	%
Residential home	168,165	781	-	168,946	5	-	-	5	0.00	-	-	0.00
Residential rental/apartments	139,328	1,130	-	140,458	510	6	-	516	0.37	0.53	-	0.37
Residential development	146,935	-	1,656	148,591	67	-	8	75	0.05	-	0.48	0.05
Commercial loans	141,440	-	2,351	143,791	478	-	77	555	0.34	-	3.28	0.39
Rural loans	30,659	-	-	30,659	5	-	-	5	0.02	-	-	0.02
Total loans to customers at amortised cost	626,527	1,911	4,007	632,445	1,065	6	85	1,156	0.17	0.31	2.12	0.18
Less: Impairment allowance					1,156							
Total net exposure as at 31 March 2019					**631,289**							

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

b) Provision for doubtful debts (continued)

Expected Credit Losses (continued)

- Stage 1 assets - impairment is calculated based on a 12 month expected loss. Coverage for these performing, non-deteriorated assets is 0.17%.
- Stage 2 assets - have seen a significant increase in credit risk but are not defaulted and are largely performing. Under IFRS 9, these assets require a lifetime expected loss to be held.
- Stage 3 assets - coverage ratio increases to 2.12%. Stage 3 includes defaulted. Some of these assets remain subject to collections activities and this, along with collateral holdings, reduces expected loss levels for these assets.

The following movements in provisions for expected credit losses (2018: doubtful debts) covering both principal and interest arrears occurred during the period:

	31 Mar 2019 $000's	31 Mar 2018 $000's
Opening balance	1,140	980
Change in Opening Balance due to IFRS 9	(124)	-
Provisions made during the period	204	160
Total provision for expected credit losses (including principal and interest)	1,220	1,140

Total movement in provision for expected credit losses and bad debt expense for the period was:

	31 Mar 2019 $000's	31 Mar 2018 $000's
Charged to profit or loss:		
Increase in provision	140	160
Bad debts written off - principal	-	3
Bad debts reversed - principal	(336)	(39)
Bad debts written off - interest	-	64
Total provision for expected credit losses expense	(196)	188

Provisions for expected credit losses 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 period 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 portion of expected credit losses relating to the debt (if any) is reversed.

	31 Mar 2019 $000's	31 Mar 2018 $000's
Bad debts written off - principal where no specific provision had been made	-	3
Bad debts written off - subsequently recovered	(336)	(39)
Bad debts written off	-	64
Total bad debts written off	(336)	28

11. 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 2019 $000's	31 Mar 2018 $000's
ANZ Bank New Zealand	109,045	68,775
Bank of New Zealand	2,188	10,186
Heartland Bank	7,261	9,202
Total cash and cash equivalents	118,494	88,163

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 2019 $000's	31 Mar 2018 $000's
ANZ Bank New Zealand	28,000	14,000
Bank of New Zealand	2,000	8,000
Heartland Bank	24,864	8,243
Total short term deposits	54,864	30,243

c) Interest rates

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

	31 Mar 2019	31 Mar 2018
Call deposits:		
ANZ Bank New Zealand	2.19%	2.25%
Bank of New Zealand	2.24%	2.19%
Heartland Bank	3.67%	3.58%
Short term deposits:		
ANZ Bank New Zealand	3.37%	3.54%
Bank of New Zealand	2.55%	3.74%
Heartland Bank	3.71%	3.70%

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.

12. TRADE AND OTHER PAYABLES

	Note	31 Mar 2019 $000's	31 Mar 2018 $000's
Trade payables		1,408	1,151
Management fees payable	17b	1,033	2,446
Supervisor fees payable	17b	117	97
Accrued expenses		67	53
Other payables		-	71
Total trade and other payables		2,625	3,818

13. INVESTORS' FUNDS

	Year to 31 Mar 2019 Number of Units / $000's	Year to 31 Mar 2018 Number of Units / $000's
On issue at beginning of year	633,536	491,335
Units issued during the year	290,163	221,046
Units redeemed during the year	(128,838)	(78,845)
On issue at end of year	794,861	633,536

The investors receive quarterly distributions within 3 working days of being declared. Distributions of $38,190,707 were declared by the Fund for the year ended 31 March 2019 (2018: $29,804,424).

