Bonus Bonds Scheme

Interim Financial Statements | For the seven months ended 31 October 2020

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Manager:

ANZ Investment Services (New Zealand) Limited, a wholly owned subsidiary of ANZ Bank New Zealand Limited (ANZ New Zealand)

Directors of Manager:

Ben Kelleher, Auckland
Craig Mulholland, Auckland
Annis O'Brien, Auckland – Chair

Registered Office of Manager:

ANZ Investment Services (New Zealand) Limited
Ground Floor
ANZ Centre
23-29 Albert Street
Auckland

Auditor:

KPMG
18 Viaduct Harbour Avenue
PO Box 1584
Auckland

Supervisor:

Trustees Executors Limited
Level 5
10 Customhouse Quay
Wellington

Registrar of Unitholders:

Bonus Bonds Centre
71 George Street
PO Box 898
Dunedin

Statement of Comprehensive Income

For the seven months ended	*Note*	*Audited 31/10/2020 $000*	*Unaudited 31/10/2019 $000*
Revenue			
Investment income	2	86,803	53,470
Expenses			
Management fee and other expenses for reimbursement	3	(11,530)	(19,693)
Supervisor fee and other expenses for reimbursement	3	(748)	(654)
Prizes awarded to holders of Bonus Bonds		(12,871)	(20,586)
Credit impairment release / (charge)		532	(24)
Profit before income tax		62,186	12,513
Tax expense	4	(21,582)	(9,268)
Profit after income tax		40,604	3,245

There are no items of other comprehensive income.

Balance Sheet

As at	*Note*	*Audited 31/10/2020 $000*	*Audited 31/03/2020 $000*
Assets			
Cash and cash equivalents		335,301	112,472
Interest receivable		8,069	25,399
Current tax asset		–	108
Deferred tax asset		–	149
Investments	5	700,500	3,052,254
Total assets		1,043,870	3,190,382
Liabilities			
Prizes payable		–	2,543
Redemptions payable	6	146,775	–
Accrued expenses		1,137	2,749
Current tax liabilities		14,395	–
Provisions	7	1,652	–
Total liabilities (excluding Bonus Bonds issued, as at 31 March 2020 only)		163,959	5,292
Net assets attributable to holders of Bonus Bonds		879,911	3,185,090
Net assets attributable to holders of Bonus Bonds			
Bonus Bonds issued		779,889	3,125,672
Reserve Fund Account		100,022	59,418
Net assets attributable to holders of Bonus Bonds		879,911	3,185,090
Net assets per $1 Bonus Bond ($)[1]		1.1283	1.0190

For and on behalf of the Board of Directors of the Manager

Annis O'Brien
Chair of the Board of Directors
ANZ Investment Services (New Zealand) Limited
25 February 2021

Craig Mulholland
Director
ANZ Investment Services (New Zealand) Limited
25 February 2021

[1] Calculated as Net assets attributed to holders of Bonus Bonds divided by Bonus Bonds issued.

The notes to the financial statements form part of and should be read in conjunction with these financial statements

Statement of Changes in Net Assets Attributable to Holders of Bonus Bonds

For the seven months ended	*Audited 31/10/2020* Bonus Bonds issued $000	Reserve Fund Account $000	Total $000	*Unaudited 31/10/2019* Bonus Bonds issued $000	Reserve Fund Account $000	Total $000
Balance at beginning of period	3,125,672	59,418	3,185,090	3,177,423	56,356	3,233,779
Applications	477,128	–	477,128	608,499	–	608,499
Redemptions	(2,822,911)	–	(2,822,911)	(580,299)	–	(580,299)
Net applications / (redemptions)	(2,345,783)	–	(2,345,783)	28,200	–	28,200
Profit after income tax	–	40,604	40,604	–	3,245	3,245
Balance at end of period	779,889	100,022	879,911	3,205,623	59,601	3,265,224

Bonus Bonds issued have a face value of $1, and the amounts for Bonus Bonds issued in the table are the number of units (in thousands). Holders of Bonus Bonds as at the wind up date are also entitled to a pro-rata share of the Reserve Fund Account upon the winding up of the Scheme.

Bonus Bonds issued were classified as financial liabilities until 9pm on 31 October 2020, when they ceased to be redeemable at the discretion of the holder, from which time they are classified as equity. The Reserve Fund Account is classified as equity.

