NORFOLK

2018

Norfolk Mortgage Trust Financial Statements

For the year ended 31 March 2018

Nature of Business
Investment in Mortgages

Manager
Norfolk Mortgage Management Limited

Trustees
Covenant Trustee Services Limited

Address
The Offices of Norfolk Mortgage Management Limited
Level 1, 70 Shortland Street
Auckland 1010

Banker
ASB Bank Limited

Auditor
RSM Hayes Audit
Auckland

Accountant
Bendall and Cant Limited
Auckland

	Note	2018 $	2017 $
Investment Income			
Interest Income		714,917	432,440
Interest Income - Impaired Loans		-	36,691
Other Investment Income	18	2,619	-
Reversal of Previous Impairment		-	14,981
Other Operating Income		5,078	5,733
Total Investment Income		722,613	489,845
Operating Expenses			
Administration	5	(246,890)	(135,429)
Finance Costs		(71)	(100)
Net Profit Before Taxation		475,653	354,316
Income Tax	9	-	(104,136)
Net Profit for the Year		475,653	250,180
Other Comprehensive Income		-	-
Total Comprehensive Income		475,653	250,180

NOTE: Read in conjunction with the Notes to the Financial Statements.

	Note	Unit Capital	Retained Earnings	Total Equity
For the Year ended 31 March 2018				
Opening Equity Balances		6,944,071	(149,800)	6,794,271
Profit for the Year		-	475,653	475,653
Transactions with Owners				
Units Issued	6	14,185,223	-	14,185,223
Units Redeemed		(554,540)	-	(554,540)
Distributions Paid		-	(513,575)	(513,575)
Total Transactions with Owners		13,630,683	(513,575)	13,117,108
Balance at 31 March 2018	6	20,574,754	(187,722)	20,387,032
For the Year ended 31 March 2017				
Opening Equity Balances		4,733,122	(121,170)	4,611,952
Profit for the Year		-	250,180	250,180
Transactions with Owners				
Units Issued	6	2,920,882	-	2,920,882
Units Redeemed	6	(709,933)	-	(709,933)
Distributions Paid		-	(278,810)	(278,810)
Total Transactions with Owners		2,210,949	(278,810)	1,932,139
Balance at 31 March 2017	6	6,944,071	(149,800)	6,794,271

NOTE: Read in conjunction with the Notes to the Financial Statements.

	Note	2018 $	2017 $
CURRENT ASSETS			
Cash and Cash Equivalents	7	566,407	2,505,161
Taxation	10	590	590
Accounts Receivable	12	101,321	18,843
Mortgage Portfolio - Current Portion	14	18,502,968	3,658,673
Total Current Assets		19,171,286	6,183,268
NON-CURRENT ASSETS			
Mortgage Portfolio - Term Portion	14	1,408,500	650,000
Total Non-Current Assets		1,408,500	650,000
TOTAL ASSETS		20,579,786	6,833,268
CURRENT LIABILITIES			
Accounts Payable	13	192,754	35,300
Receipts in Advance		-	3,697
Total Current Liabilities		192,754	38,997
TOTAL LIABILITIES		192,754	38,997
NET ASSETS		20,387,032	6,794,271
Represented by;			
Retained Earnings		(187,722)	(149,800)
Units on Issue	6	20,574,753	6,944,071
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		20,387,032	6,794,271

The accompanying notes form part of these Financial Statements and should be read in conjunction with the reports contained herein.

For and on behalf of the Directors of the Manager:

Director ______________________ Craig Urquhart

Director ______________________ Stu Smith

Date: 30/7/2018

	Note	2018 $	2018 $	2017 $
Cash Flows from Operating Activities				
Cash was provided from:				
Interest Income		670,395		567,241
Fee Income		1,380		4,850
Cash was applied to:				
Payments to Suppliers		(212,816)		(127,470)
Income Tax Paid		-		(57,753)
Net Cash Inflow from Operating Activities	8		458,959	386,868
Cash Flows from Financing Activities				
Cash was provided from:				
Subscription Funds Received		4,463,288		2,920,882
Cash was applied to:				
Distributions Paid to Unitholders		(504,965)		(258,961)
Units Redeemed		(554,539)		(709,933)
Net Cash Inflow from Financing Activities			3,403,784	1,951,988
Cash Flows from Investing Activities				
Cash was provided from:				
Net Mortgage Advances		(5,801,496)		(197,692)
Net Cash Outflow to Investing Activities			(5,801,496)	(197,692)
Net Decrease in Cash Held			(1,938,754)	2,141,164
Opening Cash brought forward			2,505,161	363,996
Ending Cash carried forward			566,407	2,505,161
Represented By:				
Cash and Cash Equivalents	7		566,407	2,505,161
			566,407	2,505,161

NOTE: Read in conjunction with the Notes to the Financial Statements.

1. STATEMENT OF ACCOUNTING POLICIES

The financial statements presented here are for Norfolk Mortgage Trust ("the Trust"), a unit trust formed and domiciled in New Zealand. The financial statements of Norfolk Mortgage Trust are general purpose financial statements which have been prepared according to generally accepted accounting practice.

The Trust complies with the Financial Markets Conduct Act 2013 ("FMCA 2013") and prepares financial statements in compliance with that Act. The Trust is registered as a managed fund investment scheme under the FMCA 2013 on 1 November 2016.

The Directors of Norfolk Mortgage Management Limited ("the Manager") are responsible for the day-to-day management of the Trust. The Directors of the Manager do not have the power to amend these financial statements once issued.

Measurement Base
The accounting principles recognised as appropriate for the measurement and reporting of financial performance and financial position on a historical cost basis have been used, with the exception of certain items for which specific accounting policies have been identified.

These financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand. They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and also comply with International Financial Reporting Standards. For this purpose, the Trust has designated itself as profit-oriented. The information is presented in New Zealand Dollars, rounded to the nearest dollar.

Specific Accounting Policies
The following specific accounting policies which materially affect the measurement of financial performance and financial position have been applied.

(a) **Revenue**
Interest is accounted for using the effective interest method, i.e. as it is earned. Finance fee income is accounted for on a straight line basis over the life of the loan to which it relates.

(b) **Goods & Services Tax**
With the exception of trade payables and receivables, all items are stated exclusive of Goods and Services Tax.

(c) **Income Tax**
The income tax expense recognised in the Statement of Comprehensive Income is based on the assessable income for the period prior to the Trust's election to become a Portfolio Investment Entity ("PIE"). Subsequent to becoming a PIE, income is allocated to each unitholder and tax is paid to the Inland Revenue Department ("IRD") on the investors' behalf at the unitholders prescribed rate. All Trust income is allocated.

(d) **Units and Distributions**
Units are classified as equity as all units are entitled to a pro-rata share of the Trust's net assets on liquidation, the units are subordinate to all other instruments, the units have identical features other than redemption period and the total cash flows to unitholders are based substantially on the net profit.

Distributions on units are recognised in equity in the period in which they are paid.

(e) **Financial Instruments**

Financial instruments are recognised in the Statement of Financial Position when the Trust becomes party to a financial contract. They include cash balances, deposits, mortgages, receivables, payables and intercompany balances.

All the Trust's financial instruments are initially recorded at cost and subsequently carried at amortised cost using the effective interest method. Due allowance is made for impaired receivables (doubtful debts).

The Trust has not entered into any financial instrument with off balance sheet risk.

(f) **Past Due Loans**

Loans are considered past due where payment of principal or interest is contractually overdue.

(g) **Impairment Testing**

Mortgage Portfolio

Mortgage advances and related accrued interest are regularly reviewed for impairment loss. Credit impairment provisions are raised for exposures that are known to be impaired. Such assets are considered for impairment incurred if there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the loan and prior to the reporting date, and that loss event (or events) has had a reliably measurable impact on the estimated future cash flows of the individual loan. Loss events include default on payments by the borrower. Where this analysis indicates the loan is impaired, the carrying amount is decreased to its estimated recoverable amount, being the present value of the expected future cash flows, including amounts recoverable from the realisation of security, discounted at the loan's original effective interest rate.

Other Assets

The carrying amounts of the Trust's other assets are reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated.

If the estimated recoverable amount of an asset is less than its carrying amount, the asset is written down to its estimated recoverable amount and an impairment loss is recognised in the Statement of Comprehensive Income.

Restructured Assets

Restructured Assets are financial assets that have been restructured due to deterioration in the counterparty’s financial position and where the Trust has made concessions that it would not otherwise consider and the revised terms of the restructured loan facility are not comparable with the terms of new loans with comparable risks. Once a financial asset is restructured it remains in this category independent of satisfactory performance after restructuring. A restructured asset may also be classified as an impaired asset or a past due asset.

(h) **Statement of Cash Flows**
The statement of cash flows has been prepared using the direct approach modified by the netting of certain items.

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

- Cash and cash equivalents means cash on deposit with banks.
- Investing activities are those which relate to the mortgage advances
- Financing activities are those activities which result in changes in Trust unit capital.
- Operating activities include all transactions that are not investing or financing activities, and include all interest received and paid.

Mortgage principal receipts and advances have been presented on a net basis.

(i) **Changes in Accounting Policies**
There have been no changes in accounting policies. All policies have been applied on bases consistent with those used in previous years.

Where appropriate, corresponding amounts have been amended to reflect current year classification.

Significant Judgements, Estimates and Assumptions
The preparation of financial statements requires the Directors of the Manager to make judgements, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, and income and expenses. Estimates are based both on historical experiences and on assumptions that are believed to be reasonable in the circumstances. They form the basis of judgements made as to appropriate carrying values disclosures for assets, which are not readily ascertainable from other sources. Actual results may differ from these estimates and judgements.

The uncertainty associated with judgements and estimates that has the most significant effect on the financial statements as at 31 March 2018 is commented on as follows:

- Liquidity profile disclosures include the timing of cash flows from finance receivables based on current expectations. These cash flow timings have been estimated by the Directors of the Manager based upon their assessments of the current status of borrower's property, recent valuations and their assumptions relating to the time it may take to sell the secured property.

- Assessment that no impairment is required over past due loans based on the value of the security held, refer Asset Quality Note (Note 15).

2. NEW STANDARDS AND INTERPRETATION

The Trust has not early adopted any new standards or interpretations in advance of their effective dates. At the date of authorisation of these financial statements, the following standards were issued but not effective until accounting periods beginning on or after 1 January 2018:

Standard	Effective Date
- NZ IFRS 9: Financial Instruments;	1 January 2018
- NZ IFRS 15: Revenue from Contracts with Customers;	1 January 2018

NZ IFRS 9 Financial Instruments includes requirements for the classification and measurement of financial assets resulting from IASB's project to replace NZ IAS 39 and simplify the approach for classification and measurement of financial assets and liabilities compared with requirements of the existing NZ IAS 39. The final part of the new standard also introduces a revised model for accounting for impairment losses on financial instruments (which will include the Trust's mortgages). In general terms, NZ IFRS 9 will require earlier recognition of impairment losses as a result of adopting an expected loss model, as opposed to the current standard's incurred loss model. The move to an expected loss model will mean greater allowance for credit losses (impairment of loans) earlier than is presently recognised under an incurred loss model including both at loan origination and where the credit risk deteriorates. The impact of this is yet to be quantified but is expected to result in credit loss provisions being recognised earlier than are presently done.

NZ IFRS 15 is not anticipated to have a material impact on the Trust's future financial statements.

3. CAPITAL COMMITMENTS

At balance date, the Trust had no capital commitments (2017: Nil).

4. CONTINGENT LIABILITIES

At balance date, there are no known contingent liabilities (2017: Nil). Norfolk Mortgage Trust has not granted any securities in respect of liabilities payable by any other party whatsoever.

5. ADDITIONAL INFORMATION

Expenses deducted in calculation of Net Profit Before Taxation include the following:

	2018 $	2017 $
<u>Administration Costs</u>		
Audit Fees - Trust	14,663	-
Audit Fees - Custodian	4,313	-
Accounting Fees - Trust	8,625	-
Management Fees - Norfolk Financial Management Limited	-	34,553
Management Fees - Norfolk Mortgage Management Limited	219,290	100,876
	246,890	135,429

Audit and Accounting fees in respect of the Trust's annual financial statements were payable by Norfolk Mortgage Management Limited as Manager as follows:

	2018	2017
Audit Fees	-	12,300
Accounting Fees	-	6,000

Other than audit fees no other fees were paid to the auditors.

6. UNITS ON ISSUE

The Trust issues units that are redeemable at the unitholders' option, are entitled to receive a pro-rata share of net assets on wind-up and have identical features other than redemption period. All units share equally in distributions.

	2018		2017	
	Number	$	Number	$
At the Beginning of the Year	6,982,831	6,944,071	4,725,736	4,733,122
Units Issued	4,172,070	4,042,807	2,984,324	2,920,882
Units Issued to Norfolk (No.2) Unitholders	10,477,600	10,142,415	-	-
Units Redeemed	(571,721)	(554,540)	(727,229)	(709,933)
At the End of the Year	21,060,780	20,574,753	6,982,831	6,944,071

As at 31 March 2018, there was one significant investor who accounted for 7.36% (2017: 13.60%) of the total units issued. The number of unitholders is 201 (2017: 73) with an average holding per unitholder of $104,780 (2017: $95,655). A number of these units are held by related parties, please refer to the Related Parties Note (Note18).

Units in the Trust are redeemable at net asset value per unit at the time of redemption. The Trust's net asset value is calculated by taking the gross asset value of the fund, deducting all liabilities of the fund calculated on an accrual basis and deducting any other provisions that the Manager or Trustee thinks necessary or desirable for accrued or contingent liabilities.

Units Issued to Norfolk (No. 2) Unitholders
On 31 March 2018 unitholders in Norfolk (No 2) Trust voted to convert units they held in Norfolk (No. 2) Trust into units in Norfolk Mortgage Trust. From the perspective of Norfolk Mortgage Trust this was a subscription for new units. Each Norfolk (No 2) Trust unitholder received units in Norfolk Mortgage Trust, with an aggregate value equal to the value of Norfolk (No 2) Trust net assets transferred to Norfolk Mortgage Trust at the date of the subscription.

7. CASH AND CASH EQUIVALENTS

	2018 $	2017 $
Cash and Cash Equivalents	566,407	2,505,161
	566,407	2,505,161

The interest rate received on interest bearing deposits during the year was 2.00% (2017: between 2.00% and 3.00%). No interest was earned on the current account.

Interest income on interest bearing deposits during the year to 31 March 2018 was $18,006 (2017: $19,805).

A 1% decrease in the weighted average interest rate would reduce the interest income on interest bearing deposits from $18,006 to $9,740 (2017: $19,805 to $9,907).
A 0.5% decrease in the weighted average interest rate would reduce the interest income on interest bearing deposits from $18,006 to $13,873 (2017: $19,805 to $14,856).

8. RECONCILIATION OF NET PROFIT AFTER TAXATION WITH CASH INFLOW FROM OPERATING ACTIVITIES

Net Profit for the Year	475,653	250,180
Add / (Less) Movements in other Working Capital items:		
Income Tax Payable	-	46,384
Accounts Payable and Accruals	34,113	5,798
Accounts Receivable and Prepayments	(47,109)	85,389
Deferred Income	(3,698)	(883)
Net Cash Inflow from Operating Activities	458,959	386,868

9. TAXATION

	2018 $	2017 $
Net Operating Surplus Before Taxation per Accounts	475,653	354,316
Less: Profit since Transition to PIE Regime	(475,653)	(119,922)
Net Operating Surplus Subject to Taxation	-	234,395
Prima Facie Taxation at 28%	-	65,631
Plus: Taxation Effect of Adjustments		
Tax Paid Lost upon Transition to PIE Regime	-	35,604
Prior Period Adjustment	-	2,901
Total Tax Effect of Adjustments	-	38,506
Taxation Expense	-	104,136
The Taxation Charge is Represented By:		
Current Taxation	-	104,136

There are no income tax losses or unrecognised temporary differences carried forward (2017: Nil).

The Trust elected to become a Portfolio Investment Entity (PIE) fund as of 17 November 2016. From this date, all of the taxable income of the Trust is taxed at the unitholders' individual Prescribed Investor Rate (PIR) and therefore the fund itself is no longer liable to pay income tax.

10. TAX PAYABLE (REFUND DUE)

	2018	2017
Prior Year's Taxation Carried Forward	(590)	(46,974)
Current Tax Charge	-	104,136
Provisional Tax Paid	-	(57,163)
Use of Money Interest Receivable	-	(590)
Income Tax Payable (Refund Due)	(590)	(590)

11. IMPUTATION CREDIT ACCOUNT

At balance date, the imputation credits available to unitholders were:

	2018	2017
Balance at beginning of year	590	412
Income Tax Paid (Refunded)	-	57,753
Less:		
Imputation Credits Attached to Distributions	-	57,575
Balance at end of year	590	590
Less Tax Refund Due / Add Tax Payable	(590)	(590)
Credits Available for Future Periods	-	-

12. ACCOUNTS RECEIVABLE & ACCRUALS

	2018 $	2017 $
Interest Accrued Receivable	101,321	18,843
	101,321	18,843

Receivables are shown net of recognised impairment losses. No impairment losses have been recognised in the current year. Please refer to Note 15 for recognition of impairment in the prior year.

13. ACCOUNTS PAYABLE

Accounts Payable and Accruals comprise the following:

	2018	2017
Accrued Management Fees - Norfolk Mortgage Management Ltd	43,714	14,461
PIE Tax Payable	36,222	19,856
GST Payable	-	982
Distribution Funds Held in Trust	33,107	-
Sundry Payables and Accruals	79,712	-
	192,754	35,300

14. MORTGAGES PORTFOLIO

	2018	2017
First Mortgage Advances - Current	17,962,968	3,658,673
Second Mortgage Advances - Current	540,000	-
Total Mortgages Advances - Current	18,502,968	3,658,673
First Mortgages Advances - Non-Current	1,408,500	650,000
Total Net Mortgage Advances	19,911,468	4,308,673

These represent mortgages to unrelated parties at commercial interest rates and are contractually repayable within 24 months. Of these mortgages, balances amounting to $650,000 (2017: $1,734,246) of the above are investments in contributory mortgages managed by Vulcan Contributory Mortgage Nominee Company Limited (see Note 18). Interest rates range from 7.00% to 12.95% (2017: 8.25% to 10.00%). Loans which are past due and where any agreed contractual grace period has passed incur penalty interest rates ranging from 17.00% to 22.95% (2017: 18.25% to 20.00%).

15. **ASSET QUALITY**

The following tables include the initial mortgage advance and any related interest accrued.

	2018 $	2017 $
Past Due Assets		
At the Beginning of the Year	936,027	171,003
Transfer to Past Due Assets	1,682,175	936,027
Transfer from Past Due Assets	(936,027)	(171,003)
At the End of the Year	1,682,175	936,027

Loans classified as past due are considered to be temporarily past due and all principal and accrued interest balances are considered collectable.

	2018 $	2017 $
Past due loans are aged as follows:		
Not more than three months past due	138,790	936,027
Three to six months past due	965,597	-
Six to twelve months past due	180,087	-
Twelve to twenty-four months past due	240,814	-
More than twenty-four months past due	156,888	-
Total Past Due Loans	1,682,175	936,027

There are seven past due loans as at 31 March 2018 with expiry dates ranging between 22 August 2011 and 22 February 2018. One loan was repaid on 17 April 2018 and another one was repaid on 26 July 2018. Three loans have been renewed on similar terms subsequent to balance date and the Manager expects to receive repayment in October 2018, March 2019 and May 2019 respectively. One further loan is in the process of being refinanced with all interest payments being up-to-date. The Manager has accepted an offer on the final loan through mortgagee sale and settlement occurred on 17 July 2018.

There were two past due loans as at 31 March 2017 with expiry dates on 18 March 2017 and 29 March 2017. Both loans were subsequently repaid during the current financial year.

	2018 $	2017 $
Impaired Assets		
At the Beginning of the Year	-	409,372
Recovery of Impaired Assets	-	(461,044)
Interest Earned	-	36,691
Reversal of Previous Impairment	-	14,981
Total Impaired Assets at the End of the Year	-	-
Estimated Value of Security Held for Past Due and Impaired Assets		
Not more than three months past due	280,000	1,761,304
Three to six months past due	1,874,000	-
Six to twelve months past due	636,000	-
Twelve to twenty-four months past due	505,000	-
More than twenty-four months past due	390,000	-
Total Value of Security Held	3,685,000	1,761,304

The value of the underlying securities held above are based on valuations performed by registered valuers or Council rating values.

16. CONCENTRATION OF RISK

Loans advanced by the Trust including interest accrued receivable have the following geographical concentration (based on land registration district):

	2018 $	2017 $
Auckland	9,320,691	2,437,942
Bay of Plenty	259,667	150,247
Hawkes Bay	550,838	701,933
King Country / Taranaki	2,246,204	-
Nelson	-	100,561
Northland	695,588	-
Otago	1,572,233	-
Waikato	2,303,357	-
Wellington	3,064,125	936,835
	20,012,702	4,327,517

Loans advanced by the Trust including interest accrued receivable have been secured by the following property types:

	2018 $	2017 $
Residential - Home & Land	7,129,355	2,416,998
Residential - Development	542,682	201,036
Residential - Lifestyle	653,442	-
Residential - Rental	1,985,674	-
Rural - Farming	867,217	-
Rural - Horticulture	1,964,351	623,210
Rural - Other	1,181,253	-
Commercial - Industrial	1,464,568	652,027
Commercial - Office	4,224,159	434,246
	20,012,702	4,327,517

The Trust has the following unit geographical concentration with all figures shown being in number of units issued.

	2018 Units	2017 Units
Auckland	6,124,487	4,278,143
Bay of Plenty	3,280,501	125,000
Canterbury	329,939	255,000
Hawkes Bay	16,695	-
King Country / Taranaki	1,518,511	191,140
Overseas Resident	375,326	-
Waikato	9,415,321	2,123,325
Wellington	-	10,223
	21,060,780	6,982,831

17. FINANCIAL INSTRUMENTS

Exposure to credit and interest rate risks arise in the normal course of the Trust's business.

Fair Values
The estimated fair value of the Trust's financial instruments approximate the carrying values. This applies to all bank balances, receivables, payables and loans. This is as most instruments are of a short duration, and those with greater than 1-year duration were issued close to year-end. Accordingly, no comparison is made between the fair value and carrying value for any class of financial instrument.

The assessment of fair value is based on the Trust's internal considerations of the values of its financial instruments and is therefore considered a level 3 fair value estimate (in the NZ IFRS 13 hierarchy).

Credit Risk
To the extent that the Trust has a receivable from another party there is a credit risk in the event of non performance by that other party.

Financial instruments which potentially subject the Trust to credit risk principally consist of mortgages advanced to third parties. The Trust manages credit risk to minimise losses from bad debts. All advances made have first ranking security. Maximum exposures to credit risk at balance date are the carrying amounts of financial assets as follows:

	2018	2017
	$	$
Mortgage Portfolio - Current Portion	18,502,968	3,658,673
Mortgage Portfolio - Term Portion	1,408,500	650,000
Cash and Cash Equivalents	566,407	2,505,161
Interest Accrued Receivable	101,321	18,843

The above maximum exposures are net of any recognised impairment losses on these financial instruments.

Mortgage advances and interest receivable are secured by registered mortgage over property. Security in respect of contributory mortgages is held by Vulcan Contributory Mortgage Nominee Company Limited on behalf of the Trust based on the proportional share of the mortgage owned by the Trust. Refer to Note 18 for further information on contributory mortgages.

Concentration of Credit Risk
No mortgage exceeded 10% of the gross asset value of the Trust (2017: Nil). Geographic information regarding mortgages is disclosed in Note 16.

At balance date, cash and interest bearing deposits were held with one bank. During the year the Trust also held funds on trust with Glaister Ennor. There was no overdraft at balance date and no facility arranged. The Trust does not have any other significant concentrations of credit risk.

Market Risk
The Trust's mortgages portfolio is linked to the property market which may vary from time to time. However, the Trust's weighted average loan to asset ratio is not able to exceed 75% per the investment policy. This means that the Trust has no exposure to a property market downturn of up to 25% based on the most recent valuations obtained.

As at 31 March 2018, the weighted average loan to asset ratio was 49.74% (2017: 35.65%), excluding accrued interest.

Interest Rate Risk

The Trust has exposure to interest rate risk to the extent it borrows or invests for a fixed term at fixed rates. The Trust has no borrowings at balance date. In general the interest rate risk associated with lending by the Trust is managed by lending for relatively short terms and ensuring that interest rates on initial lending or renewal are appropriate given the prevailing market interest rates.

At 31 March 2018, the weighted average interest rate on the mortgage portfolio was 9.28% (2017: 8.90%), with rates ranging from 7.00% to 12.95% (2017: 8.25% to 10.00%). All loans have agreed penalty interest rates to apply in the event of the loan being past due. Penalty interest rates range from 17.00% to 22.95% (2017: 18.25% to 20.00%) with a weighted average of 19.28% (2017: 18.90%).

The distribution to unitholders is based on the net profit arising from operations, after allowing for expenses, impairment losses, taxes and any other amount the Manager considers prudent to set aside.

The key driver of this distribution is interest income from loans to customers. Assuming nil impairment losses, a 1 percent increase/(decrease) in the interest rates received from loans to customers and bank deposits would normally drive a corresponding 1 percent increase/(decrease) in the distribution to unitholders.

The interest rate risk profile of the Trust is consistent with the Trust's contractual liquidity profile. The liquidity profiles shown in the Liquidity Risk Note on page 18 can therefore also be used to provide an interest rate repricing analysis of the Trust's financial assets.

Liquidity Risk

Liquidity risk represents the Trust's ability to meet its financial obligations on time. The Trust's redemption policies allow sufficient time to collect finance receivables in order to meet the cash flows resulting from redemptions. The Trust's cash flows enable it to make timely payments.

Units issued have redemption terms as follows:
- For units issued after 16 September 2016, the Trust is required to action a redemption within six months from the date of request. The value of these units are $15,643,855 (2017: $1,940,491).
- For units issued after 6 July 2009 but before 16 September 2016, the Trust is required to action a redemption within twelve months from the date of request. The value of these units are $2,520,540 (2017: $2,568,945).
- For units issued prior to 6 July 2009, the Trust is required to action a redemption within three months from the date of request. The value of these units are $2,410,358 (2017: $2,434,635).

The Manager can elect to redeem units on an earlier date at the Manager's discretion. As units issued do not have fixed maturity dates, they have not been included in the liquidity analysis below. The actual units redeemed during the year were 571,721 units (2017: 727,229 units) with a redemption value of $554,539 (2017: $709,933). The historical redemption rate is 5.92% (2017: 6.00%).

Redemptions of units received prior to balance date but paid subsequently amount to $1,038,185. Redemption requests of $77,417 were received prior to balance date but not yet actioned.

The following provides analysis of the Trust's liquidity profile as at 31 March 2018 and 31 March 2017. This analysis is of both contractual and expected undiscounted cash flows. Where contract terms have been re-documented, the maturity profile is based on the maturity date per the new contract.

	Total	0-6 mths	7-12 mths	13-24 mths	24+ mths
As at 31 March 2018					
Cash flows based on contractual obligations:					
Finance Receivables	20,939,936	12,264,055	7,230,077	1,445,804	-
Cash & Cash Equivalents	566,407	566,407	-	-	-
Total	21,506,343	12,830,462	7,230,077	1,445,804	-
Cash flows based on Trust's expectations of likely flows:					
Finance Receivables	21,025,765	11,058,390	8,207,039	1,760,336	-
Cash & Cash Equivalents	566,407	566,407	-	-	-
Total	21,592,172	11,624,797	8,207,039	1,760,336	-
As at 31 March 2017					
Cash flows based on contractual obligations:					
Finance Receivables	4,502,323	2,086,973	1,754,919	660,431	-
Cash & Cash Equivalents	2,505,161	2,505,161	-	-	-
Total	7,007,484	4,592,134	1,754,919	660,431	-
Cash flows based on the Trust's expectations of likely flows:					
Finance Receivables	4,502,323	2,086,973	1,754,919	660,431	-
Cash & Cash Equivalents	2,505,161	2,505,161	-	-	-
Total	7,007,484	4,592,134	1,754,919	660,431	-

The cash flows based on Trust's expectations take into consideration the expected renewal of existing facilities upon maturity for past due assets, which lead to increased cash flows from interest and later principal repayments.

Accounts payable and accruals, representing all the financial liabilities of the Trust, are all due to be settled within six months. This takes into consideration the expected renewal of existing facilities upon maturity.

Capital Management
Net assets attributable to unitholders are considered to be the Trust's capital for the purposes of capital management. The Trust does not have to comply with externally imposed capital requirements.

The Trust's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns to its unitholders and to support future development and growth of the business to maximise the Trust's unitholders value as well as ensuring its net assets attributable to unitholders are sufficient to meet all present and future obligations, considering the level of units on issue and their redemption periods as disclosed above.

In order to meet its objectives for capital management the Manager reviews the Trust's performance on a regular basis.

18. RELATED PARTIES

The Trust is associated with its Manager, Norfolk Mortgage Management Limited. In the prior year, the Trust was also associated with the previous manager, Norfolk Financial Management Limited. Management fees paid to Norfolk Mortgage Management Limited during the year were $219,290 (2017:$100,876) and management fees paid to Norfolk Financial Management Limited were $0 (2017: $34,553).

The conversion of units described in Note 6 was a related party transaction as Norfolk (No. 2) Trust is managed by the same Manager. Assets totalling $10,257,149 (consisting of bank deposits of $420,481 and finance receivables of $9,836,668) and liabilities of $114,734 were transferred from Norfolk (No. 2) Trust in exchange for 10,477,600 units in Norfolk Mortgage Trust.

J L Porus is a partner of the law firm Glaister Ennor. Norfolk Mortgage Trust and its Manager engage Glaister Ennor for a variety of matters from time to time. A balance of $8,878 (2017: Nil) was outstanding at year-end for costs relating to the conversion with Norfolk (No. 2) Trust. Glaister Ennor also holds interest bearing bank deposits on behalf of Norfolk Mortgage Trust. The value of these deposits at balance date was nil (2017: $2,199,739).

J L Porus is also associated with Vulcan Mortgage Limited Partnership, an entity that itself invests in mortgages. During the year, the Trust acquired and then disposed of an investment in the Limited Partnership. The Trust derived investment income of $2,619 (2017: $0) during the period of ownership.

The Trust has entered into two (2017: five) contributory mortgage arrangements with Vulcan Contributory Mortgage Nominee Company Limited (the "Nominee Company"). The advances under these arrangement totalled $650,000 at 31 March 2018 (2017: $1,734,246). J L Porus is a Director of the Nominee Company. Security in respect of these loans is held by the Nominee Company on behalf of the Trust based on the proportional share of the mortgage owned by the Trust. In the normal course of business Vulcan Mortgage derives a commission of 1% in respect of contributory mortgages (2017: 1%). However, in the case of the Trust, these fees are rebated.

Some of the Directors of the Manager and/or the firm(s) of which they are members may from time to time receive fees direct from borrowers for arranging mortgage advances by the Trusts. These fees are payable by the borrowers at commercial rates.

Related Party Unitholders

Persons associated with Directors of the Manager have subscribed for units in the Trust on a normal commercial basis. A summary of the units held where the Director has a beneficial interest and also those in which the Director acts in his professional capacity as a Trustee of a Trust or Director of a Trustee Company and does not have a beneficial interest are as follows:

	2018 Units Held	2017 Units Held
A G Flett - Beneficial Interest	203,512	512,588
A G Flett - Non-Beneficial Interest	511,404	511,404
J L Porus - Beneficial Interest	160,000	160,000
J L Porus - No Beneficial Interest	1,335,093	1,360,093
C A Urquhart - Beneficial Interest	-	51,477

Distributions were paid to each of these units on a normal basis and in all respects in the same manner as for other unitholders.

19. EVENTS SUBSEQUENT TO BALANCE DATE

No significant events subsequent to balance date which should require disclosure as part of these financial statements have been noted.

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Independent Auditor's Report

To the unitholders of Norfolk Mortgage Trust

Opinion

We have audited the financial statements of Norfolk Mortgage Trust (the Trust) which comprise:

- the statement of financial position as at 31 March 2018;
- the statement of comprehensive income for the year then ended;
- statement of movements in equity for the year then ended;
- statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies.

In our opinion, the financial statements on pages 2 to 20 present fairly, in all material respects, the financial position of the Trust as at 31 March 2018, and of its financial performance and its cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We are independent of the Trust 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 we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Other than in our capacity as auditor we have no relationship with, or interests in, the Trust.

Other information

The directors of the manager, Norfolk Mortgage Management Limited, are responsible for the other information. The other information comprises the Trust directory on page 1 (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report. Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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 directors of the manager for the financial statements

The directors of the manager, Norfolk Mortgage Management Limited, are responsible, on behalf of the Trust, for the preparation and fair presentation of the financial statements in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the directors of 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 directors of the manager are responsible on behalf of the Trust for assessing the Trust'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 those charged with governance either intend to liquidate the Trust 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) 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 decisions of users taken on the basis of these financial statements. A further description of the auditor's responsibilities for the audit of the financial statements is located at the XRB's website at:
https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-6/

Who we report to

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

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

RSM

RSM Hayes Audit
Auckland

30 July 2018

NORFOLK

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