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 2019 Number of Investments	31 Mar 2018 Number of Investments
Does not exceed $100,000	2,201	2,111
Exceeds $100,000 and not $250,000	864	726
Exceeds $250,000 and not $500,000	486	388
Exceeds $500,000 and not $1,000,000	260	174
Exceeds $1,000,000 and not $2,500,000	95	74
Exceeds $2,500,000 and not $5,000,000	16	12
Exceeds $5,000,000 and not $7,500,000	1	4
Exceeds $7,500,000 and not $10,000,000	2	2
Exceeds $10,000,000 and not $12,500,000	1	-
Exceeds $12,500,000	-	-
Total number of investors	3,926	3,491

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

14. RETAINED EARNINGS

	Year to 31 Mar 2019 $000's	Year to 31 Mar 2018 $000's
Balance at beginning of year	3,547	2,771
Change to Opening Balance due to IFRS 9 changes (Note 3)	89	-
Profit for the year	39,396	30,581
Distributions to investors	(38,191)	(29,805)
Balance at end of year	4,841	3,547

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.

15. 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.

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 80% 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;

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

- **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 recommendatiaon.
- 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.

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 10a).

Past due loans	**Note**	**31 Mar 2019 $000's**	**31 Mar 2018 $000's**
Loans to customers - principal:			
Neither past due nor impaired:		623,347	523,629
Loans with principal past due but loan not impaired:			
0-30 days		2,862	-
30-60 days		748	991
60-90 days		-	-
90-180 days		-	-
180-365 days		142	258
365 days +		-	-
Loans with interest past due but loan not impaired:			
0-30 days		2,178	585
30-60 days		1,660	-
60-90 days		-	-
90-180 days		1,436	-
180-365 days		-	-
365 days +		-	-
Collective provision for doubtful debts	10b	-	(1,140)
Provision for ECL under IFRS 9	10b	(1,220)	-
Carrying amount - principal	10a	631,153	524,323

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

Past due interest receivable	**Note**	**31 Mar 2019 $000's**	**31 Mar 2018 $000's**
Interest receivable:			
Neither past due nor impaired:		3,980	3,289
Past due but not impaired:			
0-30 days		31	8
30-60 days		21	-
60-90 days		9	-
90-180 days		9	-
180-365 days		-	-
365 days +		-	-
Carrying amount		4,050	3,297
Deposits with banks:			
Neither past due nor impaired:		173,358	118,406
Carrying amount	11	173,358	118,406

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 2019 loans with interest in arrears had a principal loan balance of $5,236,926 (2018: $585,000). Included in this total are $5,236,926 (2018: $585,000) of loans not considered to be impaired which are secured against properties with estimated values of $8,344,479 (2018: $1,295,000).

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 2019 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 a provision for expected credit 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.

15. FINANCIAL INSTRUMENTS (continued)

b) Credit risk (continued)

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 2019 $000's	31 Mar 2018 $000's
Bank and short term deposits	11	173,358	118,406
Loans over commercial property		144,014	89,987
Loans over residential property		409,473	360,585
Loans over rural property		78,958	74,892
Collective provision for doubtful debts		-	(1,140)
Provision for ECL		(1,220)	-
Interest receivable		4,050	3,297
Carrying amount		808,633	646,027

At the reporting date the Fund had aggregate credit exposure to ANZ Bank New Zealand of 17.2% (2018: ANZ Bank New Zealand of 13.1%). 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 10.7% (2018: 9.41%). The above table represents the maximum exposure to credit risk. At the reporting date there were no loans which exceeded 5% of Investor Funds nor were there any loans exceeding 5% of Investor Funds at the preceding reporting periods.