The notes to the financial statements form part of and should be read in conjunction with these financial statements

Cash Flow Statement

For the seven months ended	*Audited 31/10/2020 $000*	*Unaudited 31/10/2019 $000*
Cash flows from operating activities		
Interest received	43,025	43,322
Operating expenses paid	(12,238)	(21,284)
Income tax paid	(6,930)	(11,230)
Net cash flows provided by operating activities	23,857	10,808
Cash flows from investing activities		
Proceeds from sale of investment securities	3,884,057	1,429,703
Proceeds from maturity of investment securities	1,292,823	1,435,213
Purchase of investment securities	(2,763,486)	(2,866,298)
Net cash flows provided by / (used in) investing activities	2,413,394	(1,382)
Cash flows from financing activities		
Bonus Bonds applications received	477,128	608,499
Bonus Bonds redemptions paid	(2,676,136)	(580,299)
Bonus Bonds prizes paid	(15,414)	(25,134)
Net cash flows (used in) / provided by financing activities	(2,214,422)	3,066
Net increase in cash and cash equivalents	222,829	12,492
Opening cash and cash equivalents	112,472	36,985
Closing cash and cash equivalents	335,301	49,477

Reconciliation of profit for the period to net cash flow from operating activities		
Profit after income tax	40,604	3,245
Non-cash items:		
Unwind of premiums and discounts	–	(2,854)
Credit impairment charge / (release)	(532)	24
Deferrals or accruals of past or future operating cash receipts or payments:		
Change in interest receivable	17,330	(3,409)
Change in deferred tax asset	149	331
Change in current tax asset and liability	14,503	(2,293)
Change in accrued expenses	(1,612)	(937)
Change in provisions	1,652	–
Items classified as investing or financing activities:		
Gains and losses on revaluations of investment securities	(61,108)	(3,885)
Prizes awarded to holders of Bonus Bonds	12,871	20,586
Net cash flows from operating activities	23,857	10,808

The notes to the financial statements form part of and should be read in conjunction with these financial statements

Notes to the Interim Financial Statements

1. Accounting Policies

(i) *Reporting entity*

Bonus Bonds Scheme (the Scheme) is an 'Other Managed Investment Scheme' registered under the Financial Markets Conduct Act 2013. The Scheme accepts funds from investors, places those funds in investments authorised by the Governing Document and pays out cash prizes based on the returns earned and in accordance with a formula set out in the Governing Document.

On 2 November 2020, the Manager announced that the wind up of the Scheme commenced from 9pm on 31 October 2020. These financial statements have been prepared in accordance with the requirements of the Financial Markets Conduct Act 2013, which requires financial statements to be prepared and audited as at the wind up date. As this is the first time interim financial statements have been prepared for the Scheme, comparative amounts for the seven months ended 31 October 2019 are unaudited.

These interim financial statements (financial statements) comply with

- New Zealand Generally Accepted Accounting Practice, as defined in the Financial Reporting Act 2013
- New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for publicly accountable for-profit entities
- International Financial Reporting Standards (IFRS)
- NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting*.

(ii) *Basis of measurement*

Specific accounting policies applied in the preparation of these financial statements are set out in note 1(v).

Going concern and coronavirus (COVID-19) pandemic

The Manager has assessed the Scheme's ability to operate as a going concern considering the impact of COVID-19.

Following the onset of COVID-19, on 16 March 2020 the RBNZ reduced the Official Cash Rate to 0.25% for at least 12 months (with no changes to this position advised in the August 2020 Monetary Policy Statement) and subsequently launched a Large Scale Asset Purchase programme. This is expected to significantly reduce the Scheme's investment returns over at least the next financial year.

Between 31 March 2020 and 25 August 2020, Bonus Bonds issued increased from $3,126 million to $3,303 million as bondholder applications exceeded redemptions. In order to continue to meet the minimum prize requirements set out in the Governing Document, while working within the existing Statement of Investment Policies and Objectives (SIPO), the Manager approved reductions in:

a) the Manager's fees and expense recoveries (including GST) as a percentage of Net assets attributable to holders of Bonus Bonds from 0.95% as at 31 March 2020 to 0.40% effective 1 July 2020 and the Manager's fee to zero effective 1 September 2020 following the closure of the Scheme to new investment; and
b) the size of the monthly prize pool as a percentage of total assets from 1.0% as at 31 March 2020 for the April 2020 prize draw to 0.85% for the August 2020 prize draw, which remained unchanged for the September 2020 and October 2020 prize draws.

The Manager carried out further stress testing at reduced prize pool and fees levels, which showed that the minimum prize requirements of the Governing Document could continue to be met. However, the Manager believed that investment returns would continue to decline, whether due to any combination of decreases in interest rates, a change in portfolio mix or the level of Bonus Bonds on issue, and that this would reduce the prize pool and widen the odds of winning a prize to a level that makes Bonus Bonds unsuitable to be offered to the public.

