

PROVINCIAL GROWTH FUND LIMITED

Annual Report 2020

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CHAIR'S REPORT

I am pleased to present the first annual report for Provincial Growth Fund Limited (PGFL).

PGFL was formally incorporated under the Companies Act 1993 on 3 September 2019 and it was added to Schedule 4A of the Public Finance Act 1989 on 4 October 2019.

PGFL has been established to hold the Crown's investments made through the Provincial Growth Fund and other regional economic development initiatives. These investments provide various forms of financial support to lift productivity and increase economic development opportunities in regional New Zealand. While investments are transferred to PGFL to hold, the Crown retains the responsibility for the day to day management of those investments via the Provincial Development Unit (PDU), which is part of the Ministry of Business, Innovation and Employment (MBIE).

PGFL plays an important role in overseeing and monitoring the performance of the management of these investments by MBIE while ensuring that the expected public benefits are realised and that projects are being delivered in a cost effective and timely manner. The Government took a calculated risk to invest in projects that would provide a range of public benefits and outcomes that commercial lenders may not consider, knowing that not all the projects may succeed. Further, PGFL is mindful that due to COVID-19 impacts and evolving economies not all projects may proceed.

This report covers the period 3 September 2019 to 30 June 2020 and includes a comparison of results against PGFL's Statement of Performance Expectations. In its inaugural year, PGFL achieved the following:

- Completed the set up and establishment activities to enable PGFL to be a fully functional company where investment agreements can be novated (transferred) from MBIE to PGFL. This included the signing of the Management Agreement between PGFL and MBIE, which formalised the management of PGFL's investments.
- Commenced the novation of loan and equity investments to PGFL. As at 30 June 2020, PGFL held 29 loans with a gross book value of \$30.478 million, including accrued interest of \$0.304 million, and a total nominal value of \$123.809 million, including loans signed and not drawn down. The difference between the book value and the nominal value of the loans mostly reflects that further loan advances will occur as project milestones are achieved. For the 10 months ended 30 June 2020, one novated loan has been converted to equity. As at 30 June 2020, PGFL held one equity investment amounting to \$19.000 million. The novation of further investments will continue to occur in the next financial year.

The Board is pleased with the progress made, taking into account the complexity of establishing and operationalising a new company of this nature that is new in its type for Government. The Board is also satisfied with MBIE's performance to date in managing and administering PGFL's investments.

In a financial sense, PGFL performed better than its budget, reporting total deficit of \$8.740 million (budget: total deficit of \$22.589 million). This is after a prudent amount for loan impairments of \$1.097 million, in common with standard industry practice for a company holding loans. The better than planned result primarily reflects differences in the timing of the novation (transfer) of loans to PGFL compared to the original budget.

The company is in a strong financial position, on the basis that it had cash on hand of \$179.071 million as at 30 June 2020. Such cash represents the Crown funding received to cover PGFL's operating expenses and equity to fund PGFL's future loan and equity investment obligations.

As was anticipated when PGFL's Distribution Policy was promulgated in its 2019/20 Statement of Performance Expectations, PGFL will not be declaring a dividend in relation to the period to 30 June 2020.

PGFL received its audit report after the statutory deadline of 18 December 2020. The Board acknowledges that PGFL had some complex financial transactions to account for and that this was the first audit of PGFL.

Finally, I would like to thank the staff of the PDU and MBIE for their assistance. The Board has greatly appreciated the high level of support provided on successfully establishing PGFL and servicing the Board's activity.



Rodger Finlay
Chair, Provincial Growth Fund Limited

STATEMENT OF PERFORMANCE

The key measurements of PGFL's performance are: the total value of, the investment income generated from, and the performance of the loans and equity investments which are held by PGFL, on behalf of the Crown.

Performance of PGFL's loans

The table below sets out PGFL's position in respect of loans and advances as at 30 June 2020.

	Actual 2020
<i>Total loans novated to PGFL:</i>	
Number of loans novated to PGFL ¹	30
Range of loan values	\$0.261 to \$19.500 million
Range of loan maturities	6 months to 15 years
Total nominal value of novated loans	\$126.809 million
<i>Loans drawn down at 30 June:</i>	
Number of loans	19
Range of loan values	\$0.261 to \$10.000 million
Range of loan maturities	6 months to 10 years
Total loans and advances	\$30.478 million
Total value of undrawn balances	\$24.631 million
<i>Performing loans²:</i>	
- number of loans	19
- amount (principal and interest accrued)	\$30.478 million
<i>Non-performing loans³:</i>	
- number of loans	nil
- amount (principal and interest accrued)	nil
<i>Repayments expected in year ended 30 June 2020</i>	
- interest repayments due	nil
- principal repayments due	nil
<i>Repayments expected in year ending 30 June 2021⁴</i>	
- interest repayments due	\$0.400 million
- principal repayments due	\$1.135 million
<i>Repayments expected in year ending 30 June 2022⁴</i>	
- interest repayments due	\$1.600 million
- principal repayments due	\$2.170 million
<i>Repayments expected in year ending 30 June 2023⁴</i>	
- interest repayments due	\$4.016 million
- principal repayments due	\$25.106 million

Notes:

1. A \$6 million loan was converted to equity after the novation. Total number of loans held at 30 June 2020 was 29 loans (\$123.809 million).
2. There have been no repayments due since novation.
3. Non-performing loans are currently defined as loans where interest and/or principal payments have been missed.
4. Expected repayments of interest include amounts that are due to be accrued in the future years.

Performance of PGFL's investments in equity

As at 30 June 2020, PGFL held one investment in equity totalling \$19.000 million. The investment comprised of two tranches: conversion of a \$6 million loan and \$0.048 million of accrued interest on the loan to equity with the further purchase of \$12.952 million shares. For 10 months ended 30 June 2020, there has been no income generated from this investment.

STATEMENT OF COMPLIANCE AND RESPONSIBILITY

STATEMENT OF COMPLIANCE

The Board of the Provincial Growth Fund Limited acknowledges that the company has not met the requirement of Schedule 4 of the COVID-19 Response (Further Management Measures) Legislation Act (No 2) 2020 which required it to receive an audit report by 18 December 2020. This is due to the complexities relating to the preparation of the first set of financial statements and the related audit work required.

STATEMENT OF RESPONSIBILITY

We are responsible for the preparation of Provincial Growth Fund Limited's financial statements and statement of performance, and for the judgements made in them.

We are responsible for any end of year performance information provided by Provincial Growth Fund Limited under section 19A of the Public Finance Act 1989.

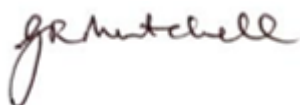
We have the responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting.

In our opinion, these financial statements and statement of performance fairly reflect the financial position and operations of Provincial Growth Fund Limited for the 10 months ended 30 June 2020.

Signed on behalf of the Board:



Rodger Finlay
Chair, Provincial Growth Fund Limited
2 February 2021



Graeme Mitchell
Director, Provincial Growth Fund Limited
2 February 2021

Independent Auditor's Report

To the readers of Provincial Growth Fund Limited's financial statements and performance information for the ten months ended 30 June 2020

The Auditor-General is the auditor of Provincial Growth Fund Limited (the Company). The Auditor-General has appointed me, Clint Ramoo, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and the performance information of the Company on his behalf.