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

	31 Mar 2019	31 Mar 2018
<$200,000	70	75
$200,000 - $500,000	190	184
$500,001 - $1,000,000	156	164
$1,000,001 - $2,000,000	108	88
$2,000,001 - $3,500,000	44	40
$3,500,001 - $5,000,000	10	8
$5,000,001 - $7,500,000	10	8
$7,500,001 - $10,000,000	4	3
>$10,000,000	4	1
Total number of individual counterparties	**596**	**571**

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:

15. FINANCIAL INSTRUMENTS (continued)

b) Credit risk (continued)

Concentration of credit risk (continued)

	31 Mar 2019 $000's	31 Mar 2018 $000's
Auckland	389,282	320,588
Bay of Plenty	75,615	82,099
Canterbury	47,109	28,900
Hawke's Bay	11,377	1,045
Manawatu-Wanganui	7,932	8,239
Marlborough	1,037	2,903
Nelson	725	300
Northland	4,067	9,533
Otago	4,307	535
Southland	2,219	4,301
Taranaki	1,778	1,628
Tasman	-	403
Waikato	54,227	41,184
Wellington	32,698	23,805
Carrying amount before provisions	**632,373**	**525,463**

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 2019 Percentage of Loans	31 Mar 2018 Percentage of Loans
Does not exceed 45%	37.9%	24.5%
Exceeds 45% and not 55%	28.0%	29.4%
Exceeds 55% and not 65%	25.7%	33.7%
Exceeds 65% and not 75%	8.4%	12.2%
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.

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

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.

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 2019	31 Mar 2018
As at year end		
Cash and cash equivalents and short term deposits	21.9%	18.7%
Average for the year	20.5%	20.0%
Maximum for the year	24.2%	24.3%
Minimum for the year	17.3%	14.4%

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 2019 $000's	31 Mar 2018 $000's
Cash and cash equivalents	11a	118,494	88,163
Short term deposits	11b	54,864	30,243
Total cash and cash equivalents and short term deposits		**173,358**	**118,406**

15. 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 2019	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	118,494	118,494	95,260	23,234	-	-	-	-
Short term deposits	54,864	54,864	-	40,553	14,311	-	-	-
Loans to customers	631,153	684,949	6,058	190,604	163,946	261,079	60,168	3,094
Interest receivable	4,050	4,050	71	3,817	162	-	-	-
Total assets	808,561	862,357	101,389	258,208	178,419	261,079	60,168	3,094
Liabilities								
Accounts payable	2,625	2,625	-	2,625	-	-	-	-
Taxation payable	132	132	-	132	-	-	-	-
Distributions payable	6,102	6,102	-	6,102	-	-	-	-
Total non-derivative liabilities	8,859	8,859	-	8,859	-	-	-	-
Net financial assets	**799,702**	**853,498**	**101,389**	**249,349**	**178,419**	**261,079**	**60,168**	**3,094**

15. FINANCIAL INSTRUMENTS (continued)

c) Liquidity risk (continued)

Residual contractual maturities for financial assets and liabilities (continued)

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**

15. 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 45% (2018: 53%) 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.

15. 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 2019	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	118,494	118,494	95,260	23,234	-	-	-	-
Short term deposits	54,864	54,864	-	40,553	14,311	-	-	-
Loans to customers	631,153	774,763	2,355	124,612	106,925	259,346	264,125	17,400
Interest receivable	4,050	4,050	-	3,888	162	-	-	-
Total assets	808,561	952,171	97,615	192,287	121,398	259,346	264,125	17,400
Liabilities								
Accounts payable	2,625	2,625	-	2,625	-	-	-	-
Taxation payable	132	132	-	132	-	-	-	-
Distribution payable	6,102	6,102	-	6,102	-	-	-	-
Total non-derivative liabilities	8,859	8,859	-	8,859	-	-	-	-
Net financial assets	**799,702**	**943,312**	**97,615**	**183,428**	**121,398**	**259,346**	**264,125**	**17,400**

15. FINANCIAL INSTRUMENTS (continued)

c) Liquidity risk (continued)

Residual contractual maturities for financial assets and liabilities (continued)

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 non-derivative liabilities	9,000	9,000	-	9,000	-	-	-	-
Net financial assets	**637,026**	**721,685**	**66,988**	**111,272**	**111,190**	**175,599**	**233,019**	**23,617**

15. 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. The interest rates of the loans are disclosed in Note 10a.