On 26 August 2020, the Manager announced its intention to begin winding up the Scheme no later than 31 October 2020, four weeks after the October prize draw. On 2 November 2020, the Manager announced that the wind up of the Scheme commenced from 9pm on 31 October 2020 and may take twelve months or more to complete.

As a result, the financial statements for the seven months ended 31 October 2020 and the year ended 31 March 2020 have not been prepared on a going concern basis, but the recognition and measurement requirements of NZ IFRS have been applied.

(iii) *Changes in accounting policies and adoption of new accounting standards*

The Scheme was not considered a going concern from 31 March 2020 and its investments have been sold to repay Bonus Bonds issued. The business model for the Scheme's investment portfolio is no longer entirely 'hold to collect' under NZ IFRS 9 *Financial instruments*. Tradeable investment securities, that is, those other than term deposits, are now held with the objective of realising cash flows through sale. Term deposits will remain under a 'hold to collect' business model and measured at amortised cost. Tradeable securities are measured at fair value through profit or loss from 1 April 2020, resulting in a $14.5 million after tax increase in net assets of the Scheme. The full impact of this reclassification is shown in note 11.

All other accounting policies applied by the Scheme are consistent with those applied and disclosed in the prior period. There are no standards issued but not yet effective that are expected to have a material impact on the Scheme's financial statements.

(iv) *Presentation currency and rounding*

The amounts contained in the financial statements are presented and rounded in thousands of New Zealand dollars, unless otherwise stated. The functional currency of the Scheme is New Zealand dollars.

(v) *Specific Accounting Policies*

Recognition of interest income and expense

Interest income and interest expense are recognised in the Statement of Comprehensive Income as they accrue, using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate, over the expected life of the financial asset or liability. Income and expense on the financial asset or financial liability is recognised on an effective yield basis in proportion to the amount outstanding over the period to maturity or repayment.

Prizes awarded to holders of Bonus Bonds

The amount of prizes awarded to holders of Bonus Bonds is determined by the Manager and paid monthly, in accordance with the terms of the Governing Document. Prizes are recognised as an expense when prize draws occur.

Taxation

Income tax on profits for the period comprises of current and deferred tax. Current tax is recognised in the Statement of Comprehensive Income as tax expense.

Current tax is the expected tax payable on taxable income for the period, based on tax rates which are enacted or substantively enacted by the reporting date and including any adjustment for tax payable in previous periods. Current tax for current and prior periods is recognised as a liability to the extent that it is unpaid.

Cash and cash equivalents

Cash and cash equivalents comprises call deposits that are not part of the portfolio of investment securities and other settlement balances with an original maturity of 90 days or less, and are measured at amortised cost.

Investments

Policy applicable from 1 April 2020

Investments are initially recognised at fair value plus directly attributable transaction costs.

Tradeable investment securities, that is, those other than term deposits, are held with the objective of realising cash flows through sale. They are subsequently measured in the balance sheet at their fair value with any revaluation recognised in the Statement of Comprehensive Income.

Term deposits are held under a 'hold to collect' business model and subsequently measured at cost adjusted for the amortisation of any premium or discount using the yield to maturity basis.

Purchases and sales of investment securities are recognised on trade date, being the date on which the Scheme commits to purchase or sell the asset.

Policy applicable prior to 1 April 2020

Investments are initially recognised at fair value plus directly attributable transaction costs. They are held under a 'hold to collect' business model and subsequently measured at cost adjusted for the amortisation of any premium or discount using the yield to maturity basis. Credit impairment is determined using an expected credit loss model, incorporating forward looking information. The expected credit loss is recognised as a reduction in the carrying amount of the asset and a loss is recognised in the Statement of Comprehensive Income.

Purchases and sales of investment securities are recognised on trade date, being the date on which the Scheme commits to purchase or sell the asset.

Redemptions payable

Redemptions payable is the amount of valid redemption requests received, but not processed, as at 31 October 2020.

Provisions

Provisions are recognised where there is a present obligation arising from a past event, an outflow of economic resources is probable, and the amount of the provision can be measured reliably.

The amount recognised is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the timing and amount of the obligation.

Bonus Bonds issued

Bonus Bonds issued are initially recognised at consideration received from holders of Bonus Bonds and are subsequently measured at their redemption amount of $1. Holders of Bonus Bonds as at the wind up date are also entitled to a pro-rata share of the Reserve Fund Account upon the winding up of the Scheme. Bonus Bonds issued were classified as financial liabilities until 9pm on 31 October 2020, when they ceased to be redeemable at the discretion of the holder, from which time they are classified as equity. Bonus Bonds issued are shown separately in Net assets attributable to holders of Bonus Bonds to provide more meaningful information to users of the financial statements.

(vi) Presentation

Goods and services tax

Income, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), except where the amount of GST incurred is not recoverable from the Inland Revenue Department (IRD). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from or payable to the IRD is included in other assets or liabilities in the balance sheet.

2. Investment Income

For the seven months ended	*Note*	*Audited 31/10/2020 $000*	*Unaudited 31/10/2019 $000*
Interest income			
Investments at amortised cost		11,423	49,372
Cash at bank and IRD use of money interest		513	213
Total interest income		11,936	49,585
Gains and losses on investments			
Gain on reclassification of investments to fair value through profit or loss [1]	11	19,644	–
Gains and losses, including interest income, from investments at fair value through profit or loss		55,249	–
Gain / (loss) on sale of investments at amortised cost [2]		(26)	3,885
Total gains and losses on investments		74,867	3,885
Total investment income		86,803	53,470

[1] Amount for the seven months ended 31 October 2020 excludes the associated gain from release of allowance for expected credit losses which is shown separately in the Statement of comprehensive income.

[2] Amount for the seven months ended 31 October 2020 relates to the assignment of six term deposits with a carrying amount, including accrued interest, of $125.5 million to the ANZ Wholesale Cash Fund in October 2020. The term deposits were issued by Westpac New Zealand Limited. ANZ New Zealand Investments Limited, the Scheme's investment manager, also manages the ANZ Wholesale Cash Fund. The transaction price was based on the highest rates from two quotes (from ANZ and Westpac) for term deposits of a similar remaining term to maturity.

Investment income includes $6,831 thousand (2019: $9,288 thousand) of interest earned on financial instruments issued by ANZ New Zealand.

3. Operating Expenses

For the seven months ended	*Note*	*Audited 31/10/2020 $000*	*Unaudited 31/10/2019 $000*
Manager's fees and expenses			
Management fee		8,624	19,030
Other operating expenses		1,048	663
Scheme wind up expenses	7	1,858	–
Management fee and other expenses for reimbursement	10	11,530	19,693
Supervisor's fees and expenses			
Supervisor fee		583	654
Scheme wind up expenses	7	165	–
Supervisor fee and other expenses for reimbursement	10	748	654
Total operating expenses		12,278	20,347

Fees paid to auditor (KPMG New Zealand)

Other expenses reimbursed to the manager include the following fees:

For the seven months ended	*Audited 31/10/2020 $000*	*Unaudited 31/10/2019 $000*
Audit of the financial statements for the current period (included in wind up expenses)	127	–
Additional fees for the audit of the financial statements for the year ended 31 March 2020	123	–
Total fees for audits of financial statements	250	–
Additional fees for the 31 March 2020 audit of the register of holders of Bonus Bonds	13	–
Total compensation of auditor	263	–

4. Tax Expense

For the seven months ended	*Audited 31/10/2020 $000*	*Unaudited 31/10/2019 $000*
Profit before tax	62,186	12,513
Prima facie income tax at 28%	17,412	3,504
Tax effect of permanent differences:		
Non-deductible prizes awarded to holders of Bonus Bonds	3,604	5,764
Non-deductible wind up expenses	566	–
Total tax expense	21,582	9,268

5. Investments

	Audited 31/10/2020 $000	Audited 31/03/2020 $000
Term deposits	700,500	1,096,100
Discounted securities	–	416,973
Bank and corporate bonds	–	1,168,313
New Zealand Government securities	–	371,400
Gross investments	700,500	3,052,786
Allowance for expected credit losses	–	(532)
Net investments	700,500	3,052,254
Investments with remaining term to maturity of more than one year	–	879,738

6. Redemptions Payable

Key judgements and estimates

Redemptions payable have been calculated based on the amount of redemptions requests received before 31 October 2020 and completed by 24 February 2021. The vast majority of these were completed in December 2020.

Due to the many different channels through which a redemption request can be received, the Manager is still receiving redemptions that it considers valid, and may continue to do so for some time. These have not been included in redemptions payable as at 31 October 2020 because the Manager has not received all the information required to complete the redemption request. The Manager does not expect the remaining amount of these redemptions to be material. Such redemptions will be paid out at the face value of $1 per Bonus Bond, and will increase the pro-rata share of the Reserve Fund account for holders of Bonus Bonds remaining upon the final wind up of the Scheme.

7. Provisions

		Audited 31/10/2020	
Provision for wind up costs	***Manager $000***	***Supervisor $000***	***Total $000***
Balance at the beginning of the period	–	–	–
New and increased provisions	1,858	165	2,023
Incurred and charged against provisions	(340)	(31)	(371)
Balance at end of the period	1,518	134	1,652

Provision for wind up expenses

The provision above comprises an estimate of the expected costs to wind up the Scheme that will be reimbursed to the Manager and Supervisor. These costs relate to additional audit, legal and postage and printing costs that are directly attributable to the wind up of the Scheme. As these amounts will be paid to the Manager and Supervisor the provision is included in the related party disclosures in note 10. Costs incurred to 31 October 2020, as noted in the table above, are included in expense reimbursements payable to the Manager and Supervisor.

Key judgements and estimates

Provisions involve judgements regarding the outcome of future events, including estimates of expenditure required to satisfy the associated obligations. Determining the amount of the provisions, which represent management's best estimate of the cost of settling the identified matters, requires the exercise of significant judgement. As a result, actual results may differ from these estimates.

8. Financial Risk Management

Financial instruments are fundamental to the Scheme's operations. Accordingly, the risks associated with financial instruments are a significant component of the risks faced by the Scheme. These risks and the Scheme's policies and objectives for managing those risks are outlined below.

Credit risk

Credit risk is the potential that the counterparty to a financial transaction will fail to perform according to the terms and conditions of the contract, thus causing loss. The key circumstances in which this might occur is if there was a failure by a bank, financial institution, corporate, local authority or other entity in which the Scheme has invested. The Scheme only invests in investment grade financial assets, measured as a minimum long term S&P Global Ratings' credit rating of A. The maximum credit risk exposure for all financial instruments is equivalent to their carrying value.

Concentrations of credit risk

Concentrations of credit risk exist if a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

	Audited 31/10/2020 $000	***Audited 31/03/2020 $000***
Industry concentrations		
New Zealand Registered Banks	1,043,870	2,755,175
New Zealand Government (including state sector entities)	–	425,970
Other	–	9,512
Total financial assets before credit impairment	1,043,870	3,190,657

The largest exposures to individual counterparties as a percentage of total financial assets and their long term credit ratings from S&P Global Ratings are:

		Audited 31/10/2020		***Audited 31/03/2020***	
	Credit Rating	***$000***	***%***	***$000***	***%***
New Zealand Government (including state sector entities)	AA+	–	–	425,970	13.4
ANZ Bank New Zealand Limited	AA-	687,844	65.9	802,803	25.2
ASB Bank Limited	AA-	–	–	642,801	20.1
Kiwibank Limited	A	74,870	7.2	226,867	7.1
Bank of New Zealand Limited	AA-	–	–	303,827	9.5
Westpac New Zealand Limited	AA-	281,156	26.9	770,465	24.1

Liquidity risk

Liquidity risk is the risk that under certain conditions, cash outflows can exceed cash inflows in a given period and that the Scheme may therefore not be able to meet its obligations as they fall due. Liquidity risk arises from mismatches in the final maturity of balance sheet assets and liabilities.

The Manager manages liquidity risk by predominantly investing in liquid assets. The Governing Document also allows the Scheme to borrow money in certain circumstances, including for the repayment or redemption of Bonus Bonds.

The wind up of the Scheme commenced at 9pm on 31 October 2020. Investors still holding Bonus Bonds as at this date are unable to make redemptions. The vast majority of processing of redemption requests received before 31 October 2020 was completed in December 2020.

Final distributions from the wind-up cannot be paid until term deposits that the scheme invests in have matured or been otherwise realised, the final winding up expenses have been confirmed and the Manager has bank account details from Bondholders to make payments.

The tables on the next page show the liquidity profile of the Scheme's financial assets and financial liabilities.

Audited As at 31 October 2020 – Audited	Total $000	At call / tradeable $000	Up to 3 months $000	More than 3 months up to 6 months $000	More than 6 months up to 12 months $000
Financial assets					
Term deposits	700,500	–	459,500	161,000	80,000
Total investments	700,500	–	459,500	161,000	80,000
Cash and cash equivalents	335,301	335,301	–	–	–
Interest receivable	8,069	–	8,069	–	–
Total financial assets	1,043,870	335,301	467,569	161,000	80,000
Financial liabilities[1]					
Redemptions payable	146,775	146,775	–	–	–
Accrued expenses	1,137	–	1,137	–	–
Total financial liabilities	147,912	146,775	1,137	–	–
Net liquidity gap	895,958	188,526	466,432	161,000	80,000

As at 31 March 2020 – Audited					
Financial assets					
Term deposits	1,096,100	–	314,000	291,600	490,500
Discounted securities	416,973	416,973	–	–	–
Bank bonds	1,158,813	1,158,813	–	–	–
New Zealand Government securities	371,400	371,400	–	–	–
Corporate bonds	9,500	9,500	–	–	–
Allowance for expected credit losses	(532)	(532)	–	–	–
Total investments	3,052,254	1,956,154	314,000	291,600	490,500
Cash and cash equivalents	112,472	97,885	14,587	–	–
Interest receivable	25,399	12,251	13,148	–	–
Total financial assets	3,190,125	2,066,290	341,735	291,600	490,500
Financial liabilities					
Bonus bonds issued	3,125,672	3,125,672	–	–	–
Prizes payable	2,543	–	2,543	–	–
Accrued expenses	2,749	–	2,749	–	–
Total financial liabilities	3,130,964	3,125,672	5,292	–	–
Net liquidity gap	59,161	(1,059,382)	336,443	291,600	490,500

1 Bonus Bonds issued are classified as equity from 9pm on 31 October 2020 so are no longer included in financial liabilities.

Market risk

Interest rate risk

Interest rate risk is the risk caused by fluctuations in market interest rates on future cash flows. Interest rate risk arises from differences in interest rates, and mismatches in the interest rate repricing profiles, of assets and liabilities. The Manager uses portfolio duration analysis to monitor and manage interest rate risk.

Based on the carrying amount of financial assets at 31 October 2020, a 100 basis point change in interest rates would increase or decrease profit after tax and equity by $7 million (2020: $23 million).

Capital management policies

The Scheme treats the Bonus Bonds units on issue and the Reserve Fund Account as its capital base. The Manager's target for the level of the Reserve Fund Account is 1.5% of the Scheme's total capital in the long term. The target level of Reserve Fund Account is monitored periodically to ensure it is sufficient to protect the Scheme's capital base against any changes to short term interest rates and/or credit spreads of 1%. As at 31 October 2020, the reserves were 12.9% (2020: 1.9%) of Bonus Bonds issued.

The amount distributed as prizes by the Manager was dependent on the income generated by the Scheme and the level of Reserve Fund Account required to protect the capital base of the Scheme. The Scheme targets a redemption price of $1 per unit for units on issue at a given time.

9. Fair Value Measurements

Financial assets and financial liabilities not measured at fair value

No assets or liabilities were carried at fair value as at 31 October 2020 and 31 March 2020. Below is a comparison of the carrying amounts as reported on the balance sheet and fair value of financial asset and liability categories other than those categories where the carrying amount is considered a reasonable approximation of fair value.

The Scheme uses a valuation method within the following hierarchy to determine fair value:

Level 1 – Quoted market price

Where an active market exists fair value is based on quoted market prices for identical financial instruments. The quoted market price is not adjusted for any potential impact that may be attributed to a large holding of the financial instrument. New Zealand Government securities are Level 1 instruments.

Level 2 – Valuation technique using observable inputs

In the event that there is no quoted market price for the instruments, fair values are based on present value estimates or other market accepted valuation techniques which include data, including interest and exchange rates, from observable markets wherever possible. Level 2 instruments are call and term deposits and bonds and discounted securities.

There have been no changes to the fair value hierarchy classifications during the seven months ended 31 October 2020 (2020: none).

	31/10/2020		31/03/2020	
	Carrying amount $000	Fair value $000	Carrying amount $000	Fair value $000
Financial assets				
Term deposits[1]	700,500	700,927	1,096,100	1,098,869
Bonds and discounted securities	–	–	1,585,286	1,604,264
New Zealand Government securities	–	–	371,400	372,066
Gross investments	700,500	700,927	3,052,786	3,075,199

1 The carrying amount of term deposits is considered to be a reasonable approximation of their fair value. Fair values have been included in the table for additional information, and the fair value as at 31 March 2020 has been updated.

10. Related Parties

The Manager's fees and expense recoveries (including GST) as a percentage of Net assets attributable to holders of Bonus Bonds was reduced from 0.95% as at 31 March 2020 to 0.40% effective 1 July 2020. The Manager's fee was reduced to zero effective 1 September 2020 following the closure of the Scheme to new investment. The Supervisor's fee is 0.03% (31 October 2019: 0.03%) (including GST) of Net assets attributable to holders of Bonus Bonds.

The terms of the Governing Document entitle the Manager and Supervisor to be reimbursed for certain expenses incurred by the Manager or Supervisor. The amounts of expenses claimed by the Manager and Supervisor are shown in note 3.

The parent company of the Manager is ANZ New Zealand, which is incorporated in New Zealand. The Scheme invests in various ANZ New Zealand financial instruments such as call deposits, certificates of deposits and corporate bonds. All of these transactions are at arm's length and in the ordinary course of business. Interest income earned on these assets is shown in note 2.

As at balance date the related party balances were as follows:

	Note	Audited 31/10/2020 $000	Audited 31/03/2020 $000
ANZ New Zealand			
Cash and cash equivalents		335,301	82,452
Investments		349,000	712,505
Interest receivable		3,543	7,846
		687,844	802,803
Manager and Supervisor			
Included in accrued expenses:			
Management fee payable		–	2,412
Supervisor fee payable		44	279
Expense reimbursements payable to the Manager		1,093	58
Provision for wind up costs reimbursement to the Manager	7	1,518	–
Provision for wind up costs reimbursement to the Supervisor	7	134	–
		2,789	2,749

11. Impact Of Change In Business Model From 1 April 2020

As outlined in note 1(ii), the Scheme was not a going concern as at 31 March 2020. The Scheme's investments have been sold to repay holders of Bonus Bonds, and the business model for the Scheme's investment portfolio is no longer 'hold to collect' under NZ IFRS 9. Tradeable investment securities, that is, those other than term deposits, are now held with the objective of realising cash flows through sale. These tradeable securities are measured at fair value through profit or loss from 1 April 2020.

The impact of this reclassification is shown below:

		Audited	
As at	***31 Mar 2020 $000***	***Reclassification $000***	***1 Apr 2020 $000***
Assets			
Cash and cash equivalents	112,472	–	112,472
Interest receivable	25,399	(12,251)	13,148
Current tax asset	108	(108)	–
Deferred tax asset	149	(149)	–
Investments:			
- at fair value through profit or loss	–	1,988,581	1,988,581
- at amortised cost	3,052,786	(1,956,686)	1,096,100
- allowance for expected credit losses	(532)	532	–
Total investments	3,052,254	32,427	3,084,681
Total assets	3,190,382	19,919	3,210,301
Liabilities (excluding Bonus Bonds issued)			
Prizes payable	2,543	–	2,543
Accrued expenses	2,749	–	2,749
Current tax liabilities	–	5,392	5,392
Total liabilities (excluding Bonus Bonds issued)	5,292	5,392	10,684
Net assets attributable to holders of Bonus Bonds	3,185,090	14,527	3,199,617
Net assets attributable to holders of Bonus Bonds			
Bonus Bonds on issue	3,125,672	–	3,125,672
Reserve Fund Account[1]	59,418	14,527	73,945
Net assets attributable to holders of Bonus Bonds	3,185,090	14,527	3,199,617

[1] Fair value gain, after tax, of $14,527 thousand due to reclassification of tradeable securities as fair value through profit or loss.

12. Events after the Balance Sheet Date

Net assets attributable to holders of Bonus Bonds as at 31 January 2021 was $880 million, comprising Bonus Bonds issued of $779 million and the Reserve Fund Account of $101 million, with net assets per Bonus Bond issued of $1.1302.

In December 2020, the Manager applied to the Financial Markets Authority (FMA) for an exemption from the requirement to send physical copies of these financial statements to every holder of Bonus Bonds as at 31 October 2020 and instead send a notice (electronic or physical) as applicable, to holders of Bonus Bonds regarding how to obtain a copy of the financial statements and where the financial statements are available online, and to publish a similar notice in electronic and print media. On 25 February 2021, the FMA provided a response to our application request indicating that the request for exemption was reasonable and justified, and noted that certain conditions may apply should the exemption be granted and that no formal decision had been made. Should the FMA decide not to grant the exemption as requested, the additional wind up costs are expected to be approximately $1.3 million higher than disclosed in Note 7.

The vast majority of processing of redemption requests received before 31 October 2020 was completed in December 2020. A hardship process has been established for investors facing genuine financial hardship to be able to redeem funds if necessary. Investments are comprised of cash at Bank, term deposits and tradeable discounted securities (purchased after 31 October 2020). Holding these assets balance the need to have liquid assets available when we are prepared to make distributions with investor expectations that the funds invested in the scheme will continue to generate a return until that time.

The Supervisor and the Manager are undertaking the necessary steps to facilitate the payment of distributions from the schemes assets to remaining investors. The current plan is to make a significant distribution before 1 November 2021. In order to do this the manager is working on a range of technology changes to enable the collection of investor contact details and bank account numbers and manage the payment of distributions. The Manager will be contacting investors over the coming months with instructions on when and how they can provide their payment instructions.

KPMG

Independent Auditor's Report

To the Unitholders of the Bonus Bonds Scheme

Report on the audit of the interim financial statements

Opinion

In our opinion, the accompanying interim financial statements of Bonus Bonds Scheme (the 'Scheme') on pages 1 to 15:

i. present fairly in all material respects the Scheme's balance sheet as at 31 October 2020 and its financial performance and cash flows for the period ended on that date; and

ii. comply with NZ IAS 34 *Interim Financial Reporting.*

We have audited the accompanying interim financial statements which comprise:

— the balance sheet as at 31 October 2020;

— the statements of comprehensive income, changes in net assets attributable to holders of bonus bonds and cash flows for the period then ended; and

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

Basis for opinion

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

We are independent of the Scheme in accordance with Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Our firm has also undertaken supervisor reporting in line with our obligations under Section 198 and 199 of the Financial Markets Conduct Act 2013 ('FMC Act 2013') and provided other services to the Scheme in relation to the audit of the annual financial statements and registry assurance reporting in line with Section 218 of the FMC Act 2013. Subject to certain restrictions, partners and employees of our firm may also deal with the Scheme on normal terms within the ordinary course of trading activities of the business of the Scheme. These matters have not impaired our independence as auditor of the Scheme. The firm has no other relationship with, or interest in, the Scheme.

Emphasis of matter

We draw attention to Note 1(ii) in the interim financial statements, which describes that the interim financial statements have been prepared on a non-going concern basis as result of the decision by ANZ Investment Services (New Zealand) Limited (the "Manager") on 26 August 2020, of its intention to begin winding up the Scheme no later than 31 October 2020. On 2 November 2020, the Manager announced that the wind up of the Scheme commenced from 9pm on 31 October 2020.

We also draw attention to Note 1(i) in the interim financial statements, which describes that the comparative amounts for the seven months ended 31 October 2019 are unaudited .

Our opinion is not modified in respect of these matters.

KPMG

Key audit matters

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

The key audit matter	How the matter was addressed in our audit
Bonus Bonds issued	
Refer to Bonus Bonds issued in the interim financial statements. The Bonus Bonds issued, due to their materiality in the context of the interim financial statements as a whole, are our most significant area of audit focus. A significant volume of Bonus Bonds were redeemed following the Manager's 26 August 2020 announcement of its intention to wind up the Scheme, increasing the risk of error relating to the completeness, accuracy and existence of the remaining Bonus Bonds issued balance as at 31 October 2020. The wind up of the Scheme also requires the accounting classification of Bonus Bonds issued to be reconsidered. Further, the Manager receives management fees based on the approved percentage of Bonus Bonds issued and this is a related party transaction.	Our audit procedures included: — Identifying controls which mitigate the risks associated with existence of Bonus Bonds issued; — Testing the design, implementation and operating effectiveness of relevant controls relating to: - daily applications; - redemptions; - monthly Bonus Bonds issued reconciliation; and - customer complaints. — Reconciling at balance date, the Bonds Bonds issued balance in the trial balance to what is recorded within the Scheme's registry system; — Considering the appropriateness of management's classification of the Bonus Bonds issued at balance date; — Testing the completeness of the Bonus Bonds issued and redemptions payable balance at year end by reviewing subsequent payments and tracing a sample of payments back to original redemption forms; — Testing a sample of applications and redemptions and agreeing these amounts to bank statements; and — Reviewing customer complaints register.

Use of this independent auditor's report

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

Responsibilities of the Manager the interim financial statements

The Manager, on behalf of the Scheme, is responsible for:

— the preparation and fair presentation of the interim financial statements in accordance with NZ IAS 34 *Interim Financial Reporting;*

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

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

Auditor's responsibilities for the audit of the interim financial statements

Our objective is:

— to obtain reasonable assurance about whether the interim financial statements as a whole are free from material misstatement, whether due to fraud or error; and

— to issue an independent auditor's report that includes our opinion.

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

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

As part of an audit in accordance with ISAs (NZ), the auditor exercises professional judgement and maintains professional scepticism throughout the audit.

The auditor also:

— Identifies and assesses the risks of material misstatement of the interim financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence that is sufficient and appropriate to provide a basis for the auditor's 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.

— Obtains 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 entities internal control.

— Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Concludes on the appropriateness of the use of the going concern basis of accounting by those charged with governance and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If the auditor concludes that a material uncertainty exists, the auditor is required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

— Evaluates the overall presentation, structure and content of the interim financial statements, including the disclosures, and whether the interim financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

KPMG

The auditor communicates with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit.

The auditor also provides those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, the auditor determines those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. The auditor describes these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, the auditor determines that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

KPMG

KPMG
Auckland
25 February 2021