Opinion

We have audited:

- the financial statements of the Company on pages 12 to 39, that comprise the statement of financial position as at 30 June 2020, the statement of comprehensive revenue and expenses, statement of changes in equity and statement of cash flows for the period ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the Company on pages 4 to 5.

In our opinion:

- the financial statements of the Company on pages 12 to 39:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2020; and
 - its financial performance and cash flows for the period then ended; and
 - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards; and
- the performance information on pages 4 to 5:
 - presents fairly, in all material respects, the Company's performance for the period ended 30 June 2020, including for each class of reportable outputs:
 - its standards of delivery performance achieved as compared with forecasts included in the statement of performance expectations for the period; and

- its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the period; and
- complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 2 February 2021. This is the date at which our opinion is expressed.

The basis for our opinion is explained below, and we draw your attention to other matters. In addition, we outline the responsibilities of the Board and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

Emphasis of matters

Without modifying our opinion, we draw attention to the following disclosures.

Key judgements, and assumptions in estimating the value of loans and advances

Note 2 on pages 21 to 23 describes the key judgements and assumptions applied by the Company in estimating the value of its loans and advances as at 30 June 2020. In particular, how the discount rates and expected credit losses are determined and whether a significant increase in credit risk has occurred.

Impact of Covid-19

Notes 1, 2 and 11 on pages 18, 21, and 39 outline the impact of Covid-19 on the Company.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

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

Responsibilities of the Board for the financial statements and the performance information

The Board is responsible on behalf of the Company for preparing financial statements and performance information that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

The Board is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board is responsible on behalf of the Company for assessing the Company's ability to continue as a going concern. The Board is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to liquidate the Company or to cease operations, or there is no realistic alternative but to do so.

The Board's responsibilities arise from the Public Finance Act 1989 and the Crown Entities Act 2004.

Responsibilities of the auditor for the audit of the financial statements and the performance information

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, 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 carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements and performance information.

For the budget information reported in the financial statements and the performance information, our procedures were limited to checking that the information agreed to the Company's statement of performance expectations.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board.
- We evaluate the appropriateness of the reported performance information within the Company's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other Information

The Board is responsible for the other information. The other information comprises the information included on page 40, but does not include the financial statements and the performance information, and our auditor's report thereon.

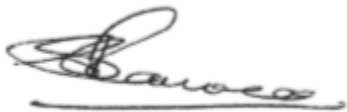
Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, 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.

Independence

We are independent of the Company in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1: International Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with, or interests in, the Company.

A handwritten signature in black ink, appearing to read 'Clint Ramoo', with a horizontal line underneath.

Clint Ramoo
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

FINANCIAL STATEMENTS

For the period ended 30 June 2020

STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSES

For 10 months ended 30 June 2020

		Actual 2020 \$000	Budget 2020 \$000
	Note		
Revenue			
Funding from Crown	4	500	1,000
Interest from loans and advances	4	204	3,814
Interest from bank deposits	4	47	-
Total revenue		751	4,814
Expenses			
Fair value movement of loans and advances	2	(6,268)	-
Concession on undrawn loan commitments	7	(1,145)	-
Loan impairment provision	2	(1,097)	-
Concession on initial recognition of loans and advances	2	(631)	(26,404)
Directors' remuneration	9	(67)	(67)
Other expenses	5	(283)	(932)
Total expenses	5	(9,491)	(27,403)
Net surplus/(deficit)		(8,740)	(22,589)
Total comprehensive revenue and expense		(8,740)	(22,589)

Explanations for major variances against budget are disclosed in respective notes.

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

		Actual 2020 \$000	Budget 2020 \$000
	Note		
Assets			
Current assets			
Cash and cash equivalents	10	179,071	27,854
Trade receivables	9, 10	100	-
Loans and advances	2	1,322	95
Total current assets		180,493	27,949
Non-current assets			
Loans and advances	2	17,963	131,564
Investment in associates	3	19,000	-
Total non-current assets		36,963	131,564
Total assets		217,456	159,513
Liabilities			
Current liabilities			
Trade payables	10	277	119
Other payables	10	12,952	-
Total current liabilities		13,229	119
Non-current liabilities			
Provision for concessionary loss on undrawn loan commitments	7	1,145	-
Total non-current liabilities		1,145	-
Total liabilities		14,374	119
Net assets		203,082	159,394
Equity			
Contributed capital	8	211,822	181,983
Accumulated surplus/(deficit)		(8,740)	(22,589)
Total equity		203,082	159,394

Explanations for major variances against budget are disclosed in respective notes.

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For 10 months ended 30 June 2020

		Actual 2020 \$000	Budget 2020 \$000
	Note		
Balance at the beginning of the period		-	-
Share capital	8	186,000	140,000
Loans and advances transferred from MBIE	2, 8	25,822	41,983
Net surplus/(deficit) for the period		(8,740)	(22,589)
Total equity as at 30 June 2020		203,082	159,394

Explanations for major variances against budget are disclosed in respective notes.

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

For 10 months ended 30 June 2020

		Actual	Budget
		2020	2020
	Note	\$000	\$000
Cash flows from operating activities			
Cash provided from:			
Receipts from MBIE		460	1,000
Cash disbursed to:			
Payments to suppliers		(14)	(880)
Payments to Directors	9	(67)	-
Net GST		(52)	-
Net cash flow from operating activities		327	120
Cash flows from investing activities			
Cash provided from:			
Interest received		47	-
Cash disbursed to:			
Acquisition of investments		-	-
Suspensory loans paid by PGFL		(1,857)	-
Other loans and advances paid by PGFL		(5,446)	(112,266)
Net cash flow from investing activities		(7,256)	(112,266)
Cash flows from financing activities			
Cash provided from:			
Capital contribution from the Crown	8	186,000	140,000
Net cash flow from financing activities		186,000	140,000
Net movement in cash		179,071	27,854
Opening cash and cash equivalents balance		-	-
Closing cash and cash equivalents balance	10	179,071	27,854

STATEMENT OF CASH FLOWS (CONTINUED)

For 10 months ended 30 June 2020

Reconciliation of surplus/ (deficit) to net cash flows from operating activities

	Note	Actual 2020 \$000
Net surplus/(deficit)		(8,740)
Add/(less) items classified as investing or financing activities:		
Interest income		(251)
Concession on initial recognition of loans and advances	2	631
Concession on undrawn loan commitments	7	1,145
Provision for impairment of loans and advances	2	1,097
Fair value movement of loans and advances	2	6,268
Total items classified as investing or financing activities		8,890
Add/(less) movements in working capital:		
(Increase)/decrease in receivables		(100)
Increase/(decrease) in payables		277
Net movement in working capital items		177
Net cash flow from operating activities		327

NOTES TO THE FINANCIAL STATEMENTS For the 10 months ended 30 June 2020

Note 1. Statement of accounting policies

REPORTING ENTITY

Provincial Growth Fund Limited (PGFL) is a limited liability company incorporated in New Zealand under the Companies Act 1993 and is a Schedule 4A entity of the Public Finance Act 1989. PGFL is domiciled and operates in New Zealand. PGFL's ultimate parent is the New Zealand Crown.

PGFL's primary objective is to act as an asset holding company to hold loans and equity investments made through the Provincial Growth Fund and other regional economic development initiatives. PGFL does not operate to make a financial return.

PGFL has designated itself as a public benefit entity (PBE) for financial reporting purposes.

The financial statements for PGFL are for 10 months ended 30 June 2020, and were approved by the Board on 2 February 2021.

BASIS OF PREPARATION

The financial statements have been prepared on a going concern basis, and the accounting policies have been applied consistently since the inception of PGFL.

Statement of compliance

The financial statements of PGFL have been prepared in accordance with the requirements of the Crown Entities Act 2004, which includes the requirement to comply with generally accepted accounting practice in New Zealand (NZ GAAP).

PGFL is a Tier 1 entity and the financial statements have been prepared in accordance with Tier 1 PBE accounting standards.

These financial statements comply with PBE Standards.

Presentation currency and rounding

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000), except for when stated otherwise.

Comparative information

The reporting period for these financial statements is for 10 months ended 30 June 2020.

There is no comparative information from previous years as PGFL was established on 3 September 2019.

Accounting standards effective for the period

These financial statements are PGFL's first set of financial statements under PBE Standards.

Standards early adopted

PGFL has early adopted Public Benefit International Financial Reporting Standard (PBE IFRS) 9 *Financial Instruments*. The standard replaces Public Benefit Entity International Public Sector Accounting Standards (PBE IPSAS) 29 *Financial Instruments: Recognition and Measurement* and includes revised guidance on the classification and measurement of financial instruments as well as a new impairment model for financial assets based on expected future credit losses.

No transitional disclosures have been made for the early adoption of PBE IFRS 9 *Financial Instruments* as the standard has been consistently applied since the establishment of PGFL on 3 September 2019.

Standards issued and not yet effective and not early adopted

Standards and amendments, issued but not yet effective, that have not been early adopted are:

Amendment to PBE IPSAS 2 Statement of Cash Flows

An amendment to PBE IPSAS 2 Statement of Cash Flows requires entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. This amendment is effective for annual periods beginning on or after 1 January 2021, with early application permitted. The initial assessment indicates that the standard will not have material impact on PGFL's financial statements.

Note 1. Statement of accounting policies (continued)

PBE IPSAS 41 Financial Instruments

The XRB issued PBE IPSAS 41 *Financial Instruments* in March 2019. This standard supersedes PBE IFRS 9 *Financial Instruments*, which was issued as an interim standard. It is effective for reporting periods beginning on or after 1 January 2022. Although PGFL has not assessed the effect of the new standard, it does not expect any significant changes as the requirements are similar to PBE IFRS 9.

PBE FRS 48 Service Performance Reporting

PBE FRS 48 replaces the service performance reporting requirements of PBE IPSAS 1 and is effective for reporting periods beginning on or after 1 January 2021. PGFL has not yet determined how application of PBE FRS 48 will affect its statement of performance. The initial assessment indicates that the standard will not have material impact on PGFL's financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies are included in the notes to which they relate, and are highlighted with a blue background. Significant accounting policies that do not relate to a specific note are outlined below.

There have been no changes in accounting policies during the reporting period.

Goods and services tax

Items in the financial statements are presented exclusive of GST, except for receivables and payables, which are presented on a GST-inclusive basis. Where GST is not recoverable as input tax, it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the IRD is included as part of receivables or payables in the statement of financial position.

The net GST paid to, or received from, the IRD, including the GST relating to investing and financing activities, is classified as a net operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

Income tax

PGFL is exempt from the payment of income tax. Accordingly, no provision has been made for income tax.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits held on call with banks. While cash and cash equivalents at 30 June 2020 are subject to the expected credit loss requirements of PBE IFRS 9, no loss allowance has been recognised because the estimated loss allowance for credit losses is immaterial.

Receivables

Receivables are non-derivative financial assets initially recorded at their fair value and subsequently measured at amortised cost. Receivables recorded at the amount due, less an allowance for credit losses. PGFL applies a simplified approach to recognising lifetime expected credit losses on receivables. In measuring expected credit losses, receivables have been assessed on a collective basis, based on the days past due, as they possess shared credit risk characteristics.

Payables

Payables are non-interest bearing liabilities that are recorded at their face value. The carrying value of payables approximates their fair value.

Funding from the Crown

PGFL is primarily funded from the Crown. This funding is restricted in its use for the purpose of PGFL meeting the objectives specified in the Crown Entities Act 2004 and the scope of the relevant appropriations of the funder.

PGFL considers there are no conditions attached to the funding and it is recognised as revenue progressively over the period of entitlement.

The fair value of revenue from the Crown has been determined to be equivalent to the amounts due in the funding arrangements.

Note 1. Statement of accounting policies (continued)

Directors' remuneration

Directors' remuneration is recognised as an expense in the period in which it is earned by Directors.

Budget figures

The budget figures are derived from the statement of performance expectations as approved by the Board. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted by the Board in preparing these financial statements.

Critical accounting estimates and assumptions

In preparing these financial statements, PGFL has made estimates and assumptions concerning the future. These estimates and assumptions might differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on a number of factors, including expectations of future events that are believed to be reasonable under the circumstances.

Coronavirus (COVID-19) pandemic

The ongoing COVID-19 pandemic has increased the estimation uncertainty associated with:

- the extent and duration of the disruption to businesses arising from the actions by governments, businesses, and consumers to contain the spread of the virus; and
- the extent and duration of the expected economic downturn.

PGFL has developed various accounting estimates based on forecasts of economic conditions and of borrowers' ability to meet their financial and non-financial obligations to PGFL. These estimates reflect expectations as at 30 June 2020 about future events that the Directors believe are reasonable in the circumstances. There is a considerable degree of judgement involved and accordingly, actual events are likely to be different from those forecast. The effect of those differences may significantly impact accounting estimates included in these financial statements.

The significant accounting estimates impacted by these forecasts and associated

uncertainties are predominantly related to the expected credit losses and recoverable amount assessment of non-financial assets held as collateral for loans and advances.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are highlighted in the relevant note with a red background:

- Value of loans and advances – refer to Note 2.

Critical judgements in applying accounting policies

Management has exercised the following critical judgements in applying accounting policies:

- Market rates used for determining fair value of loans and advances – refer to Note 2
- Classification of suspensory loans as loans and advances – refer to Note 2
- Classification of equity investments as investments in associates – refer to Note 3.

These judgements are highlighted in the relevant note with a red background.

OTHER OBLIGATIONS UNDER CROWN ENTITIES ACT 2004

Directions issued by Ministers

The Shareholding Ministers did not give any written direction under any enactment to PGFL in 2019/20.

A direction issued by the Minister of State Services and the Minister of Finance that applies to PGFL as a Crown entity, and is still current, is May 2016 direction issued under section 107 of the Crown Entities Act 2004 to apply the whole-of-government approach to implementing the New Zealand Business Number.

Obligation to be a good employer

As PGFL does not have any staff, there is no relevant information to provide in respect of PGFL's obligation to be a good employer as required by section 151(1)(g) of the Crown Entities Act 2004.

Note 2. Loans and advances

Accounting policy

Loans and advances measured at amortised cost

Loans and advances are initially measured at fair value plus transaction costs, and subsequently at amortised cost using the effective interest method. Interest income and expected credit losses (ECL) are recognised in the Statement of comprehensive revenue and expenses.

Concessionary loans

Concessionary loans are loans granted at below market terms. PGFL firstly assesses whether the substance of the concessionary loan is a loan, a grant, an equity contribution, or a combination thereof. If PGFL has determined that the transaction is a loan, it assesses whether the transaction price represents the fair value of the loan on initial recognition. Fair value is determined by discounting all future cash receipts using a market related rate of interest for a similar loan and concession write-down on initial recognition is recognised in the Statement of comprehensive revenue and expense.

Loans and advances measured at fair value through surplus or deficit

The following loans and advances are measured at fair value through surplus or deficit:

- suspensory loans that may be forgiven in the future subject to a borrower achieving agreed public benefit outcomes; and
- loans with contractual provisions that change the timing or amount of cash flows giving rise to returns different from a basic lending arrangement.

These loans are recognised initially by writing the amount lent down to fair value. Fair value is determined by projecting forward estimated cash inflows from borrowers and discounting them back at an appropriate discount rate.

Subsequently these loans are measured at fair value through surplus or deficit.

Fair value is the amount for which the loans could be exchanged between knowledgeable, willing parties on an arm's-length basis.

Impairment losses

An expected credit loss model (ECL) is used to recognise impairment losses on the loans and advances subsequently measured at amortised cost. Assessment is made at each reporting date for any significant increase in the credit risk since initial recognition.

A three-staged approach is applied, where ECL is recognised in line with the credit quality stage of the loans and advances:

- Stage 1. At initial recognition, a provision equivalent to 12 months of ECL is recognised.
- Stage 2. Where there has been a significant increase in credit risk since initial recognition, a provision equivalent to a lifetime ECL is recognised.
- Stage 3. Where a loan is impaired or in default and there is objective evidence of impairment, a lifetime ECL is recognised.

ECL is determined by evaluating a range of possible outcomes, taking into account the time value of money, past events, current conditions and forecasts of future economic conditions.

Evidence that a loan may be impaired includes significant financial difficulty of a borrower; a breach of contract such as a default or past due event; a restructuring of a loan on terms that PGFL would not consider otherwise; or a borrower entering bankruptcy or other financial reorganisation.

A loan that is overdue for 90 days or more is considered impaired.

Loans are written-off when there is no reasonable expectation of a recovery in its entirety or a portion thereof. This assessment is carried out at the individual loan level.

Note 2. Loans and advances (continued)

Critical accounting estimates and judgements

Valuation of concessionary loans and advances

Valuation of concessionary loans and advances is performed using the following assumptions:

- Discount rate which is the arm's length rate for a loan;
- For suspensory loans provided on concessionary terms, assumptions regarding a borrower's ability to fulfil conditions preceding a loan forgiveness; and
- Where repayment dates are subject to meeting certain conditions or milestones, expectations regarding such timing.

PGFL determines arm's length rate for its loans and advances on an individual basis. Judgements are made in setting the arm's length rate that is determined by observing benchmark interest rates that are then adjusted for various risks, including risk associated with a borrower's financial position at the time a loan is provided, loan security, construction risk etc.

Impairment of loans and advances measured at amortised cost

Loans and advances measured at amortised cost are assessed for impairment on an individual basis at the end of the reporting period. In determining whether an impairment loss should be recognised, judgements are made whether there is any observable evidence indicating an adverse change in the payment status of the borrower, or economic conditions that correlate with defaults on similar assets. The assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The impact of COVID-19 on the global economy and how governments, businesses, and consumers respond is uncertain. This uncertainty is reflected in the PGFL's assessment of ECL from its loans and advances portfolio which are subject to a number of management judgements and estimates. These judgements and associated assumptions reflect those factors that are considered to be relevant, including the extent and duration of the pandemic, the responses of the businesses, and consumers in different industries, along with the associated impact of the global economy.

PGFL applied the following judgements and estimates in determining ECL for loans and advances measured at amortised cost:

- *Measuring 12-month and lifetime credit losses.* ECL is a function of the probability of default (PD), the loss given default (LGD), and the exposure at default (EAD), which are point-in-time measures reflecting the relevant forward looking information determined by management. Judgement is involved in determining PD since PGFL was established in September 2019 and has no historical information. Also judgement is involved in determining which forward-looking information variables are relevant for PGFL's loans and advances portfolio.
- *Determining when a significant increase in credit risk has occurred.* In the measurement of ECL, judgement is involved in determining whether there has been a significant increase in credit risk since initial recognition of a loan, which would result in a loan moving from Stage 1 to Stage 2. This transition increases the ECL from allowance based on the probability of default for the next 12 months, to allowance for lifetime ECL.

ECL are probability-weighted and determined by evaluating a range of possible outcomes, taking into account the time value of money, past events, current conditions and forecasts of future economic conditions. The ECL model uses three main components to determine expected credit loss:

- Probability of default (PD): a probability that a counterparty will default
- Loss given default (LGD): the loss that is expected to arise in the event of default, and
- Exposure at default (EAD): the estimated outstanding amount of credit exposure at the time of default.

Note 2. Loans and advances (continued)

Critical accounting estimates and judgements (continued)

The table below presents a range of rates applied in the ECL model.

	2020
Discount rates	5.87%-15.0%
Default rates applied for Stage 1 loans	0.27%-2.25%
Default rates applied for Stage 2 loans	2.70%-22.50%
Default rates applied for Stage 3 loans	45.0%-75.0%
Loss given default rates applied	10.0%-100.0%

ECL model uses the following scenarios

Scenario	Weighting Applied
Scenario 1: low but steady economic and employment growth, supported by a lower interest rate forecast	60%
Scenario 2: a mild upside with a higher track for GDP and interest rates	5%
Scenario 3: a mild downside with a short-term impact on GDP, lower employment growth and interest rates	25%
Scenario 4: a severe downside with a sharp reduction in GDP and material increase in unemployment	10%

ECL model is used to assess impairment of loans and advances measured at amortised cost. For loans and advances measured at fair value through surplus or deficit, any deteriorations in credit risk are implicit in the carrying amount of these loans and any movements in the carrying amount post initial recognition are recognised as fair value movements in the surplus or deficit.

The expected trajectory for the domestic economy remains highly uncertain given the continuing impacts of the pandemic on global trade patterns, commodity prices, and the flow of international tourists and students. While the Government and the RBNZ have provided significant levels of fiscal and monetary support to the New Zealand economy, it is difficult to predict the levels of continuing support required and whether the economy will respond as forecast. The economic scenarios and consequent provision impacts will continue to be assessed as the situation develops and as more data becomes available to better model the potential credit losses that may result from the impact of COVID-19 on the New Zealand economy.

Suspensory loans

Suspensory loans are loans that are forgiven if specific loan conditions are fulfilled. Judgement is involved in determining the timing of when a loan should be forgiven and derecognised. PGFL recognises the suspensory loans as loans and advances until PGFL is satisfied that agreed conditions are met, and notifies the borrowers accordingly. Then the borrower's obligation to repay the forgiven amount is reduced correspondingly. Fair value of suspensory loans that are on track with fulfilling agreed public benefit outcomes is deemed to be nil.

Note 2. Loans and advances (continued)

The primary responsibility for the management and administration of PGFL's loans remains with the Crown. The decision making in relation to PGFL's loans and advances is governed by the criteria for the Provincial Growth Fund (PGF) investments as published by the Ministry of Business, Innovation and Employment (MBIE)

from time to time, which includes non-financial criteria.

The following table presents loans and advances, including fair value changes during the period, by product type:

	30 June 2020			
	Concessionary loans	Other loans and advances	Suspensory loans	Total
	\$000	\$000	\$000	\$000
<i>Gross loans and advances:</i>				
Loans and advances transferred from MBIE	16,898	11,737	236	28,871
Interest accrued before transfer	19	178	-	197
Interest accrued after transfer	54	101	-	155
New drawdowns made	4,777	552	1,974	7,303
Loans and advances converted to equity	(6,048)	-	-	(6,048)
Total gross loans and advances at 30 June	15,700	12,568	2,210	30,478
<i>Fair value movement during the period:</i>				
Concession on initial recognition of loans and advances at transfer	(3,113)	-	(133)	(3,246)
Concession on initial recognition of new drawdowns made	(443)	-	(188)	(631)
Concession unwind	49	-	-	49
Fair value movement due to increased credit risk	(4,379)	-	-	(4,379)
Fair value write-down of suspensory loans	-	-	(1,889)	(1,889)
Total fair value movement of loans and advances	(7,886)	-	(2,210)	(10,096)
Total fair value of loans and advances	7,814	12,568	-	20,382
<i>Loan impairment provision:</i>				
Loan impairment provision	(30)	(1,067)	-	(1,097)
Total net loans and advances at 30 June	7,784	11,501	-	19,285
<i>Consists of:</i>				
Current	1,201	121	-	1,322
Non-Current	6,583	11,380	-	17,963
Total net loans and advances at 30 June	7,784	11,501	-	19,285

Gross loans and advances include \$0.304 million of accrued interest as at 30 June 2020.

Note 2. Loans and advances (continued)

Concessionary loans

Concessionary loans are those provided on terms substantially lower than market loans. Concessions provided by PGFL include interest rates below those available on the market,

grace periods, or a combination of these. The table below presents sensitivity of fair value of concessionary loans and advances to changes in the discount rates:

	Actual
	2020
	\$000
Concessionary loans and advances measured at amortised cost	
<i>Assumptions:</i>	
Fair value	4,256
Interest rates applied	0%-3.80%
Discount rates	5.87%-15.0%
<i>Sensitivity analysis:</i>	
Impact on fair value of increase in discount rate by 1%	(166)
Impact on fair value of decrease in discount rate by 1%	175
Concessionary loans and advances measured at fair value	
<i>Assumptions:</i>	
Fair value	3,558
Interest rates applied	0%-5.0%
Discount rates	1.62%-9.28%
<i>Sensitivity analysis:</i>	
Impact on fair value of increase in discount rate by 1%	(560)
Impact on fair value of decrease in discount rate by 1%	605

Concessionary loans and advances measured at fair value include suspensory loans and advances with nominal value of \$2.210 million and fair value of nil at 30 June 2020. Changes

in discount rate have no impact on fair value of suspensory loans as they are written-down to nil fair value at initial recognition.

Suspensory loans

Suspensory loans are mostly interest-free for a specified period, and are then forgiven if specific loan conditions are fulfilled. These loans are recognised as loans and advances until PGFL is satisfied that agreed conditions are met, and notifies the borrowers accordingly. Then the borrower's obligation to repay the forgiven amount is reduced correspondingly. Subsequently, suspensory loans are measured at fair value through profit or loss as PGFL provides them to achieve certain public

benefit outcomes rather than collect contractual cash flows of the asset.

At 30 June 2020, PGFL held suspensory loans with nominal value of \$2.210 million and fair value of nil since the borrowers were on track with fulfilling agreed public benefit outcomes. For 10 months ended 30 June 2020, PGFL recognised \$0.321 million concession on initial recognition of suspensory loans and further fair value write-down of \$1.889 million.

Note 2. Loans and advances (continued)

Movement of provision for impairment and fair value of loans and advances

The table below shows movement of provision for credit impairment for loans and advances measured at amortised cost:

	Actual 2020 \$000
Balance at beginning of the year	-
Provision for impairment made	(1,097)
Balance at end of the year	(1,097)

The table below shows sensitivity of provision for impairment to changes in applied default rates:

	Actual 2020 \$000
<i>Assumptions:</i>	
Loan impairment provision	(1,097)
Default rates applied for Stage 1 loans	0.27%-2.25%
Default rates applied for Stage 2 loans	2.70%-22.50%
Default rates applied for Stage 3 loans	45.0%-75.0%
<i>Sensitivity analysis:</i>	
Impact on impairment provision of 25% increase in default rates	(268)
Impact on impairment provision of 25% decrease in default rates	268
Impact on impairment provision of 10% increase in default rates	(107)
Impact on impairment provision of 10% decrease in default rates	107

The table below shows movement of provision for credit impairment between stages for loans and advances measured at amortised cost

and fair value movements for loans and advances measured at fair value:

	30 June 2020					
	Stage 1	Stage 2	Stage 3	Total loans at amortised cost	Loans at fair value	Total loans and advances
	\$000	\$000	\$000	\$000	\$000	\$000
<i>Gross carrying amount:</i>						
Balance at the beginning of the period	-	-	-	-	-	-
Additions	6,788	3,815	2,119	12,722	17,756	30,478
Gross loans and advances balance at 30 June 2020	6,788	3,815	2,119	12,722	17,756	30,478
<i>Provision for impairment:</i>						
Balance at the beginning of the period	-	-	-	-	-	-
New collective provision made	(19)	(228)	-	(247)	-	(247)
New individually assessed provision made	-	-	(850)	(850)	-	(850)
Total provision balance at 30 June 2020	(19)	(228)	(850)	(1,097)	-	(1,097)
<i>Fair value movement during the period:</i>						
Concession on initial recognition of loans and advances at 30 June	(815)	(83)	-	(898)	(2,930)	(3,828)
Fair value movement due to increased credit risk	-	-	-	-	(4,379)	(4,379)
Fair value write-down of suspensory loans	-	-	-	-	(1,889)	(1,889)
Total fair value movement during the period	(815)	(83)	-	(898)	(9,198)	(10,096)
Net loans and advances balance at 30 June 2020	5,954	3,504	1,269	10,727	8,558	19,285

Note 2. Loans and advances (continued)

Loans and advances quality

	Actual 2020 \$000
Neither past due nor impaired	28,359
Impaired	2,119
Gross loans and advances	30,478
Concession on initial recognition of loans and advances at 30 June	(3,828)
Loan impairment provision	(1,097)
Fair value movement of loans and advances	(6,268)
Net loans and advances	19,285

At 30 June 2020, PGFL had no loans that were past due but not impaired.

The table below provides analysis of loans and advances that are impaired:

	Actual 2020 \$000
<i>Gross impaired loans and advances:</i>	
Balance at beginning of the year	-
Transfers from performing loans	2,119
Total gross impaired loans and advances	2,119
Provision for impairment	(850)
Total net impaired loans and advances	1,269

Segment analysis

The table below provides analysis of loans and advances by segment:

	Actual 2020 \$000
Tourism	11,552
Manufacturing and engineering	8,896
Horticulture	6,149
Local government	1,800
Forestry and logging	612
Training skills and employment	546
Food and beverage	268
Other	655
Gross loans and advances	30,478

Explanation of major variances against budget

Loans and advances at 30 June 2020 were \$112.374 million less than budget. This is mainly due to:

- borrowers meeting conditions precedent drawdown slower than initially anticipated due to various delays, including those related to COVID-19;
- delays in finalisation of loan agreements; and
- the loan impairment provision not budgeted for due to associated uncertainty.

Note 3. Investment in associates

Accounting policy

An associate is an entity over which PGFL has a significant influence. Significant influence is a power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over these policies.

Investment in associates is accounted for using equity method whereby the investment is initially recognised at cost and subsequently adjusted for the post-acquisition change in PGFL's share of the investee's net assets. PGFL's share of the investee's post-acquisition surplus or deficit is recognised in PGFL's surplus or deficit. PGFL's share of the investee's post-acquisition other comprehensive revenue and expenses is recognised in PGFL's other comprehensive revenue and expenses. Distributions received from the investee reduce the carrying amount of PGFL's investment.

If PGFL's share of the deficits in the investee equals or exceeds carrying amount of the investment, PGFL discontinues recognising its share of further deficits. After PGFL's investment is reduced to zero, additional deficits are provided for to the extent that PGFL has incurred legal or constructive obligations or made payments on behalf of the investee. If the investee subsequently reports surpluses, PGFL resumes recognising its share of those surpluses only after such share of the surpluses equals the share of the deficits not recognised.

Critical accounting estimates and judgements

In determining whether an entity is a PGFL's associate, judgements are made over PGFL's powers to have significant influence to participate in the financial and operating policy decisions of the entity. Such judgements are based on the PGFL's voting power and the nature of the relationship between PGFL and the investee. If PGFL holds 20 per cent or more of the voting power of the investee, it is presumed that PGFL has significant influence, unless it can be clearly demonstrated that this is not the case. Other evidence of significant influence includes PGFL's representation on the board of directors or equivalent governing body of the investee; participation in policy-making processes, including participation in decisions about dividends or similar distributions; material transactions between PGFL and its investee; interchange of managerial personnel; and provision of essential technical information.

Whakatohea Mussels (Opotiki) Limited

On 30 June 2020 PGFL acquired 8,715,596 shares in Whakatohea Mussels (Opotiki) Limited (WMOL) at a price of \$2.18 per share. WMOL is a limited liability company incorporated in New Zealand in accordance with the Companies Act 1993 and its constitution. WMOL is domiciled and operates in New Zealand. PGFL's investment in WMOL funds the acceleration of WMOL's mussel farming operations in the ocean and building of a mussel grading and powder processing facility. At 30 June 2020, PGFL held 38.527% voting rights in WMOL.

	Actual
	2020
	\$000
Whakatohea Mussels (Opotiki) Limited	19,000
Total investment in associates	19,000

Note 3. Investment in associates (continued)

The table below provides a summary of WMOL financial statements for 12 months ended 30 June 2020. Since PGFL's shares in WMOL were issued on 30 June 2020, its share in WMOL's deficit post acquisition is nil.

	Actual 2020 \$000
Operating results	
Total revenue	2,035
Total expenses	(4,021)
Income tax benefit	99
Profit/(loss) for the year	(1,887)
Assets	
Cash and cash equivalents	2,286
Trade and other receivables	22,972
Property, plant and equipment	16,624
Biological assets	3,090
Other assets	822
Total assets	45,794
Liabilities	
Trade and other payables	2,595
Borrowings	1,970
Deferred tax liability	1,018
Other liabilities	17
Total liabilities	5,600
Net assets	40,194

There have been no dividends or other distributions received from WMOL.

At 30 June 2020, the difference between the carrying value of investment in WMOL of \$19 million and PGFL's share of WMOL's net assets as at 30 June 2020 of \$15.474 was \$3.526 million.

Explanation of major variances against budget

Investments in equity at 30 June 2020 were \$19.000 million above budget as no investments in associates were budgeted for.

Note 4. Revenue

Accounting policy

Funding from the Crown

PGFL is primarily funded from the Crown. This funding is restricted in its use for the purpose of PGFL meeting the objectives specified in the Crown Services Enterprise Act 2002 and the scope of the relevant appropriations of the funder.

PGFL considers there are no conditions attached to the funding and it is recognised as revenue at the point of entitlement. This is considered to be the start of the appropriation period to which the funding relates.

The fair value of revenue from the Crown has been determined to be equivalent to the amounts due in the funding arrangements.

Interest income

Interest income is recognised when earned using the effective interest rate method.

	Actual
	2020
	\$000
Revenue from exchange transactions	
Interest from loans and advances	155
Interest from bank deposits	47
Total revenue from exchange transactions	202
Revenue from non-exchange transactions	
Funding from Crown	500
Interest from loans and advances	49
Total revenue from non-exchange transactions	549
Total revenue	751

Note 5. Other expenses

Accounting policy

Other expenses are recognised when goods and services are received.

	Actual 2020 \$000
Fees to Audit New Zealand for audit of financial statements	56
Service agreement with Ministry of Business, Innovation and Employment	210
Other overheads and expenses	17
Total other expenses	283

At reporting date, PGFL had no operating leases as lessee.

Explanation of major variances against budget

Total expenses at 30 June 2020 were \$17.912 million less than budget. This is mainly due to differences in the timing of the novation of PGFL loans and equity investments compared to the original budget that resulted in a lower than budgeted concession on initial recognition.

Note 6. Contingent liabilities and contingent assets

Accounting policy

Contingent liabilities and contingent assets are reported at the point at which the contingency is evident or when a present liability is unable to be measured with sufficient reliability to be recorded in the financial statements. Contingent liabilities are not disclosed if the possibility of an outflow of resources embodying economic benefits or service potential is remote.

Contingent liabilities

At 30 June 2020 PGFL had no contingent liabilities.

Contingent assets

At 30 June 2020 PGFL had no contingent assets.

Note 7. Commitments

Accounting policy

Concessionary expense on loans and advances is recognised on the date PGFL's loan commitment becomes irrevocable. Provision for concessionary loss is recognised on irrevocable loan commitments that are undrawn.

PGFL's loans and advances are provided subject to a borrower meeting set conditions. At 30 June 2020, the undrawn loan commitments, in respect of which all conditions have been met by the borrowers, amounted to \$12.376 million and PGFL recognised a provision

for concessionary loss on the undrawn loan commitments of \$1.145 million.

In addition, at 30 June 2020, PGFL had undrawn loans and advances totalling \$80.955 million in respect of which set conditions have not been met by the borrowers.

	Actual 2020 \$000
<i>Undrawn loan commitments:</i>	
Less than one year	8,351
1-5 years	4,025
Total undrawn loan commitments	12,376

Note 8. Capital Management

Accounting policy

Equity is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into contributed capital and accumulated surplus or deficit. Loans and advances novated from MBIE are recognised as non-cash capital contribution at their fair value at the date of transfer.

The table below presents analysis of PGFL capital:

		Actual 2020 \$000	Actual 2020 Shares
Balance at the beginning of the period		-	-
Capital contribution		186,000	186,000,000
Total share capital		186,000	186,000,000
Gross loans and advances transferred from MBIE		28,871	-
Interest accrued before transfer		197	-
Concession on initial recognition of loans and advances at transfer	2	(3,246)	-
Total loans and advances transferred from MBIE		25,822	-
Balance at 30 June 2020		211,822	186,000,000

Contributed capital represents proceeds from the issue of the ordinary shares to the Crown, net of related share issue costs, if any. The Crown investment made in PGFL is represented by \$443,000,000 ordinary shares of \$1, with 186,000,000 being fully paid and 257,000,000 being unpaid as at 30 June 2020 (refer Note 11). The Crown holds all the issued capital of PGFL. All shares have equal voting and

dividend rights and share equally in any distribution on wind-up.

Capital management

The objective of managing the PGFL's equity is to ensure that PGFL achieves its goals and objectives efficiently, while remaining a going concern. Where PGFL identifies that it does not have sufficient resources to achieve this objective a capital injection is sought.

Note 9. Related party transactions

PGFL is controlled by the Crown.

PGFL has recognised funding from the Crown of \$0.500 million to provide its services for 10 months ended 30 June 2020.

Related party disclosures have not been made for transactions with related parties that are:

- within a normal supplier or client/recipient relationship; and
- on terms and conditions no more or less favourable than those that it is

reasonable to expect PGFL would have adopted in dealing with the party at arm's length in the same circumstances.

Further, transactions with other government agencies (for example, government departments and Crown entities) are not disclosed as related party transactions when they are on normal terms and conditions consistent with the normal operating arrangements between government agencies.

Key management personnel

Key management personnel compensation is disclosed in the following table:

	Actual 2020 \$000
<i>Board member fees during the period were:</i>	
Graeme Mitchell	19
Neville Harris	19
Rodger Finlay	29
Total Board member fees	67

PGFL indemnifies the Directors against costs and liabilities incurred by Directors for acts and omissions in their capacity as Directors to the extent permitted by PGFL's constitution and the Companies Act 1993.

There are no unrecorded related party transactions involving key management personnel or their close family members.

Shareholding Ministers

Shares in PGFL are held by the Crown acting by and through Minister of Finance and Minister for Economic and Regional Development, formerly Minister for Regional Economic Development (the Shareholding Ministers).

The Treasury has advised that the Shareholding Ministers have certified that there have been no related party transactions for the period ended 30 June 2020.

Shareholding Ministers' remuneration and other benefits are set by the Remuneration Authority under the *Members of Parliament (Remuneration of Services) Act 2013* and are paid under Permanent Legislative Authority,

and not paid by PGFL, and hence excluded from this related party disclosures.

Related entities

Management and administration services provided by the Ministry of Business, Innovation and Employment

In Budget 2018, the New Zealand Government has allocated three billion dollars over a three year term to invest in regional economic development through the Provincial Growth Fund (PGF) which aims to lift productivity potential in New Zealand's provinces. The PGF is administered by the Provincial Development Unit (PDU) which was established within the Ministry of Business, Innovation and Employment (MBIE).

During the reporting period, MBIE transferred certain PGF loans and equity investments to PGFL to act as an asset holding company. PGFL has appointed MBIE as the exclusive provider of management and administration services in respect of any loans and equity investments transferred to PGFL (refer Note 11).

Note 9. Related party transactions (continued)

The table below shows balances outstanding at the reporting date with the related entities:

	Actual 2020 \$000
Receivables - current	
- Ministry of Business, Innovation and Employment	100

The table below shows revenue and expenditure during the year with the related entities:

	Actual 2020 \$000
Revenue	
- Ministry of Business, Innovation and Employment	500
Expenses	
- Ministry of Business, Innovation and Employment	210

No provision has been required, nor any expense recognised, for impairment of receivables from related parties.

Note 10. Financial instruments

Accounting policy

Non-derivative financial assets

Financial assets are initially recognised at fair value and subsequently measured in accordance with the business model in which assets are managed and their contractual cash flow characteristics. PGFL's financial assets are measured at:

- amortised cost where the business model is to hold the financial assets in order to collect contractual cash flows and those cash flows represent solely payments of principal and interest, or
- fair value through surplus or deficit if they are held for trading or if the cash flows of the assets do not solely represent payments of principal and interest.

The maximum loss due to the default of any financial asset is the carrying value reported in the statement of financial position.

Financial assets measured at amortised cost are initially recognised at fair value plus transaction costs. They are subsequently measured at amortised cost using the effective interest method. If issued with duration of less than 12 months, financial assets are recognised at their nominal value, unless the effect of discounting is material. Interest and impairment losses are recognised in the statement of financial performance.

Financial assets measured at FVTOB are recorded at fair value with any realised and unrealised gains or losses recognised in the statement of financial performance. Gains or losses from interest and other fair value movements are separately reported in the statement of financial performance. Transaction costs are expensed as they are incurred.

Financial assets classified at FVTOB are not assessed for impairment as their fair value reflects the credit quality of the instruments and changes in fair value are recognised in the statement of financial performance.

An expected credit loss (ECL) model is used to recognise and calculate impairment losses for financial assets subsequently measured at amortised cost. Financial assets are to be assessed at each reporting date for any significant increase in the credit risk since initial recognition.

The simplified approach to providing for expected credit losses is applied to trade and other receivables. The simplified approach involves making a provision at an amount equal to lifetime expected credit losses. The allowance is assessed on a portfolio basis based on the number of days overdue, and taking into account the historical loss experience and incorporating any external and future information.

Accounting policy for recognition of impairment losses on loans and advances is disclosed in Note 2.

Write-off

Financial assets are written-off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. PGFL determines whether a financial asset should be written-off on an individual asset basis taking into consideration individual borrower's assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Recoveries of the amounts previously written-off are included in the loan impairment provision in the statement of surplus and deficit.

Financial assets that are written-off could still be subject to enforcement activities aimed at recovery of the amounts due.

Non-derivative financial liabilities

Financial liabilities are initially recognised at fair value and generally subsequently measured at amortised cost except of those measured at fair value through surplus or deficit, such as liabilities held-for-trading and financial liabilities irrevocably designated as fair value through surplus or deficit on initial recognition.

PGFL financial liabilities are subsequently measured at amortised cost using the effective interest method. Financial liabilities entered into with durations of less than 12 months are recognised at their nominal value. Amortisation is recognised in the statement of financial performance as is any gain or loss when the liability is derecognised.

Note 10. Financial instruments (continued)

Financial instrument categories

The carrying amounts of financial assets and liabilities in each of the financial instrument categories are as follows:

	Actual 2020 \$000
Financial assets measured at amortised cost	
Cash and cash equivalents	179,071
Loans and advances	10,727
Trade receivables	100
Total financial assets measured at amortised cost	189,898
Financial assets measured at fair value	
Investments in shares	19,000
Loans and advances	8,558
Total financial assets measured at fair value	27,558
Financial liabilities measured at amortised cost	
Trade payables	277
Other payables	12,952
Total financial liabilities measured at amortised cost	13,229

Fair value hierarchy

For those instruments recognised at fair value in the statement of financial position, fair values are determined according to the following hierarchy:

- Quoted market prices (level 1). Financial instruments with quoted prices for identical instruments in active markets.
- Valuation techniques using observable inputs (level 2). Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments

in inactive markets and financial instruments valued using models where all significant inputs are observable.

- Valuation techniques with significant non-observable inputs (level 3). Financial instruments valued using models where one or more significant inputs are not observable.

The following table analyses the basis of the valuation of classes of financial instruments measured at fair value in the statement of financial position.

	Level 1 \$000	Level 2 \$000	Level 3 \$000
30 June 2020			
Investments in shares	-	-	19,000
Loans and advances	-	-	8,558

There were no transfers between the different levels of the fair value hierarchy.

Note 10. Financial instruments (continued)

Financial instruments risks

PGFL's activities expose it to a variety of financial instrument risks, including market risk, credit risk, and liquidity risk. PGFL has policies to manage these risks and seeks to minimise exposure from financial instruments. These policies do not allow transactions that are speculative in nature to be entered into.

Market risk

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. PGFL has no exposure to the price risk at reporting date.

Fair value interest rate risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates. PGFL's exposure to fair value interest rate risk is limited to its cash and cash equivalents that are held at fixed rates of interest, concessionary loans and advances and other loans and advances measured at fair value.

Interest rates, including Official Cash Rate and swap rates, have decreased due to impact of COVID-19 which affected market rates used for determining fair value of PGFL's loans and advances. Sensitivity analysis of fair value of loans and advances to changes in market rates is disclosed in Note 2.

PGFL does not actively manage its exposure to fair value interest rate risk.

Cash flow interest rate risk

Cash flow interest rate risk is the risk that the cash flows from a financial instrument will fluctuate because of changes in market interest rates. PGFL has limited exposure to the cash flow interest rate risk at reporting date.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. PGFL has no exposure to the currency risk at reporting date because all transactions entered into were in New Zealand Dollars.

Liquidity risk is the risk that PGFL will encounter difficulty raising liquid funds to meet commitments as they fall due.

Liquidity risk is managed by maintaining adequate reserves, banking facilities and by continuously monitoring forecast and actual cash flows. PGFL's exposure to liquidity risk at reporting date is limited by its trade and other payables.

Credit risk

Credit risk is the risk that a third party will default on its obligation to PGFL, causing it to incur a loss.

PGFL is exposed to credit risk from cash and cash equivalents with banks, trade receivables, loans and advances, and equity investments.

PGFL reviews the credit quality of customers before granting credit, issuing loans or investing in equity. It continues to monitor and manage these financial assets based on ageing and related entities' performance towards agreed objectives and adjusts the expected credit loss allowance accordingly.

Concentration of credit risk arises where PGFL is exposed to risk in activities or industries of a similar nature. PGFL does not actively manage its concentration of credit risk as PGFL acts as an asset holding company for regional investments approved by the Crown. There is no significant concentrations of credit risk. Analysis of loans and advances by industry sector is disclosed in Note 2.

The gross carrying amount of cash and cash equivalents, by credit rating is provided below by reference to Standard and Poor's credit ratings.

	Actual
	2020
	\$000
Cash and cash equivalents	
AA-	179,071
Total cash and cash equivalents	179,071

Loans and advances held by PGFL at 30 June 2020 were unrated.

Liquidity risk

Note 10. Financial instruments (continued)

The table below represents the maximum gross credit risk exposure of PGFL at 30 June 2020. The exposures set out are based on gross

carrying amounts of financial assets as disclosed in relevant notes to these financial statements.

	Financial assets on balance sheet \$000	Actual 2020 Off-balance sheet commitments \$000	Maximum exposure to credit risk \$000
Cash and cash equivalents	179,071	-	179,071
Loans and advances	30,478	24,631	55,109
Investments in shares	19,000	-	19,000
Trade receivables	100	-	100
Total financial assets on balance sheet and off-balance sheet commitments	228,649	24,631	253,280

No collateral or credit enhancements were held for financial assets other than loans and advances. At 30 June 2020 PGFL held unsecured loans and advances with total gross value of \$11.509 million. For secured loans and

advances, collateral held by PGFL included first ranking and second ranking general security deeds in respect of borrowers' present and future acquired property.

Note 11. Events after the balance date

PGFL's loans and advances

At 1 July 2020, PGFL converted \$5 million of loan to Geo40 Limited to 5,727,377 ordinary shares.

During 6 months ended 31 December 2020, PGFL signed 54 loan agreements totalling \$283.891 million and one equity investment agreement totalling \$19.500 million with further PGF-funded investment deals being under way.

Investments from funding streams other than PGF

On 2 August 2020, Shareholding Ministers of PGFL signed a special resolution to approve the amendment of PGFL's constitution. PGFL's constitution was primarily amended to allow PGFL to hold investments funded from funding streams other than PGF. Such funding streams include:

- Regional Investment Opportunities (RIO) fund approved in January 2020 to fund large scale capital investments with a Crown ownership stake
- Infrastructure Reference Group (IRG) fund for the "shovel-ready" infrastructure projects from across local and central Government, and the private sector
- Strategic Tourism Asset Protection Programme (STAPP) loans that are intended to protect assets in the tourism landscape that form the core of New Zealand's essential tourism offerings to ensure their survival through the disruption caused by COVID-19, and

PGFL is expected to hold three RIO projects: \$79.400 million investment for the Opotiki Harbour Development project, \$8.500 million investment for the West Coast Port project, and \$7.600 million investment for the Whakatane Kainga project. Novation of RIO-funded investments to PGFL commenced in November 2020.

In September 2020, the IRG Ministers approved up to \$101.863 million loan and equity investments funded from IRG, subject to final approval of terms and conditions. Novation of

IRG-funded investments to PGFL commenced in December 2020.

The Government has allocated \$152.800 million of funding for STAPP loans. This is part of the broader Tourism Sector Recovery Fund to cushion the impact of COVID-19 on the tourism sector, and to position the sector for recovery. PGFL will hold the loans on the Crown's behalf.

PGFL's capital

On 22 July 2020 Shareholding Ministers approved the capital call of 257,000,000 PGFL's ordinary shares (refer Note 8).

After 30 June 2020, PGFL has agreed to issue, and the Crown has agreed to subscribe for, shares to implement approved changes to the type and volume of PGFL's investments:

- On 3 August 2020, Shareholding Ministers signed the Subscription Agreement for PGFL to issue 88,000,000 ordinary shares at a price of \$1.00 per share to accept and hold the initial investments funded from the RIO fund. On 28 August 2020, Shareholding Ministers approved a call on these shares and capital funding of \$88 million was received by PGFL in September 2020.
- On 10 August 2020, Shareholding Ministers signed the Subscription Agreement for PGFL to issue 70,000,000 ordinary shares at a price of \$1.00 per share to accept and hold the initial investments for the IRG shovel-ready projects. On 28 August 2020, Shareholding Ministers approved a call on these shares and capital funding of \$70 million was received by PGFL in September 2020.
- On 7 September 2020, Shareholding Ministers signed the Subscription Agreement for PGFL to issue 105,700,000 ordinary shares at a price of \$1.00 per share to accept and hold STAPP loans. On 14 September 2020, Shareholding Ministers approved PGFL's call on 60,000,000 of these shares and capital funding of \$60 million was received by PGFL in October 2020.

DIRECTORY

Shareholders

Minister of Finance
Minister for Economic and Regional Development (formerly Minister for Regional Economic Development)

Registered office

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New Zealand

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Wellington, 6011
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Auditor

The Auditor-General, pursuant to section 15 of the Public Audit Act 2001

Banker

Westpac Bank of New Zealand Limited

Board of Directors

Rodger Finlay (Chair)
Graeme Mitchell
Neville Harris