A change of 100 basis points in interest rates would have increased or decreased profit by $8,070,000 (2018: $6,450,000). 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 2019 loans to customers totalling $8,032,000 have fixed interest rates (2018: $2,700,000). 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

31 March 2019	Total $000's	0-6 months $000's	6-12 months $000's	1-2 years $000's	More than 2 years $000's
Fixed rate instruments					
Cash and cash equivalents	23,234	23,234	-	-	-
Short term deposits	54,864	40,553	14,311	-	-
Loans to customers	4,257	2,700	-	1,557	-
Total fixed rate instruments	**82,355**	**66,487**	**14,311**	**1,557**	**-**
Variable rate instruments					
Cash and cash equivalents	95,260	95,260	-	-	-
Loans to customers	626,896	626,896	-	-	-
Total variable rate instruments	**722,156**	**722,156**	**-**	**-**	**-**
Total	**804,511**	**788,643**	**14,311**	**1,557**	**-**
31 March 2018					
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**	**-**	**-**

15. 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 15(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 5.

The carrying value of each class of financial instruments has been determined to be representative of the fair value of the respective instruments.

The carrying value of loans to customers with variable interest rates is deemed to be equal to their fair value in accordance to Note 5(a).

Loans to customers includes $8,032,000 (2018: $2,700,000) of loans with fixed interest rates between 6.25% and 6.95% (2018: 6.95%) and the latest date at which the fixed interest period of these loans expires is February 2021 (2018: August 2018). Due to the short term nature of the fixed interest period the carrying value of these loans is materially equal to the fair value.

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

	31 Mar 2019 $000's	31 Mar 2018 $000's
Profit for the year	39,396	30,581
Adjustments for changes in working capital:		
Change in interest receivable	(753)	(656)
Change in accounts payable	(1,449)	605
Change in accounts receivable	-	2
Change in prepayments	57	(15)
Change in taxation payable	-	(1)
Adjustments for non-cash items:		
Non cash interest adjustments *	(12,855)	(8,267)
Adjustments for items impacting investing activities		
Bad Debts (recovered)/written off	(336)	25
Provision for doubtful debts – loan principal	-	160
Provision for ECL	204	-
Net cash from operating activities	**24,264**	**22,434**

* Non cash interest adjustments consists of capitalised interest of $12,599,000 (2018: $7,886,000) and units refunded to pay interest of $256,000 (2018: $381,000).

17. 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.

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.

b) Transactions and balances

As at 31 March 2019 directors and key management personnel of the Manager, either individually or through related interests, held units to the value of $969,952 in the Fund or First Mortgage PIE Trust which invests in the Fund and received $57,791 of distributions during the year (2018: $1,350,332 units held and $79,391 of distributions received for the year).

Management fees paid to the Manager are detailed in note 6. Within accounts payable in the statement of financial position is an amount owing to the Manager of $1,031,342 (31 March 2018: $2,445,686).

In addition, during the year borrowers have paid loan processing fees direct to the Manager of $6,108,747 (31 March 2018: $4,778,964). The fees are loan establishment fees which are generally paid by the Fund across to the Manager from loan advances made to the borrower.

Supervisor fees paid to the Supervisor are detailed in note 7. Within accounts payable in the statement of financial position is an amount owing to the Supervisor of $117,138 (31 March 2018: $97,281).

17. RELATED PARTIES (continued)

b) Transactions and balances (continued)

As at 31 March 2019 First Mortgage PIE Trust held units to the value of $249,020,279 (31 March 2018: $199,427,756) in the Fund and received $12,348,481 of distributions during the year (2018: $9,434,719). The value of units issued by the Fund to First Mortgage PIE Trust during the year was $99,893,278 (2018: $61,024,208) and the value of the units redeemed by the Fund to First Mortgage PIE Trust during the year was $50,300,756 (2018: $17,901,294).

18. 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 39:

i. Present fairly in all material respects the Fund's financial position as at 31 March 2019 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 2019;

— 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 the 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.

KPMG

Scoping

The scope of our audit is designed to ensure that we perform adequate work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Fund, the financial reporting systems, processes and controls, and the industry in which it operates.

The context for our audit is set by the major activities in the financial year ended 31 March 2019. The Fund had a continued focus on processes and controls pertaining to lending and the contribution and withdrawal of funds by investors.

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at $2million determined with reference to a benchmark of Fund total assets. We chose the benchmark because, in our view, this is a key measure of the Fund's performance.

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 in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the Investors as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements.

The key audit matter

Provision for expected credit losses

Refer to Notes 4c and 10b in the financial statements.

The provision for expected credit losses (the 'provision') is a key audit matter due the financial significance of loans to customers and the high degree of complexity and judgement applied by management in estimating the provision. The estimate uses statistical analysis based on the entity's historical loss experience per stage allocation, business segment and macroeconomic considerations.

The inherent subjectivity in determining the provision requires us to assess and challenge the appropriateness of management's assumptions.

These factors resulted in significant audit effort being undertaken to address the risks around the recoverability of loans to customers, the determination of the related provision for impairment and disclosure in the financial statements.

KPMG

How the matter was addressed in our audit

Our audit procedures, amongst others, included:

- Engaging with KPMG specialists to assess the Fund's methodology used in the expected credit loss (ECL) model to calculate the provision against the requirements of NZ IFRS 9: *Financial Instruments* ("NZ IFRS 9").

- Testing key controls over loan data inputs and the identification of loans to customers where there has been a 'significant change in credit risk' of the loan.

- Verifying loan details by agreeing non-financial data such as interest rates, maturity dates and valuations to loan agreements and loan valuations respectively.

- Testing key inputs used in the expected credit losses model including agreeing macroeconomic factors to externally available data and assessing the accuracy of key assumptions, challenging the basis for management's determination where different.

- For loans identified as having a 'significant increase in credit risk' and 'credit impaired', evaluating the basis, and adequacy, of provisioning. This included inspecting externally obtained valuation reports that support the entity's security and assessing the cash flow relating to the loans.

- Assessing whether there were any additional loans that ought to be included in management's individual provision through portfolio analytics (including monthly arrears analysis), inspection of Loan Committee reporting, and the related credit watchlist and board meeting minutes. We also challenged management's assessment of matured loans that were not identified as having a significant increase in credit risk.

- Checking the mathematical accuracy and veracity of the expected credit losses model used to calculate the provision for impairment of loans to customers.

- Assessing the Fund's significant accounting policies and disclosures in the financial statements against the requirements of NZ IFRS 9, including the transition note.

The judgements and assumptions made in estimating the provision for expected credit losses are reasonable. We did not identify any material issues or exceptions from our procedures.

- Checking the mathematical accuracy and veracity of the expected credit losses model used to calculate the provision for impairment of loans to customers.

- Assessing the Fund's significant accounting policies and disclosures in the financial statements against the requirements of NZ IFRS 9, including the transition note.

The judgements and assumptions made in estimating the provision for expected credit losses are reasonable. We did not identify any material issues or exceptions from our procedures.

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. Other information may include the Chairman's Report and Directory. 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. Our responsibility is to read the Chairman's Report and Directory when it becomes available and consider whether the other information it contains is materially inconsistent with the financial statements, or our knowledge obtained in the audit, or otherwise appear misstated. If so, we are required to report such matters to the Directors of the Manager.

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 of the Manager, 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.

KPMG

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-2/

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

Tauranga

13 June 2019

FIRST MORTGAGE TRUST
INVESTMENTS | PROPERTY FINANCE

15 First Avenue
PO Box 13083, Tauranga 3141
New Zealand
Phone: 07 578 0754 or 0800 321 113
www.fmt.co.nz