



Canterbury Mortgage Trust

Annual Report 2018



Canterbury Mortgage Trust Group Investment Fund

Audited Financial Statements For The Year Ended
31 March 2018

Directory	2
Approval by Directors	3
Statement of Comprehensive Income	4
Statement of Changes in Unitholders' Funds	5
Balance Sheet	6
Statement of Cash Flows	7
Notes to the Financial Statements	8-17
Audit Report	18-20

The Manager:

Canterbury Fund Managers Ltd
Unit 6a, 212 Antigua Street
Christchurch 8011
Phone (03) 377 5201
PO Box 13229,
Christchurch 8141

Directors of the Manager:

Colin Anthony Gower
Warren Michael Johnstone

The Trustee:

Trustees Executors Limited
Level 5
10 Customhouse Quay
Wellington 6011

Tax Advisor:

PricewaterhouseCoopers
Christchurch

Auditor:

Ernst & Young
Christchurch

Bank:

ANZ Bank New Zealand Limited
Christchurch



Canterbury Mortgage Trust

Approval by Directors

For the Year Ended 31 March 2018

Authorisation for Issue

The Directors of Canterbury Fund Managers Limited (as manager) authorised the issue of these financial statements on 31 October 2018.

Approval by Manager

The Directors of Canterbury Fund Managers Limited present the financial statements of Canterbury Mortgage Trust Group Investment Fund for the year ended 31 March 2018.

Signed for and on behalf of the Manager,
Canterbury Fund Managers Limited

Director

Director

STATEMENT OF COMPREHENSIVE INCOME*For the Year Ended 31 March 2018*

	Notes	31 March 2018	31 March 2017
Revenue			
Interest Income from Bank Accounts		382,078	343,088
Other Income		-	233
Total Revenue from Financial Assets at Amortised Cost		382,078	343,321
Expenses			
Management Fees	8	282,193	248,625
Trustees Fees	8	16,234	14,654
Trustee- Additional Fees	8	52,338	69,062
Credit Consultancy		67,355	200,522
Legal Fees		1,217,775	189,553
Loan Review		38,883	-
Accountancy		11,170	40,656
Administration	8	18,996	11,872
Audit Fees		34,650	25,500
Bank Charges		2,093	681
		1,741,687	801,125
Bad Debt Expense		2,122,482	167,745
Bad Debts Recovered		(94,325)	(6,319,699)
Net Movement in Bad Debt Accounts		2,028,157	(6,151,954)
Total Expenses/(Gains) Net of Recoveries		3,769,844	(5,350,829)
Profit/(Loss) Before Taxation		(3,387,766)	5,694,150
Taxation		-	-
Profit/(Loss) and Total Comprehensive Income/(Loss) for the Year		\$(3,387,766)	\$5,694,150

These statements are to be read in conjunction with the accounting policies and notes on pages 8 - 17

STATEMENT OF CHANGES IN UNITHOLDERS' FUNDS*For the Year Ended 31 March 2018*

	Notes	31 March 2018	31 March 2017
Unitholders' Funds at Start of Period		20,247,475	15,332,606
Profit/(Loss) and Total Comprehensive Income/(Loss) for the Year		(3,387,766)	5,694,150
Repayments to Unitholders	5	(6,280,288)	-
PIE Tax Effect	6	(77,538)	(779,281)
Unitholders' Funds at End of Period	4	\$10,501,883	\$20,247,475

These statements are to be read in conjunction with the accounting policies and notes on pages 8-17

BALANCE SHEET

As At 31 March 2018

	Notes	31 March 2018	31 March 2017
Trust Equity	4	\$10,501,883	\$20,247,475
Represented by:			
Assets			
Cash and Cash Equivalents		657,286	942,040
Term Deposits		8,506,683	11,386,164
Tax Pool Deposit		615,768	-
Advances	3,10	1,790,000	13,471,120
Less restricted insurance payout for building reinstatement		-	(4,105,120)
Residual advances for financial reporting		1,790,000	9,366,000
Management Services Prepayment	8	25,000	25,000
Total Assets		11,594,737	21,719,204
Liabilities			
GST	1,3	587,813	557,641
Unitholder Redemptions Payable		61,607	427
Trade and Other Payables		365,896	134,380
PIE Taxation Payable		77,538	779,281
Total Liabilities		1,092,854	1,471,729
Net Assets		\$10,501,883	\$20,247,475

These statements are to be read in conjunction with the accounting policies and notes on pages 8 - 17

STATEMENT OF CASH FLOWS

For the Year Ended 31 March 2018

	Notes	31 March 2018	31 March 2017
Cash Flows from Operating Activities			
Cash was provided from:			
Interest Received		382,078	343,088
Other Income		-	233
		382,078	343,321
Cash was applied to:			
Payments to Suppliers		(1,479,998)	(173,569)
		(1,479,998)	(173,569)
Net Cash Inflow/(Outflow) from Operating Activities before changes in operating assets		(1,097,920)	169,752
Cash was provided from:			
Repayment of Mortgages		5,547,842	4,465,708
Restricted Insurance Proceeds		-	4,105,120
		5,547,842	8,570,828
Cash was applied to:			
Mortgage Advances Made		-	(3,889,374)
		-	(3,889,374)
Net Cash Inflow from Operating Activities		4,449,922	4,851,206
	7		
Cash Flows from Investing Activities			
Cash was provided from:			
ANZ Term Deposit		2,879,482	-
		2,879,482	-
Cash was applied to:			
ANZ Term Deposit		-	(4,686,164)
Tax Pool Deposit		(615,768)	-
		(615,768)	(4,686,164)
Net Cash Inflow/(Outflow) from Investing Activities		2,263,714	(4,686,164)
Cash Flows from Financing Activities			
Cash was provided from:			
PIE tax refund received		-	206,349
		-	206,349
Cash was applied to:			
Payments for Redemptions of Units		(6,219,109)	-
PIE Tax Paid		(779,281)	-
		(6,998,390)	-
Net Cash Inflow/(Outflow) from Financing Activities		(6,998,390)	206,349
Net Increase/(Decrease) in Cash held		(284,754)	371,391
Add Opening Cash Brought Forward		942,040	570,649
Ending Cash Carried Forward		\$657,286	\$942,040
Represented by:			
Cash and Cash Equivalents		657,286	942,040
		\$657,286	\$942,040

These statements are to be read in conjunction with the accounting policies and notes on pages 8 - 17

1. STATEMENT OF ACCOUNTING POLICIES

Statement of Compliance

These financial statements have been prepared for Canterbury Mortgage Trust Group Investment Fund ("the Fund") by Canterbury Fund Managers Limited ("the Manager"), on behalf of Trustees Executors Limited ("the Trustee"), in accordance with the Trustee Companies Act 1967, the Financial Reporting Act 2013, the Financial Markets Conduct Act 2013 and the provisions of the Trust Deed.

The Manager acting in its capacity as Manager of the Fund is relying on a class exemption issued by the Financial Markets Authority ("FMA"). The FMA have issued an exemption for funds that are in the process of winding up, from certain provisions of the Financial Markets Conduct Act 2013 ("FMC Act"), requirements that would otherwise need to be complied with. The Financial Markets Conduct (Unit Trusts and Group Investment Funds being Wound Up – Securities Allotted under Securities Act 1978) Exemption Notice 2017 (the "Exemption") has now been enacted and is being relied on by the Manager.

Due to cost and additional compliance requirements, the FMA has recognised that for schemes in active wind up, full compliance with the FMC Act may outweigh the benefits for investors. Accordingly, the Manager and the Fund are exempt from:

- The requirement that the Trust have a governance document that meets the standards prescribed by sections 135(1) and (3); s127(1)(b); and s133(a) of the FMC Act;
- The requirement that the Manager be licensed as a manager as prescribed under s127(1)(c); s133(a); and s388(a) of the FMC Act;
- Sections 164 and 166(1) of the FMC Act, that would otherwise require the manager to have a "statement of investment policy and objectives". As the Fund is being wound up this is not applicable to the Trust and the Manager is exempted;
- The requirement under s218 of the FMC Act that the Manager must ensure that its registers are audited or reviewed in accordance with the FMC Act and regulations;
- Reconciling cash records daily as required under regulation 86(3). Notwithstanding reliance on this exemption, the Funds cash assets will be reconciled on a regular basis; and
- Regulation 87(1), which requires the Custodian of the Trust to engage an auditor in regards to processes relating to the handling of the scheme's assets. There is one mortgage security and cash remaining, with the Manager and Custodian relying on this exemption.

The Fund is domiciled in New Zealand and was established as a Group Investment Fund in accordance with the provisions of its Trust Deed dated 26 June 2001 (as amended).

These financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand. They comply with the New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") as appropriate for profit-oriented entities. For this purpose the Fund has designated itself as profit-orientated.

The financial statements comply with International Financial Reporting Standards ("IFRS").

1. STATEMENT OF ACCOUNTING POLICIES (continued)

Principal Activities

The Fund's principal activities were:

- Receiving investments from unitholders; and
- Making advances generally on first mortgage security, general security agreements or specific security agreements.

On 11 February 2009 the former manager (Fund Managers Canterbury Limited) resolved that the Fund should be wound up and the assets realised to permit the pro rata repayment of capital to unitholders. Since that date, the activities of the Fund have been limited to the management and realisation of loans and the repayment of capital to unitholders.

Basis of Preparation

As noted above, on 11 February 2009 the former manager resolved to wind up the Fund and realise the assets. Accordingly, the going concern assumption is no longer appropriate. These financial statements have been prepared on a realisation basis. Non-performing loans are held at recoverable value after consideration of bad debts, impairment losses and costs of debt recovery as detailed in the loan loss provisioning policy below. Since there is no set date for the Fund wind down, operating expenses are recognised as and when incurred during the wind down process, rather than accruing for cessation costs upfront due to the uncertainty over the value of cessation costs.

The reporting currency is New Zealand Dollars. The accounting policies used in these financial statements are the same as adopted for the year ended 31 March 2017.

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

Use of Estimates and Judgement

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

Note 3 - Mortgage Advances

Note 9 - Financial Instruments

Note 10 - Asset Quality

Estimates and judgements have been applied where advances are outstanding beyond normal contractual terms. The likelihood of the recovery of these advances is assessed by the Trustee and Manager. Any impairment loss is estimated with reference to the probability and timing of recovery, the cost of possible enforcement through security and related costs and sale proceeds.

1. STATEMENT OF ACCOUNTING POLICIES (continued)

SPECIFIC ACCOUNTING POLICIES

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

Revenue Recognition

Interest revenue is recognised using the effective interest method. This method allocates interest over the relevant period by applying the effective interest rate to the carrying amount of the financial asset.

Distributions

In accordance with the Fund's Trust Deed, the Fund fully distributes its distributable income to unitholders. Since the decision to wind up, this has been by way of a pro rata allocation of distributable income to unitholders' individual accounts. Distributable income equals all income after deduction of fees, expenses, taxes and any amount the Trustee and Manager considers prudent to withhold to meet possible loan losses.

The distributions are recognised in the Statement of Changes in Unitholders' Funds (see Note 5).

Application and Redemptions

Applications and redemptions have been suspended since 22 July 2008 and since the decision to wind up the Fund in February 2009, the Fund has made pro rata repayments of capital to unitholders as funds have been realised. At balance date capital repayments of 85.5% of the unitholder balances held at suspension (approximately \$214.9m) have been made to all unitholders.

Financial Assets

Financial assets carried on the balance sheet include cash and cash equivalents, trade and other receivables and advances. Financial assets are initially recognised at their fair value plus transaction costs. Fair value is determined by a market valuation based on market interest rates.

Advances, trade and other receivables and other financial assets are classified as "loans and receivables".

Advances are recorded at amortised cost using the effective interest rate method less any impairment except where the advance is no longer being operated within the loan terms. Non-performing advances are recorded at their estimated realisation value after consideration of impairment losses and costs of debt recovery as detailed in the impairment of assets policy below.

Trade and other receivables and other financial assets are recorded at amortised cost using the effective interest rate method less any impairment.

Financial Liabilities

Financial liabilities carried on the balance sheet include trade and other payables, and are measured at amortised cost using the effective interest rate method.

Trust Equity

In accordance with the February 2008 Amendments to NZ IAS 32 and NZ IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation, unitholders' funds are defined as "puttable instruments" and classified as Equity.

1. STATEMENT OF ACCOUNTING POLICIES (continued)**Impairment of Assets**

At each reporting date the Manager and Trustee review the carrying amounts of the Fund's assets to determine whether there is any indication that those assets have suffered an impairment loss/gain. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss/gain (if any). Impairment losses/gains directly alter the carrying amount of assets and are recognised in the Statement of Comprehensive Income.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current interest rate as all advances are at floating rates.

Impaired assets are any assets where there is significant doubt about the collectability of the amounts owing.

Portfolio Investment Entity Taxation

From 1 October 2007 the Fund elected to be taxed as a Portfolio Investment Entity ("PIE"). As a PIE, the Fund allocates income or losses on a daily basis to each investor and deducts tax from that allocated income at the Prescribed Investor Rate ("PIR") for each investor. The tax that is paid to the Inland Revenue is not shown as income tax in the Statement of Comprehensive Income, rather it is shown as the PIE Tax effect in the Statement of Changes in Unitholders' Funds.

Current Tax

The Fund qualifies as a PIE for tax purposes. Under the PIE regime income is effectively taxed in the hands of the unitholders and therefore the Fund has no income tax expense. Accordingly, no income tax expense is recognised in the Statement of Comprehensive Income.

Under the PIE regime, the Manager attributes the taxable income of the Fund to unitholders in accordance with the proportion of their interest in the Fund. The income is attributed to each unitholder quarterly and taxed at the Unitholder's PIR which is capped at 28%.

Goods and Services Tax

The Fund is registered for GST and has filed a Business to Business (B2B) GST election with Inland Revenue. This entitles the Fund to reclaim a significant portion of the GST on its expenses. The Fund returns GST in relation to income received while in possession of properties and also where a property is sold by way of a mortgagee sale on behalf of GST registered mortgagors.

Statement of Cash Flows

The Statement of Cash Flows has been prepared using the direct method.

Operating activities: are the principal revenue producing activities of the Fund and other activities that are not investing or financing activities.

Investing activities: are the acquisition and disposal of long term assets.

Financing activities: are activities that result in changes in the size and composition of the contributed equity of the Fund.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2018

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments or other short term highly liquid investments, net of outstanding bank overdrafts.

Term deposits, which have maturities greater than 90 days, are classified as Investment activity and excluded from total cash and cash equivalents.

STANDARDS AND INTERPRETATIONS ON ISSUE NOT YET ADOPTED

At the date of authorisation of the financial statements, a number of Standards and Interpretations were on issue but not yet effective. We are not aware of any standards on issue but not yet effective which would materially impact the amounts recognised or disclosed in these financial statements.

2. EVENTS SUBSEQUENT TO BALANCE DATE

Confidential settlements were reached at mediation in relation to:

- The case against the former manager and former auditor settled in July 2018 for \$6.25m.
- The case against the insurer of the remaining security interest settled in June 2018 for \$7.5m (including GST, if any) in full and final settlement (see Note 3).

Of these amounts, \$13.3 million (including GST, if any) has been considered as non adjusting post balance date events and are therefore not recorded in these financial statements, as the actual amounts were only determined post year end at mediations giving rise to the settlements.

In August 2018 a further 2 cents in the dollar (\$5.03m) was paid to unit holders bringing the total funds repaid, since 2009, to 87.5 cents. It is anticipated that further funds are likely to be distributed following the successful resolution of the remaining legal matters.

3. MORTGAGE ADVANCES

The Fund has one significant security remaining, being an earthquake damaged multi-storey building located at 96 Lichfield Street, Christchurch ("the property"). FM Custodians Limited, as custodian of CMT's assets, entered into possession as mortgagee of this building, with CMT pursuing a material damage insurance claim, which settled in June 2018.

As stated in Note 1, the basis of preparation of the financial statements is on a realisation basis. This advance constitutes 15.4% (31 March 2017: 2 loans made up 43.1%) of total assets of the Fund.

Valuation of Mortgage Advances

The Manager used the following techniques to determine the carrying value of advances:

- Where the expected recovery was dependent on sale of land held as a security by the Fund:
 - