NZ MORTGAGE INCOME TRUST

P.I.E Registered

GROUP INVESTMENT FUND

ANNUAL REPORT

2019

Contents

Chairman's Statement

Dear Investor

The Directors of Fund Managers Otago Limited present the Annual Report of the NZ Mortgage Income Trust Group Investment Fund [the Fund] for the year ended 31 March 2019.

The Fund recorded an operating loss of ($608,519) after allowing for the impairment and losses on realisation of mortgage receivables which amounted to ($444,409) for the full year. It must be remembered that the impairments are required to meet current accounting standards and as we have previously stated on many occasions does not necessarily reflect the current market value of the underlying security involved.

During the year under review the Fund did not return further capital to unitholders. Despite our optimism about returning further capital to unitholders this financial year, delays in court proceedings and frustration over planning issues frustrated our efforts to realise on the remaining impaired assets.

Despite the ongoing challenges the Manager expects that the majority of the Funds underlying assets will be sold over the next twelve months but some of the hard-core problems may take longer to finalise. The Directors sincerely appreciate your continuing support.

For and on behalf of the Board of
FUND MANAGERS OTAGO LIMITED

JOHN GALLAHER
Chairman

Nature of Business	NZ Mortgage Income Trust is a Group Investment Fund established for the pooling of investors funds for investment in registered first mortgage securities and is a Portfolio Investment Entity for taxation purposes.
Address	Fund Managers Otago Limited Level 8, 248 Cumberland St, DUNEDIN
Telephone	03 471 6500
Address for Service	Fund Managers Otago Ltd PO Box 5741, DUNEDIN 9054
Directors of the Manager	John Edward Farry (resigned 31 October 2018 David Joseph Ehlers John Francis Gallaher Donald Eric Forsyth Nicholas Peter Moore Kevin John Whitley (appointed 24 May 2019) Peter James Hutchison
Supervisor	Trustees Executors Limited Level 5, 10 Customhouse Quay, WELLINGTON
Accountants	Deloitte Limited (as trustee for the Deloitte Trading Trust) Chartered Accountants Level 13, Otago House, 481 Moray Place, DUNEDIN
Auditor	PricewaterhouseCoopers Chartered Accountants PO Box 5848, DUNEDIN 9054
Bankers	ASB Bank Limited ANZ Banking Group New Zealand Limited
Solicitors to the Manager	Anderson Lloyd Lawyers Level 10, Otago House, 481 Moray Place, DUNEDIN Webb Farry 79 Lower Stuart St, DUNEDIN

Statement of Comprehensive Income

For the year ended 31 March 2019

Operating Income

Interest - Mortgages
Interest - Impaired Mortgages
Interest - Term Deposits
Interest - Other
Investment Losses Recovered

Less Expenses

Accounting Fees
Audit Fees
Bank Charges
Computer Service Charge
General Expenses
Impairment loss for Mortgage Receivables
Legal Expenses
Loss on Realisation of Mortgage Receivables
Loan Expenses
Management Fees
Supervisor's Fees
Total Expenses

Surplus / (Loss) before Income Tax

Income Tax Expense

Surplus / (Loss) after Income Tax

Other Comprehensive Income

Net Surplus / (Loss)

Statement of Changes in Unitholders' Funds

For the year ended 31 March 2019

Net Surplus / (Loss)

Contributions and Distributions

Transactions with Unitholders

Net Repayments to Unitholders
PIE Tax Refund Receivable (Paid)

Other Transactions

Unit Valuation Adjustments

Unitholders' Funds at the Beginning of the Year

Unitholders' Funds at the End of the Year

Note	March 2019 $	March 2018 $
	-	961
15(l)	345,988	405,638
	2,976	6,748
	39	113
	27,352	1,327
	376,355	**414,787**
	7,393	15,914
9	21,226	20,954
	420	182
	15,000	15,000
	39,031	22,630
11	230,361	536,178
	36,304	6,607
15(l)	214,048	-
	259,785	300,239
4 / 13	132,556	148,803
4 / 13	28,750	31,452
	984,874	**1,097,959**
	(608,519)	**(683,172)**
	-	-
	(608,519)	**(683,172)**
	-	-
	(608,519)	**(683,172)**

	March 2019 $	March 2018 $
	(608,519)	(683,172)
3	(118,124)	(34,990)
3	78,659	118,123
	(39,465)	**83,133**
7	-	-
	6,834,135	7,434,174
	6,186,151	**6,834,135**

These financial statements are to be read in conjunction with the accompanying Notes.

Statement of Financial Position

As at 31 March 2019

Assets

ANZ Bank Cheque Account

Bank Deposits On Call

Accounts Receivable

Mortgage Interest Due

Mortgage Receivables

Total Assets

Liabilities Excluding Unitholders' Funds

Payables & Wind-up Provisions

Net Assets Attributable to Unitholders

Unitholders' Funds

Unitholders' Funds

Accumulated Losses

Total Unitholders' Funds

Signed for on behalf of the Manager,
Fund Managers Otago Limited

Director ....
Fund Managers Otago Limited

Date: 31 July 2019

Note	March 2019 $	March 2018 $
	4,723	5,781
	710,485	1,075,513
	78,659	45,454
8	7,760	7,411
11	5,521,088	5,834,303
	6,322,715	**6,968,462**
12	136,564	134,327
	6,186,151	**6,834,135**
3	16,046,042	16,085,507
7	(9,859,891)	(9,251,372)
	6,186,151	**6,834,135**

Director ....
Fund Managers Otago Limited

Statement of Cash Flows

For the year ended 31 March 2019

Cash Flows from Operating Activities

Cash was provided from:

Interest Received

GST and Loss Recovery Received

Tax Rebates Received (paid)

Repayment of Loans Secured by First Mortgage

Cash was disbursed to:

Payments to Suppliers

Additional Advances to Existing Mortgagees

Net Cash Flows from Operating Activities

Cash Flows from Investing Activities

Net Cash Flows from Investing Activities

Cash Flows from Financing Activities

Cash was provided from:

Unitholders' PIE rebates received

Cash was disbursed to:

Distributions to Unitholders - PIE Rebates

Redemptions to Unitholders

Net Cash Flows from Financing Activities

Net Increase (Decrease) in Cash Held

Cash at the Beginning of the Year

Cash at the End of the Year

Note	March 2019 $	March 2018 $
	2,665	6,131
	42,134	59,156
	(47,987)	17,614
	563,228	163,259
	560,040	**246,160**
	530,256	648,824
	356,406	387,363
	886,662	**1,036,187**
	(326,622)	**(790,027)**
	-	-
3	78,659	118,123
	78,659	**118,123**
	118,124	34,990
	-	-
	118,124	**34,990**
	(39,465)	**83,133**
	(366,087)	(706,894)
	1,081,294	1,788,188
	715,207	**1,081,294**

These financial statements are to be read in conjunction with the accompanying Notes.

Reconciliation of Surplus after Tax with Net Cashflow from Operations

Surplus (loss) after tax

Add (less) non cash items:

Allowance for Impairment of Mortgage Receivables

Loss on Realisation of Mortgage Receivables

Capitalised Interest

Capitalised Interest on Impaired Mortgages

Add (less) movements in working capital items:

(Increase)/Decrease in Accounts Receivable

(Increase)/Decrease in Accounts Receivable Relating to Tax Rebates

Increase/(Decrease) in Accounts Payable

(Increase)/Decrease in Mortgage Interest Due

(Increase)/Decrease in Mortgage Receivables

(Increase)/Decrease in Prepayments

Net Cash Flows from/(to) Operating Activities

Note	March 2019 $	March 2018 $
	(608,519)	(683,172)
	230,361	536,178
	214,048	-
	-	(961)
	(345,988)	(405,638)
	(510,098)	**(553,593)**
	14,782	57,829
	(47,987)	17,614
	2,237	(87,043)
	(350)	(730)
	214,794	(224,104)
	-	-
	183,476	**(236,434)**
	(326,622)	**(790,027)**

1. Statement of Accounting Policies

Reporting Entity

NZ Mortgage Income Trust Group Investment Fund ("the Fund") is a Group Investment Fund. The Fund is a profit-orientated entity, which was formed on 30 July, 2001 and commenced operation on 1 October, 2001. The Fund is registered under the Trustee Companies Act 1967. NZ Mortgage Income Trust Group Investment Fund is a Financial Markets Conduct ("FMC") reporting entity under the Financial Markets Conduct Act 2013 registered on 1 December 2016. The Fund has elected to be a Portfolio Investment Entity for taxation purposes (refer to note 21 for details).

The Fund has suspended redemptions. As at 31 October 2012 the manager, Fund Managers Otago Limited (the "Manager"), in accordance with the provisions of the Trust Deed resolved to wind up the Fund and realise the assets. The Manager will continue this process with capital repayments being made to unitholders as mortgages are repaid.

The principal activity of the Fund had been to provide investment in a diversified portfolio of nationwide first registered mortgages, to provide regular income to unitholders.

These financial statements have been prepared for NZ Mortgage Income Trust Group Investment Fund by the Manager, in accordance with the Financial Reporting Act 2013 and the provisions of the Trust Deed. The Trust Deed is amended on 18 November 2016.

The Supervisor of the Fund is Trustees Executors Limited (the "Supervisor")

The financial statements were authorised for issue by the Directors on 31 July 2019.

Statement of Compliance

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP") on a realisation basis (as discussed below). They comply with New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable financial reporting standards as appropriate for profit-oriented entities. These financial statements also comply with International Financial Reporting Standards ("IFRS").

Basis of Preparation

The financial statements have been prepared on a realisation basis due to the Manager's resolution to wind up the Fund made on 31 October, 2012. As a result of the Fund ceasing to be a going concern the Fund has recognised liquidation accruals in these financial statements in respect of any legal, valuation and Supervisor fees to be incurred due to the wind up until the date of final liquidation. Costs incurred in the ordinary course of business, including management, Supervisor, accounting and audit fees have not been accrued for in these financial statements, however, they will continue to be incurred until liquidation is finalised.

Cost is based on the fair value of the consideration given in exchange for assets.

The financial statements are presented in New Zealand dollars, rounded to the nearest one dollar.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 31 March, 2019 and the corresponding information presented in these financial statements for the year ended 31 March, 2018.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 31 March 2019 and in the corresponding information presented in these financial statements. There have been no changes in accounting policies, unless otherwise stated.

Critical Judgements in Applying Accounting Policies

In the application of NZ IFRS management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates. The 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 if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The estimates and assumptions that have a significant risk of causing material adjustments to the carrying amounts of assets and liability within the next financial year are discussed below;

The Fund makes estimates surrounding the collectability of amounts owing for impaired and past due mortgages receivable and accounts for the expected losses. The Manager continually monitors and assesses the collectability of amounts owing by borrowers, including those loans which are classified as past due or impaired. Should the Manager's assessment of the likelihood of payment be incorrect, notwithstanding the fact that all lending by the Fund is secured by registered first mortgage and is subject to the prudent lending policies adopted by the Manager, there remains a risk that further, possibly significant, adjustments may be required to the carrying amounts of assets within the next financial year.

Judgements made by management in the application of NZ IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements. The most significant of these is the estimation for realisable value of impaired and past due loans which is set out in note 15.

2. Summary of Specific Accounting Policies

The principal accounting policies applied in the preparation of the financial report are set out below.

a) Goods & Services Tax

The Fund is GST registered for the purposes of returning GST on rental income received on repossessed properties, being rental income received between repossession and sale by the Fund, and the sale of any repossessed properties when GST is payable. The Fund has also elected to treat the supply of qualifying financial services as zero rated for GST purposes allowing the Fund to obtain a refund for some of its expenditure in relation to those services. All other items in the financial statements have been shown inclusive of GST.

b) Income Tax

The Fund elected to be taxed as a Portfolio Investment Entity ("PIE") from 1 October 2007. As a PIE, the Fund allocates income on a quarterly basis to each investor and deducts tax from that allocated income at the prescribed investor rate for each investor. The tax that is deducted and paid to the Inland Revenue is not shown as income tax in the Statement of Comprehensive Income; rather it is shown as part of the distributions to unitholders.

c) Mortgage Receivables

The mortgage portfolio is initially recognised at fair value and subsequently measured at amortised cost using the effective interest method less any losses due to impairment. The recovery of mortgage receivables is reviewed on an ongoing basis and debts which are determined to be unrecoverable are written off. A provision for expected credit loss is recorded where there is information available to the Fund that recovery of all amounts as specified under the original terms of the mortgage agreement is not likely.

Any difference between the asset's carrying amount and the present value of discounted cashflows at the effective interest rate represents the provision for expected credit loss. The amount of this provision is recognised in the Statement of Comprehensive Income.

d) Financial Assets

Financial assets comprise ANZ Bank Cheque Account, Bank Deposits on Call, Accounts Receivable, Mortgage Interest Due and Mortgage Receivables. From 1 April 2018, The Fund has applied NZ IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

Classification and subsequent measurement of financial assets depend on:

(i) The Fund's business model for managing the asset; and

(ii) The cash flow characteristics of the asset.

Based on these factors, the Fund classifies its financial assets into one of the following three measurement categories:

<u>Amortised cost</u>

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI') and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets are adjusted by any expected credit loss allowance recognised. Interest income from these financial assets is included in Interest income using the effective interest rate method.

Fair value through other comprehensive income (FVOCI)

Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designed at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net Investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method. The Fund does not hold any of these instruments as at 31 March 2019.

Fair value through profit or loss

Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a financial instrument is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within 'Net trading income' in the period in which is arises, unless it arises from financial assets that were designated at fair value or which are not held for trading in which case they are presented separately in 'Net investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method. The Fund does not hold any of these instruments as at 31 March 2019.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset, and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including any fees, discounts or premiums) through the expected life of the financial assets, or where appropriate, a shorter period.

e) Revenue Recognition

Interest income comprises the fair value for the lending monies and is recognised on a time-proportional basis using the effective interest method.

f) Revenue Recognition of Impaired Assets

When a mortgage receivable is impaired, the Fund reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

g) Impaired Assets, Past Due Assets & Restructured Assets

"Impaired assets" are any assets where the Manager considers that there is a measurable decrease in the estimated future cash flows from the asset. Details of impaired assets are included in note 15 (l).

At each reporting date, the Manager assesses on a forward-looking basis the expected credit loss ("ECL") associated with the carrying amounts of mortgage receivables on an asset by asset basis to determine whether there is any indication that those assets will suffer an impairment loss from past event, current conditions or forecast of future economic conditions. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the ECL (if any). A specific provision for ECL is created when recovery of principal and/or interest is not considered fully collectable in accordance with the terms of the loan contract. A collective ECL may be determined by the Manager after assessing the remaining mortgage receivables according to their credit risk characteristics and considering objective evidence of past events, current conditions and forecast of future economic conditions.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An ECL provision reduces the carrying amount of the mortgage receivable, and the amount of the estimated loss is recognised in the Statement of Comprehensive Income as an expense immediately. The measurement of the expected credit loss provision for mortgage receivables is an area that requires significant judgement. These judgements include:

- Determining criteria for significant increase in credit risk.
- Future valuations and other forward looking information.
- Determining time frame to sell and estimating future selling costs.
- Discount rate.

When a mortgage security is realised the actual realisation is first recorded against the provision with any difference being recorded in the Statement of Comprehensive Income.

Where an ECL subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no ECL been recognised for the asset in prior years. Any reversal of an ECL is recognised as income immediately unless the asset is carried at fair value, in which case the reversal of the ECL is treated as a revaluation increase.

"Past due assets" are any assets which have not been operated by the counterparties within their key terms and which are not considered impaired assets. Details of past due assets are included in note 15 (m).

"Restructured assets" are assets which, were it not for the Fund agreeing to vary the original terms of the asset, would have been considered impaired. These varied terms are not generally comparable with those offered to new borrowings with comparable risk. Details of restructured assets are included in note 15 (n).

If a restructured asset subsequently becomes past due or impaired it is classified accordingly and is no longer regarded as a restructured asset.

h) Accounts Payable

Accounts payable represents liabilities for goods and services provided to the Fund and that remain unpaid at the end of the period. They are initially measured at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method.

i) Statement of Cash Flows

The Statement of Cash Flows has been prepared using the direct method and is inclusive of GST, which is consistent with the method used in the Statement of Comprehensive Income. The Statement of Cash Flows represents gross amounts of cash flows except where otherwise described. NZ IAS 7 allows cash flows to be presented on a net basis where the cash flows represent the purchase and sale of investments. The purchase and sale of investments is presented in the Statement of Cash Flows on a net basis, as the gross amounts would not provide useful information for financial statement purposes.

Definition of terms used in the Statement of Cash Flows:

"Cash" includes cash on hand, demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

"Operating activities" include all transactions and other events that are not investing or financing activities.

"Investing activities" are those activities relating to the acquisition and disposal of current and non-current investments and any other non-current assets.

"Financing activities" are those activities relating to changes in the equity and debt capital structure of the Fund and those activities relating to the cost of servicing the Fund's unitholder investments.

j) Distributions

In accordance with the Trust Deed, distributable income is distributed to unitholders by way of cash or re-investment into the Fund. A small percentage of income may be retained to help meet losses on individual loans and is recorded in the NZ Mortgage Income Trust Capital Reserve (refer note 6).

Distributions to unitholders comprise the income of the Fund to which unitholders are presently entitled.

k) Cash & Cash Equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and other short-term highly liquid investments with average maturities of three months or less, that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

l) Liquidation Accruals

The Manager resolved to wind up the Fund on 31 October, 2012. Liquidation accruals comprise costs directly related to the winding up of the Fund. These liabilities are measured at present value of estimated future payments. The provision represents the estimated costs to be paid post balance date for legal, valuation and Supervisor services likely to be received prior to and in relation to the wind up of the Fund.

m) Accounts Receivable

Accounts receivable are measured on initial recognition at fair value plus transaction costs and are subsequently measured at amortised cost using the effective interest rate method less impairment losses. Impairment losses are measured using the expected credit losses model at the time of initial recognition and on subsequent measurement. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced by the allowance account, and the amount of the loss is recognised in the Statement of Comprehensive Income within expenses. When an accounts receivable is uncollectible it is written off against the allowance account.

n) Standards and Interpretation Not Yet Effective

There have been no standards, amendments and interpretations that have been issued by the External Reporting Board but are not yet effective that will impact NZ Mortgage Income Trust.

o) New and Amended Standards Adopted by the Fund

NZ IFRS 15 Revenue from Contracts with Customers

The IASB has issued a new standard for the recognition of revenue effective from 1 January 2018. This has replaced IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

The Fund adopted NZ IFRS 15 on its effective date, there was no impact from the adoption of this standard on the financial statements of the Fund. This is due to the main sources of income relating to interest which is outside the scope of this standard.

NZ IFRS 9: Financial Instruments

The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Fund adopted NZ IFRS 9 on its effective date.

NZ IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in NZ IAS 39 that relates to the classification and measurement of financial instruments. NZ IFRS 9 retains, but simplifies, the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in NZ IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. NZ IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under NZ IAS 39.

The adoptions of NZ IFRS 9 has not had a significant impact on the measurement of the Funds financial statements. There have been no changes in classification and measurement as a result of the application of the business model and contractual cash flow characteristics tests.

3. Unitholders' Funds

	March 2019	March 2018
	$	$
Balance at the Beginning of the Year	16,085,507	16,002,374
Less:		
Investor funds – units repaid / withdrawn	-	-
Unit valuation adjustment	-	-
Add:		
PIE tax refund receivable	78,659	118,123
Less:		
PIE tax refund received	118,124	34,990
Net PIE tax refund receivable/ (received)	(39,465)	83,133
Balance at the End of the Year	**16,046,042**	**16,085,507**

The total PIE tax receivable that is included in unitholders' funds at the reporting date is $78,659(March 2018: $118,123). The Fund records a corresponding amount included in accounts receivable in the Statement of Financial Position, representing the amount payable to the Fund from Inland Revenue.

The units are valued at less than $1. The unit valuation adjustment is the difference that arises between the unit value at withdrawal and a full $1 unit. The withdrawal results in an allocation of accumulated losses as analysed in note 7.

Unitholders' Funds by Region

	March 2019		March 2018	
	$	%	$	%
Otago / Southland	13,055,734	81.8	13,075,715	81.9
Other – South Island	1,916,254	12	1,931,005	12.1
Auckland	478,411	3	478,411	3
Wellington	170,676	1.1	164,276	1

	March 2019		March 2018	
Other – North Island	252,299	1.6	252,297	1.6
New Zealand resident total	**15,873,374**	99.4	**15,901,704**	99.6
Overseas residents	94,009	0.6	65,680	0.4
Investor funds total	**15,967,383**	100	**15,967,384**	100
PIE tax adjustments receivable	78,659		118,123	
Unitholders' Funds	**16,046,043**		**16,085,507**	

The Manager on behalf of the Supervisor shall calculate the Fund value and unit value as at each valuation day. A valuation day, being a day specified by the Supervisor as a day on which the market value of the investments in the Fund is determined, occurs at least once a month. Whenever a determination of the Fund value is required, such value shall be the value calculated as at the valuation day. If the Supervisor has cause to believe at any time that on the relevant valuation day there may be a material discrepancy or potential error in the calculation of the Fund value or unit value the Supervisor shall calculate the Fund value or unit value as the case may be and that calculation shall be conclusive or binding upon all unitholders and former unitholders.

Funds are from Individuals, Trusts, Companies and Estates from within New Zealand. There were 15,967,383 units on issue at 31 March, 2019 (March, 2018: 15,967,384), where each unit issued represents a right to an individual share in the Fund per the Trust Deed. There are no separate classes of units; all units have the same rights.

Unitholders' funds are disclosed as equity as in prior periods consistent with the accounting standard, NZ IAS 32, because: they are puttable financial instruments; the unitholders' are entitled to receive a pro-rata share of the Fund's net assets on winding up; unitholders' funds are subordinate to all liabilities of the Fund; units have identical features; apart from the contractual obligation for the Fund to redeem the units for cash, the units do not include any contractual obligation to deliver cash; and the total expected cash flows over the life of the units are substantially based on the profit or loss of the Fund.

All unitholders' funds are normally repayable on request in accordance with the Trust Deed, however since 25 June 2008 the Directors of the Manager agreed with the Supervisor to impose the 90 business day notice period for withdrawals. This action is allowed in the Trust Deed and the 90 business day notice has continued throughout the period. The Trust Deed further permits the Manager, in certain circumstances, to suspend all withdrawals until such time as the Manager so determines. Such suspension notices generally operate for a term of 90 days, however further suspensions beyond 90 days are permitted. A suspension notice was issued on 13 February 2012. In May 2012 45% of outstanding investor withdrawal requests were repaid. As the Fund did not subsequently have sufficient cash resources to repay the remaining 55% of withdrawal requests the Manager further suspended withdrawals for another 90 days on 31 August 2012.

The Manager resolved to wind up the Fund on 31 October, 2012. As a result, unitholders' funds will be repaid when mortgages are sold and or repaid as funds become available.

IAS 32 requires the directors to disclose the expected cash outflow on redemption or repurchase of the financial instrument, and information on how that has been determined. The directors of the Manager, in arriving at the projected cash flows of unitholders' funds have considered the wind-up resolution and that unitholders' funds will be repaid when mortgages are sold and or repaid and funds become available.

Each unit issued represents a right to an individual share in the Fund per the Trust Deed. There are no separate classes of units; all units have the same rights. Funds are from Individuals, Trusts, Companies and Estates.

4. Manager's and Supervisor's Fees

The Manager is entitled to be paid an annual fee as may be agreed between the Manager and the Supervisor. The annual fee for the Manager is 2.0% per annum of the gross value of the Fund plus GST (if any) calculated daily and paid quarterly in arrears from the distributable income. The Manager may pay commissions to law firms or other investment advisers for investment applications lodged through them, but any commissions were paid out of the Manager's own funds. Some of these payments were made to related parties of the Fund. Details are disclosed in the financial report of the Manager.

The Supervisor is entitled to be paid an annual fee as may be agreed between the Manager and the Supervisor. Currently the Supervisor receives an annual fee of $28 ,750 per annum.This is paid quarterly in arrears from the distributable income. Refer to Note 13 for details of current year payments.

Both the Supervisor and Manager are entitled to be reimbursed out of the Fund for all costs, expenses or liabilities incurred by either of them whilst acting for the Fund. Both the Supervisor and the Manager are entitled to alter their fees by agreement between the Supervisor and the Manager. The Manager's and Supervisor's fees and expense reimbursements are payable out of the Fund and are not directly payable by investors. However, returns to investors are affected by these fees and expenses in that distributions to investors are made after the deduction of these fees and expenses from the Fund.

5. Contributions Received in Advance

The Fund is being wound up. Accordingly, no applications for units are being received and therefore there were no monies received at 31 March, 2019, (March, 2018 $Nil).

6. NZ Mortgage Income Trust Capital Reserve

The Trust Deed allows the Manager to establish a capital reserve to help meet losses on individual loans by setting aside a very small part of the Fund's income for that purpose. The amount set aside will be reviewed from time to time. At present all losses are dealt with directly through the Statement of Comprehensive Income as they occur along with specific provisions on loans known to be impaired. Due to the resolution to windup the Fund no further contributions will be made to the capital reserve.

7. Undistributed Accumulated Income / (Losses)

	March 2019	March 2018
	$	$
Balance at the Beginning of the Year	(9,251,372)	(8,568,200)
Plus:		
Net Profit / (loss) for the year	(608,519)	(683,172)
Unit valuation adjustments*	-	-
	(608,519)	(683,172)
Less:		
Distributions to unitholders	-	-
Transfer to reserve fund	-	-
	-	-
Balance at the End of the Year	**(9,859,891)**	**(9,251,372)**

As from 1 October 2009, the Fund operates a fluctuating unit value which means that any deficit will impact on the value of each unit. The value of each unit in the Fund at 31 March 2019 was $0.387 cents (March 2018: $0.425 cents).

* As the units currently have a value of less than $1 per unit, when investor funds are withdrawn the difference between the $1 unit and its current value results in an allocation of the accumulated losses of the Fund.

8. Mortgage Receivables Interest Due

	March 2019	March 2018
	$	$
Mortgage interest	7,760	7,411
	7,760	**7,411**

9. Remuneration to Auditors

	March 2019	March 2018
	$	$
Auditing the financial statements	16,905	14,490
Other non-audit assurance services (note 1)	3,623	3,623
Under-accrual of prior year relating to auditing the financial statements	698	2,841
	21,226	**20,954**

Notes:

1. Other non-audit services comprise supervisor reporting and unitholders register compliance assurance engagement.

10. Taxation

The Fund is a Portfolio Investment Entity (PIE Fund) and pays tax on investment income based on the prescribed investor rate (PIR) of their investors, rather than at the entity's tax rate. Therefore there is no tax liability for the fund.

11. Mortgage Receivables

	March 2019	March 2018
	$	$
Balance at Beginning of the Year	5,834,303	5,739,778
Existing mortgages paid out	-	228 ,612
Capitalised interest	-	
Expenses and arrears charged	472,033	270 ,591
Principal instalments paid	-	-
Repayment of existing mortgages	(563,228)	(163,259)
Allowance for impairment	-	(241,419)
Interest income - impaired mortgages	230,361	294,759
Impairment loss	(230,361)	(294,759)
Loss on realisation	(222,020)	-
Balance at the End of the Year	**5,521,088**	**5,834,303**

Details of mortgage receivables classified as impaired assets, past due assets, or restructured assets are included in note 15 (l, m and n).

The carrying value for mortgage receivables is $5,521,088 (March 2018: $5,834,303) which included impairment write-offs of $230,361 (March 2018: $294,759). Details of impairment write-offs are disclosed in note 15 (l). In order for the Fund to realise its mortgage security in the event that no other resolution of an impaired or past due asset can be achieved, the Fund may require the mortgagor to sell the secured property. The estimated value of secured properties are $6,800,000 (March 2018: $10,120,000). Therefore the carrying value of the mortgage investments is currently 18.81% lower than the estimated value of the secured properties (March 2018: 42.35%). The carrying value is prepared in accordance with NZ IFRS. Some securities may sell above value and some below. This is because the circumstances which arise from a mortgagor sale may have an impact on the estimated fair value. This as well as other objective factors have been included in assessing the impairment provision.

Mortgages by Loan Type

	March 2019		March 2018	
	$	%	$	%
Home	-	-	-	-
Residential/Rental	1,864,731	33.8	2,342,418	40.1
Commercial	3,656,357	66.2	3,491,885	59.9
	5,521,088	**100%**	**5,834,303**	**100%**

Mortgages by Region

	March 2018		March 2018	
	$	%	$	%
Otago / Southland	-	-	-	-
Auckland	3,656,357	66.2	3,491,885	59.9
Other North Island	1,864,731	33.8	1,826,334	31.2
Other South Island	-	-	516,084	8.9
	5,521,088	**100%**	**5,834,303**	**100%**

Mortgages by Nature of Underlying Security

	March 2019	March 2018
	$	$
Apartments	-	516,084
Standard homes	1,864,731	1,826,334
Residential total	1,864,731	2,342,418
Development	3,656,357	3,491,885
Commercial total	3,656,357	3,491,885
	5,521,088	**5,834,303**

Customer sectors are identified by confirming the nature of the security provided.

The effective interest rates on the mortgage investments as at 31 March, 2019 are in the range of 0% p.a.-2.5% p.a. (March 2018: 0% p.a.-2.5% p.a.) The standard lending rates are no longer applicable as no longer lending.

As detailed in note 15 (l) there are two impaired assets totalling $5,521,088 at the reporting date (March 2018: $5,834,303). There is $345,988 of outstanding loan principal and interest included in impaired assets at 31 March, 2019 (March 2018 $339,149). Forgone interest income on impaired mortgages is recognised as impairment loss against the mortgage using the original interest rate discounted against future cash flows where mortgages are held at fixed interest rates. Mortgages that are held at a variable interest rate are discounted using current observable market interest rate as a practical expedient to discount the future cash flows for the purpose of the measurement of impairment loss. The Manager carefully manages impaired loans by early identification and actively pursuing remedies to recover the outstanding loan and interest amounts.

During the period to 31 March, 2019 no mortgages were transferred to the NZ Mortgage Income Trust (No. 2 Fund) Group Investment Fund (March 2018: no mortgages) (this fund has the same Manager and Supervisor).

12. Payables and Wind-Up Provisions

	March 2018	March 2018
	$	$
a) Accounts Payable		
Trade creditors	38,622	36,385
Total Accounts Payable	**38,622**	**36,385**
b) Wind-Up Provisions		
Supervisor fees	72,942	72,942
Other trade payables	25,000	25,000
Total Wind-Up Provisions	**97,942**	**97,942**
Total Accounts Payable and Wind-Up Provisions	**136,564**	**134,327**

13. Related Party Transactions

The related parties are Trustees Executors Limited, who provide Supervisor services to the Fund, Fund Managers Otago Limited, who provide management services to the Fund, and Anderson Lloyd Lawyers, and Webb Farry who provide legal services to the Fund and to Fund Managers Otago Limited.

Fund Managers Otago Limited (the Manager) and its directors and key management personnel are related to the Fund by virtue of being its manager. Details of key management personnel are included in the financial statement of Fund Managers Otago Limited.

The shareholders and directors of the Manager have no related party lending or connections with borrowers other than through professional services provided by Webb Farry and Anderson Lloyd in the preparation of loan documentation. The shareholders and directors of the Manager who are present and past partners in the law firms of Webb Farry, Anderson Lloyd, and financial advisory firm Forsyth Barr Limited wish to disclose that all of these firms have investors in the Fund that arose from their respective nominee companies being transferred to the Fund in 1994 and 1996 respectively and other clients of the firms who have invested in the Fund since then. The current Webb Farry nominated director is David Ehlers. John Gallaher is an independent director and holds an executive position at Forsyth Barr Limited. Their respective investment ledgers as at balance date were; Webb Farry $287,295; Anderson Lloyd $493,883; Forsyth Barr Ltd $37,621 (March 2018: $321,622; $552,892; $Nil respectively). All direct and indirect investments associated with the directors of the Manager are set out below.

Several shareholders and directors of the Manager have investments in the Fund, both direct and indirect (through trusts and as Supervisors for investors).

Fund Managers Otago Limited is also the manager for NZ Mortgage Income Trust (No.2 Fund) Group Investment Fund and Capital Mortgage Income Trust Group Investment Fund. There were no mortgage or investment transactions with these Funds.

The following transactions occurred during the year under review in regard to parties directly related to the Fund:

	March 2019	March 2018
	$	$
Transactions for the Year		
Supervisor fees to Trustees Executors Limited	28,750	28,750
Additional Supervisor fees for additional work to Trustees Executors Limited	-	2,702
Management fees to Fund Managers Otago Limited	132,556	148 ,803
Legal fees to Anderson Lloyd	5,217	803
Legal fees to Webb Farry	-	-

The following is the balance payable to each related party at each balance date.

	March 2019	March 2018
	$	$
Balance payable at balance date		
Wind up Allowance payable to Trustees Executors Limited	97,942	97,942
Loan and Collection Fees to Fund Managers Otago Limited	1,050	5,943
Legal fees to Anderson Lloyd	-	201

Employees and Directors of Fund Managers Otago Limited are allowed to invest in the Fund on ordinary commercial terms. However, all employees and Directors of Fund Managers Otago Limited are prohibited from making any borrowings from the Fund.

At 31 March, 2019 there were no employees of Fund Managers Otago Limited with personal investments (including investments of immediate family members) in the Fund (March 2018: One). The employee's investments in the Fund collectively total $nil March 2018: $300). The Directors of Fund Managers Otago Limited had the following direct investment in the Fund at 31 March, 2019: D Ehlers $35,903 (March 2018: $40,192). The Directors of Fund Managers Otago Limited had the following indirect investments in the Fund at 31 March, 2019: D Ehlers $64,537 , J Gallaher $1,166 (March 2018: $69,543; $1,305).

14. Financial Instruments

All financial assets are classified as amortised cost, this includes: Bank deposits, term deposit interest due, mortgage receivables, mortgage interest due and accounts receivable.

Financial liabilities, excluding accounts payable, are classified as 'amounts owed to other depositors'.

15. Financial Risk Management

a) Credit Risk

Financial instruments which potentially subject the Fund to credit risk consist of mortgage receivables, bank balances, short term deposits, interest receivable and other receivables. The maximum exposure to credit risk at balance date is the carrying value of the financial instruments as stated in the Statement of Financial Position.

Significant concentrations of credit risk apply principally in respect of mortgage receivables and short term deposits. Collateral may be taken as security for mortgage receivables in addition to first mortgage security for all mortgage receivables.

b) Concentrations of Credit Risk

In the normal course of business the Fund has a credit risk on bank deposits and mortgage receivables. The Fund has a credit policy which is used to manage this credit risk. As at 31 March, 2019 there were no significant concentrations of credit risk, except as outlined below;

i) that $715,208 or 11.31% (March 2018: $1,081,294, 15.52%) of total assets were invested at ANZ Bank. The maximum exposure to credit risk is represented by the carrying value of each financial asset in the balance sheet; and

ii) Security for all mortgage receivables is by way of first mortgages. The fund regularly monitors the credit quality of its customers. Credit exposure is concentrated on lending on first mortgage security to borrowers in the commercial property sector and is concentrated in the North Island of New Zealand.

The concentrations of loans as a percentage of total equity at balance date are as follows:

	March 2019		March 2018	
% of Equity	$	Number of Loans	$	Number of Loans
> 100	-	-	-	-
20 - 100	5,521,088	2	5,318,219	2
10 - 19	-	-	-	-
5 - 9	-	-	516,084	1
0 - 4	-	-	-	-
	5,521,088	**2**	**5,834,303**	**3**

The concentrations of loans as a percentage of estimated security for each loan at balance date are as follows:

	March 2019		March 2018	
% of Security	$	Number of Loans	$	Number of Loans
> 100	-	-	-	-
90 - 99	-	-	-	-
80 - 89	3,656,357	1	-	-
70 - 79	1,864,731	1	1,826,334	1
60 - 69	-	-	516,084	1
50 - 59	-	-	3,491,885	1
40 - 49	-	-	-	-
30 - 39	-	-	-	-
20 - 29	-	-	-	-
10- 19	-	-	-	-
0 - 9	-	-	-	-
	5,521,088	**2**	**5,834,303**	**3**

As noted in note 15 (g) lending was limited to a maximum of 80% of a registered valuer's report at the time of the advance. One loan in excess of this guideline at 31 March, 2019 (March 2018: nil). The loans were also within the lending limits at the time the loans were advanced. As no loan were in excess of this guideline the allowance for impairment that has been provided for on these loans is $Nil (March 2018: $Nil).

c) Market Risk

The Fund's exposure to market risk is as follows:

Market Risk:

i) Foreign Exchange Risk - The Fund operates locally and is not exposed to any foreign exchange risk.
ii) Price Risk - The Fund is not exposed to price risks during the normal course of operations as it does not have any investments in equity instruments, nor does it trade or invest in commodities.
iii) Interest Rate Risk – The Fund is invested in mortgages that have floating or short-term fixed interest rates. The change in interest rates has a large impact on income and therefore on the amounts distributed to unitholders.

The Manager is of the opinion that the Fund's exposure to market risk at reporting date is defined as:

Risk Factor	Description	Sensitivity
(i) Currency risk	All assets and liabilities are denominated in New Zealand dollars	Nil
(ii) Interest rate risk	Refer to the first paragraph of Note 15(j)	Note 15(k)
(iii) Other price risk	No securities are bought, sold or traded	Nil

d) Funding Risk

As at 31 October, 2012, the Manager, in accordance with the Trust Deed resolved to wind up the Fund. As a result, the Fund will now repay unitholders as mortgages are repaid or sold. Upon wind up of the Fund, the Supervisor's obligations are to sell the Fund's assets, pay or provide for the Fund's liabilities (including wind up costs) and distribute the Fund's net assets to unitholders in proportion to the number of units held.

It is the Supervisor's intention that the Fund's investments are realised and distributed to unitholders as soon as possible. Sufficient time will be taken to obtain fair value for all securities, thereby maximising returns to unitholders as much as possible in the prevailing market conditions.

Further details on investor rights are set out in the Trust Deed which is available during normal business hours from Fund Managers Otago Limited. Copies of the most recent annual report (when available) are also available from Fund Managers Otago Limited. These documents are available free of charge except for the Trust Deed, for which a reasonable fee may apply.

The Fund is closed for new investments.

e) Fair Values

The following table analyses the fair value hierarchy of the Fund's assets and liabilities not measured at fair value at 31 March, 2019 but for which fair value is disclosed. The different levels have been defined as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 inputs are inputs other than quoted prices included within level 1 that are observable for the assets or liability, either directly or indirectly;

and
Level 3 inputs are unobservable inputs for the asset or liability.

	Fair Value	Carrying Value
Assets	**$**	**$**
Level 1		
Cash and cash equivalents	715,208	715,208
Level 2		
Accounts receivable	78,659	78,659
Mortgage interest due	7,760	7,760
Level 3		
Mortgage receivables	5,521,088	5,521,088
Liabilities		
Level 2		
Accounts payable	136,564	136,564

The assets and liabilities included in the above table are carried at amortised costs; their carrying values are a reasonable approximation of fair value, with the exception of mortgage receivables. The fair value of mortgage receivables is based on cashflows discounted using rates currently reflective of the prevailing interest rate environment and the perceived risk associated with each mortgage.

f) General Lending Policy

The policy of the Manager was to establish and maintain a broad and secure range of mortgage investments. As mortgages are sold due to the Fund winding up the mix of the mortgage profile will change.

g) Specific Policy Guidelines

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

i) Interest Rates - Most investments will be in mortgages with floating interest rates but the Manager may maintain some fixed rate mortgages to help protect investors against falls in interest rates;

ii) Mix of Mortgage Types - The mortgage portfolio will be spread between residential, residential rental, commercial and farming purposes with a minimum of 25% and a maximum of 45% of the unitholders' funds invested in the residential rental purposes and a minimum of 25% and a maximum of 75% of the unitholders' funds invested in commercial purposes. Lending for farming purposes was limited to a maximum of 25% of the unitholders' funds;

iii) Lending Limits - The maximum size of any mortgage at the time of the advance is limited in relation to both the value of the property provided as security and to the total funds of the Group Investment Fund at that time.

The limits were:

- 80% of registered valuer's report for residential properties, 60% of registered valuer's report of farming properties, 66.67% of registered valuer's report for other commercial properties or 50% of registered valuer's report of vacant land. Details of the current size of mortgages against current security valuations is set out in note 15 (b);
- In the case of leasehold property the limits are set at 50% of the value of the lessee's interest, and
- No more than 5% of the total assets of the Fund will be invested in any one mortgage or advanced to any one borrower (or related party borrower) at the time of the initial advance being made and the top six exposures of the Fund may not exceed 20% of the total assets of the Fund at the time of the advance without the approval of the Supervisor. The current percentage of the top six exposures of the Fund is 87.31 % (March 2018: 83.72%) of the total assets and the current percentage of the top exposure is 57.82% (March 2018: 59.85%). The individual advances within the current top six exposures were within the guidelines at the time each of the loans were advanced. However, arrears charged to the loans and a continued decrease in the total assets of the Fund has resulted in the exposures at reporting date exceeding the guidelines.

iv) Ranking - The Manager's policy is to maintain the bulk of investments in first ranking mortgages.

v) Cash Reserves – The Fund is currently being wound-up. The Manager will maintain sufficient liquid investments to provide for running expenses while the Fund is wound-up. This portion of the Fund will be invested in bank deposits or kept in the current account. As at the date of issue of these financial statements the cash reserves represented 11.56% of the value of the Fund (March 2018: 15.82%).

h) Liquidity Risk

The Fund receives investments from unitholders and lends these to mortgagors on a short, medium or long term basis.

Liquidity risk is the risk that the Fund may encounter difficulty in raising funds at short notice to meet its commitments, and arises from the mismatch of the maturity of monetary assets and liabilities.

The Fund is being wound up and cash is collected through the realisation of the mortgage portfolio with surplus cash distributed pro-rata to unitholders on the traditional quarterly income distribution dates. The Manager and Supervisor make an assessment as to an appropriate amount of cash that should be held to meet the general operating overheads and other financial commitments due in the near term in determining the amount of each distribution. As at balance date the Fund held 11.31% of its assets in cash (March 2018: 15.52%).

The maturity profile below in note 15 (i) analyses the liquidity position of the Fund's assets.

i) Liquidity Profile

The maturities of financial instruments are as follows:

March 2019	On Demand	Current 0-6 mths	Current 6-12 mths
	$	$	$
Bank accounts			
Cheque account	4,723	-	-
Bank deposits	710,485	-	-
Total bank	715,208	-	-
Mortgages			
Residential	1,864,731	-	-
Commercial	3,656,357	-	-
Total mortgages	5,521,088	-	-
Accrued interest	-	7,760	-
Accounts receivable	-	78,659	-
Anticipated income receipts	-	48,826	48,826
Anticipated income receipts	6,236,296	135,245	48,826
Liabilities			
Accounts payable	-	136,564	-
Anticipated unitholders distributions	-	47,850	47,849
Net	**6,236,296**	**(49,169)**	**977**

Maturities of mortgage receivables are based on contractual maturities. During the winding up of the Fund it may be possible to either renegotiate the terms of each mortgage receivable or sell the longer maturity date mortgages to another lender to ensure a timely completion to the winding-up of the Fund. However, in the event it is not possible to achieve this, the mortgage details in the maturity profile are the most accurate representation of the term remaining on the mortgage portfolio and therefore the likely repayment date for the principal invested in those mortgages.

The liquidity profile of the assets and liabilities discloses that the Fund has two mortgages with a contracted maturity of on demand. As part of winding down of the Fund, the Manager intends to sell the Fund's interests in the mortgages to a third party within the next 6 - 24 months. If the Manager is unable to sell the interests in the mortgages, the terms of the remaining mortgages will be renegotiated. The other assets and liabilities recorded in the liquidity profile have the same contracted and expected maturity profile.

Forgone interest income on impaired mortgages is recognised as impairment loss against the mortgage using the original interest rate

1-3 years	3-5 years	5+ years	Total
$	$	$	$
-	-	-	**4,723**
-	-	-	**710,485**
-	-	-	**715,208**
-	-	-	**1,864,731**
-	-	-	**3,656,357**
-	-	-	**5,521,088**
-	-	-	**7,760**
-	-	-	**78,659**
195,304	195,304	97,652	**585,912**
195,304	195,304	97,652	**6,908,627**
-	-	-	**136,564**
191,398	191,398	95,699	**574,194**
3,906	**3,906**	**1,953**	**6,197,869**

discounted against future cash flows where mortgages are held at fixed interest rates. Mortgages that are held at a variable interest rate are discounted using current observable market interest rate as a practical expedient to discount the future cash flows for the purpose of the measurement of impairment loss.

At balance date, 100% of mortgages are in arrears (March, 2018: 100%) and 100% is owed by the two largest debtors (March, 2018: 100%).

The mortgage portfolio of the Fund consists of two mortgages, all of which are "On Demand". The table above shows the term of the mortgage. The term On Demand means that the Fund could demand the borrower to repay the mortgage when called upon to do so. Such a request would only be made if the Fund felt the mortgage represented an unacceptable risk to the Fund or the Fund had a need to create liquidity within the Fund. The likelihood of the Mortgagor being able to meet such a request will depend on their financial strength and creditworthiness. The Fund has never made demand on any borrower since inception of the Fund in 1994, and therefore the "On Demand" facility has never been tested.

The liquidity table does not include unitholders' funds as a liability, as they are classified as equity. Repayments to unitholders as a result of winding up will be made equally between all unitholders, irrespective of whether a unitholder has lodged a redemption request.

March 2018	On Demand	Current 0-6 mths	Current 6-12 mths
	$	$	$
Bank accounts			
Cheque account	5,781	-	-
Bank deposits	1,075,513	-	-
Total bank	1,081,294	-	-
Mortgages			
Residential	2,342,418	-	-
Commercial	3,491,885	-	-
Total mortgages	5,834,303	-	-
Accrued interest	-	7,411	-
Accounts receivable	-	45,454	-
Anticipated income receipts	-	47,650	47,650
	6,915,597	100,515	47,650
Liabilities			
Accounts payable	-	134,327	-
Anticipated unitholders distributions	-	46,697	46,697
Net	**6,915,597**	**(80,509)**	**953**

Maturities of mortgage receivables are based on contractual maturities. Forgone interest income on impaired mortgages is recognised as impairment loss against the mortgage using the original interest rate discounted against future cash flows where mortgages are held at fixed interest rates. Mortgages that are held at a variable interest rate are discounted using current observable market interest rate as a practical expedient to discount the future cash flows for the purpose of the measurement of impairment loss.

j) Interest Rate Risk

Cash Flow and Fair Value Interest Rate Risk:

Interest rate risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The majority of mortgages are subject to interest receivable at floating interest rates or fixed rates of less than 12 months. Interest rates on mortgages are continually reviewed by the Manager and these rates are varied in accordance with movements in the market.

1-3 years	3-5 years	5+ years	Total
$	$	$	$
-	-	-	**5,781**
-	-	-	**1,075,513**
-	-	-	**1,081 ,294**
-	-	-	**2,342,418**
-	-	-	**3,491,885**
-	-		**5, 834,303**
-	-	-	**7,411**
-	-	-	**45,454**
190,600	190,600	95,300	**571 ,800**
190,600	190,600	95,300	**7,540,262**
-	-	-	**134,327**
186,788	186,788	93,394	**560 ,364**
3,812	**3,812**	**1,906**	**6,845,571**

An increase in mortgage interest rates charged by the Fund has a significant impact on the distribution of funds to unitholders, all other things remaining unchanged. This will impact on the net assets attributable to unitholders depending on the level of distributions reinvested in the Fund.

The following tables detail the Fund's exposure to interest rate risk as at, 31 March, 2019 and comparative at 31 March, 2018. The tables include the Fund's assets and liabilities at their carrying amount, categorised by the earlier of contractual repricing or maturity dates.

31 March 2019	Weighted Average Effective Interest Rate	Variable Interest Rate
	%	$
Financial Assets		
Cash and cash equivalents	0.35	710,485
Accounts receivable	-	-
Accrued interest	-	-
Loans secured by first mortgage	1.66	-
		710,485
Financial Liabilities		
Accounts payable	-	-
		-

Accrued interest relates to mortgage interest due.

31 March 2018	Weighted Average Effective Interest Rate	Variable Interest Rate
	%	$
Financial Assets		
Cash and cash equivalents	0 .45	1,075,513
Accounts receivable	-	-
Accrued interest	-	
Loans secured by first mortgage	1. 5	-
		1,075,513
Financial Liabilities		
Accounts payable	-	-
		-

Accrued interest relates to mortgage interest and term deposit interest due.

k) Sensitivity Analysis – Interest Rate Risk

The sensitivity of Net Surplus before distributions to unitholders for the period to 31 March, 2019, and unitholders' funds at that date, to reasonably possible changes in conditions is as follows:

Fixed Interest Rate Less than 1 year	Non Interest Bearing	Total
$	$	$
-	4,723	715,208
-	78,659	78,659
-	7,760	7,760
3,655,744	1,865,344	5,521,088
3,655,744	**1,956,486**	**6,322,715**
-	136,564	136,564
-	**136,564**	**136,564**

Fixed Interest Rate Less than 1 year	Non Interest Bearing	Total
$	$	$
-	5,781	1,081,294
-	45,454	45,454
-	7,411	7,411
3,491,885	2,342,418	5,834,303
3,491,885	**2,401,064**	**6,968,462**
-	134,327	134 ,327
-	**134,327**	**134,327**

	Interest Rates Increase by 100 Basis Points (1%)	Interest Rates Decrease by 100 Basis Points (1%)
	$	$
Impact on Net Surplus	62,367	(62,367)
Impact on Unitholders' Funds	62,367	(62,367)

l) Impaired Assets

An impaired asset is an asset where the Manager considers that there is a measurable decrease in the estimated future cash flows from the asset. The amounts of impaired assets are:

	March 2019	March 2018
	$	$
Impaired Assets		
Balance at Beginning of the Year	5,834,303	5,675 ,386
New impaired mortgages/additions to existing	356,406	387,363
Mortgages realised	(563,228)	(97,906)
Provision for impairment	-	(241,419)
Interest – impaired mortgages	345,988	405,638
Impairments recovered	-	-
Loss on impairment write off	(230,361)	(294,759)
Loss on realisation	(222,020)	-
Balance at End of the Year	**5,521,088**	**5,834,303**
Impaired Assets	**$**	**$**
Value of mortgage receivables	5,521,088	5,834,303
Estimated fair value of collateral held	6,800,000	10,120,000
Impaired assets with a past due component:		
Up to 3 months	-	-
3 - 12 months	-	3,491,885
Over 12 months	5,521,088	2,342,418
Impaired Assets with Payments Overdue	**5,521,088**	**5,834,303**

Impaired assets include the total amounts owing by the borrowers, not just the past due portion. The table above details all of the impaired assets and the past due portion (payment instalments that are overdue)

In the opinion of the Manager two of the assets held or owned by the Fund are impaired as at 31 March, 2018 (March 2018: three).

	March 2019	March 2018
	$	$
Provision for Impairment		
Balance at Beginning of the Year	-	-
New allowance for impairments	-	241,419
Allowance for impairments realised	-	-
Allowance for impairments written off	-	(241,419)
Balance at End of the Year	**-**	**-**

From the year ended 31 March, 2019, all impairments are written off loan balances in the current year. Therefore, the balance of the provision is $Nil.

Any known or anticipated losses have been provided for as specific impairments in these financial statements. The Fund has not provided for any collective impairment. In the opinion of the Manager, a collective impairment is not required as the estimated shortfall in future cash flows from the mortgage receivables is covered by the specific impairment provision.

The Fund holds a first ranking mortgage security on properties for the impaired assets.

There were no other forms of impaired assets at 31 March, 2019 (March, 2018: $Nil).

m) Past Due Assets

Past due assets are any assets which have not been operated by the counterparty within its key terms which are not considered impaired assets. Details are as follows:

	March 2019	March 2018
	$	$
Mortgages considered past due		
Balance at Beginning of the Year	-	-
New past due assets	-	-
Settled past due assets	-	-
Mortgages transferred to the impaired category	-	-
Balance at End of Year	**-**	**-**

Past due assets include the total amounts owing by the borrowers who are in arrears, not just the past due portion. The table above details all of the past due assets and the past due portion (payment instalments that are overdue). The Manager commences appropriate action, when payment instalments are overdue by 14 days, to either obtain the payment due, or if necessary, to realise the secured property.

In the opinion of the Manager, none of the assets considered past due are impaired.

n) Restructured Assets

Restructured assets are assets which, were it not for the Fund agreeing to vary the original terms of the asset, would have been considered impaired. These varied terms are not generally comparable with those offered to new borrowings with comparable risk. If a restructured asset subsequently becomes past due or impaired it is classified accordingly and is no longer regarded as a restructured asset.

The Fund had no mortgage receivables which are classified as a restructured asset at 31 March, 2019 (March, 2018: none).

o) Security Held Through the Enforcement of Security

The Fund, in order to realise a mortgage security in the event that no other resolution of a past due asset can be achieved, may require the mortgagor to sell the secured property with all proceeds initially being to the credit of the Fund. Funds which are surplus to those amounts required to settle the debt secured by the property in question are returned to the mortgagor.

The Fund has placed a one asset under close management by becoming mortgagee in possession through the enforcement of security, of which one is impaired (2018: one). Any losses realised by the Fund have been included in these financial statements. As at 31 March, 2019 the Fund had one financial asset totalling $516,084 under management through the enforcement of security (March, 2018: $516,084).

16. Commitments for Expenditure

There are no capital commitments at 31 March, 2019 (March 2018: $Nil).

17. Commitments to Lend

There are no lending commitments as at 31 March, 2019 (March, 2018: $Nil).

18. Contingent Liabilities

There were no contingent liabilities as at 31 March, 2019 (March 2018: $Nil).

19. Unrecognised Contractual Commitments

As at 31 March, 2019, the Fund:

a) Had no commitments to extend credit that were irrevocable because they cannot be withdrawn at the discretion of the financial institution without the risk of incurring significant penalty or expense;

b) Had no direct credit substitutes, including general guarantees of indebtedness, bank acceptance guarantees and standby letters of credit serving as financial guarantees for loans and securities;

c) Had no certain transaction-related contingent liabilities, including performance bonds, bid bonds, warranties and standby letters of credit related to particular transactions;

d) Had no short-term self-liquidating trade-related contingent liabilities arising from the movement of goods, such as documentary credits where the underlying shipment is used as security; and

e) Had no commitments, note issuance facilities and revolving underwriting facilities.

20. Segmental Reporting

The Fund operates in the financial service segment in New Zealand, providing flexible mortgage packages to families, landlords, businesses and farmers.

21. Portfolio Investment Entity Election

The Fund elected to become a Portfolio Investment Entity (PIE), effective 1 October, 2007. The Fund retains its existing Group Investment Fund status, but unitholders' investments in the Fund are taxed differently.

Up to 30 September, 2007, the Fund was taxed as a qualifying trust, whereby income was distributed to investors as beneficiary income, and resident withholding tax was deducted at the appropriate rates of either 0%, 19.5%, 33%, or 39%.

From 1 October, 2007, the Fund must allocate income to investors under one of the options available under PIE rules, daily or quarterly, and then deduct tax at the investor's prescribed investor rate (PIR) of either 0%, 10.5%, 17.5%, or 28%.

22. Wind up of the Fund

As at 31 October, 2012 the Manager has, in accordance with the Trust Deed, resolved to wind up the Fund.

Upon wind up the assets will be realised and unitholders will have their capital repaid to them on a pro-rata basis.

The winding up of the Fund is progressing in accordance with the wind up plan, which is to concentrate on maximisation on the underlying value of the security held for the two remaining impaired loans. The manager expects that the majority of the Funds underlying assets will be sold over the next twelve months.

As a result of the wind up decision, the provisioning in respect of the potential impairment of mortgages at balance date has been determined based on an orderly realisation of mortgages or security. However, due to the circumstances discussed above the amount that will ultimately be recovered from these advances is uncertain and could be materially different from their carrying values.

23. Subsequent Events

There were no material events occurring post 31 March, 2019 that require disclosure.

Independent auditor's report

To the unitholders of NZ Mortgage Income Trust Group Investment Fund

We have audited the financial statements which comprise:

- the statement of financial position as at 31 March 2019;
- the statement of comprehensive income for the year then ended;
- the statement of changes in unitholders' funds for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of accounting policies.

Our opinion

In our opinion, the accompanying financial statements of NZ Mortgage Income Trust Group Investment Fund (the Fund), present fairly, in all material respects, the financial position of the Fund as at 31 March 2019, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Emphasis of Matter - Basis of Preparation

Without modifying our opinion, we draw attention to note 1 to the financial statements, which describes the basis of accounting. The financial statements for the year ended 31 March 2019 have been prepared on a realisation basis. As disclosed in the Fund's statement of accounting policies, and in note 22 to the financial statements, on 31 October 2012 the Fund Manager resolved to wind up the Fund. The Fund will continue to operate while it realises its assets.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ) and International Standards on Auditing (ISAs).

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Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

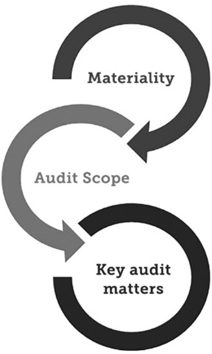
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Fund in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) 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.

Our firm carries out other services for the Fund in the area of Unitholders register compliance assurance. The provision of this other service has not impaired our independence as auditor of the Fund.

Our audit approach

Overview



An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall materiality: $61,500, which represents 1% of net assets.

We chose net assets as the benchmark because, in our view, it is the benchmark against which the performance of the Fund is most commonly measured by users, and is a generally accepted benchmark.

We have determined that there is one key audit matter:

- Determination of realisable values

Materiality

The scope of our audit was influenced by our application of materiality.

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

Audit scope

We designed our audit by assessing the risks of material misstatement in the financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters

Determination of realisable values

As disclosed in note 22 of the financial statements, as at 31 October 2012, the Manager has, in accordance with the Trust Deed, resolved to wind up the Fund. As a consequence the financial statements have been on a realisation basis to reflect the expected realisable value of the assets of the Fund and the exit costs and obligations to complete an orderly wind up of the Fund.

This is key audit area because of the significant judgements applied by management in determining the realisable value of the assets and completeness of liabilities as well as the expected wind up costs.

As disclosed in note 22 of the financial statements, the Manager's wind up plan is to focus on the orderly sale of mortgages and finding solutions for impaired mortgages. Upon wind up, the assets will be realised and unitholders will have their capital repaid on a pro rata basis.

Management consider the expected credit loss method when assessing impairment of mortgages based on historic knowledge of the customer, type of security and other factors in the current macroeconomic environment. Management is of the view that this approximates the value that will be realised as the fund is wound up.

The accounting policy in note 2(g) of the financial statements outlines management process to assess expected credit loss.

At each reporting date, the Manager assesses on a forward-looking basis the expected credit loss ("ECL") associated with the carrying amounts of mortgage receivables on an asset by asset basis to determine whether there is any indication that those assets will suffer an impairment loss from past events, current conditions or forecast of future economic conditions.

If any such indications exist, the recoverable amount of the asset is estimated in order to determine the extent of the ECL (if any). A specific provision for ECL is created when recovery of principal and/or interest is not considered fully collectable in accordance with the terms of the loan contract. A collective ECL is determined by the Manager after assessing the remaining mortgage receivables according to their credit risk characteristics and considering objective evidence of past events, current conditions and forecast of future economic conditions. Given the current size of the loan book, all assets were considered individually and therefore no collective provision was considered necessary.

How our audit addressed the key audit matter

Our audit procedures included obtaining an understanding of the approach taken by the Directors of the Fund manager to determine the recoverable value of assets and the completeness of liabilities as a result of the decision to wind up the Fund.

We performed the following procedures in relation to the assets recognized in the statement of financial position for the Fund after the realisation adjustments were processed:

Liabilities and obligations:

- For a sample of recorded liabilities we tested the recorded value of the obligation to the relevant contracts at balance date and ensured that estimated realisation costs were consistent with current agreements.
- During our audit, we did not identify any unrecorded obligations that would need to be recognised as a provision as a result of the decision to wind up the Fund.
- We have considered the future costs to wind up the Fund and where appropriate ensure that any provision is recognised in the statement of financial position.
- We sent legal confirmation letters to ensure that any legal matters, both known and potential, had been properly captured for financial reporting purposes, including all associated costs as confirmed by the lawyers. Also, to identify any unrecorded liabilities from legal responses.

Assets:

- We obtained the mortgage receivables ledger at year end, and using our knowledge of the Fund and the industry, identified loans for which we believed there may be indicators of impairment. We considered management's conclusions regarding impairment for each of these loans individually.
- For each identified loan:
  - We assessed the appropriateness of the criteria used for significant increase in credit risk by considering whether the loan is past due, impaired or restructured and the value of the security ;
  - We obtained the valuation of the security to assess the adequacy and quality of the security. We did this by assessing the qualifications of the expert assessing the valuation method and reasonableness of the inputs and assumptions used in the valuation;

The key judgements applied by management and the Directors of the Fund manager include:

- Determining criteria for significant increase in credit risk
- Future valuations and other forward looking information
- Determining time frame to sell and estimating future selling costs
- Discount rate

Where an allowance is required, this is recognised in the allowance for impairment and monitor on a regular basis. From the year ended 31 March 2019, all impairments were written off loan balances in the current year. As they were not deemed collectible. Therefore, the balance of the provision is $Nil, as set out in note 15 (l) of the financial statements.

- We assessed management’s estimated time to sell the underlying security by verifying whether the property has been listed for sale, considered the time frame from past sales and ensured this is consistent with management’s forecasts that have been prepared;
- We assessed the estimated selling costs used and whether this is consistent with our expectations based on our understanding of the market; and
- We assessed the discount rate used to ensure that it is consistent with the cost of borrowing.

For other assets that had not been impaired to their realisable value at balance date, we considered their collectability by agreeing amounts received post period end.

Disclosures

- We assessed management’s disclosures against relevant financial reporting standards to ensure they were appropriate and that the classification of assets and liabilities was consistent with the realisation basis.

Information other than the financial statements and auditor's report

Fund Managers Otago Limited (the Manager) is responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not express any form of assurance conclusion on the other information.

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 to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, 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.

Responsibilities of the Manager for the financial statements

The Manager is responsible, on behalf of the Fund, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Manager determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Manager is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/

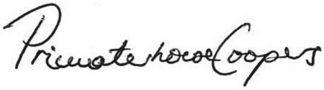
This description forms part of our auditor's report.

Who we report to

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

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

For and on behalf of:



Chartered Accountants Dunedin

31 July 2019

NZ MORTGAGE INCOME TRUST

P.I.E Registered

GROUP INVESTMENT FUND

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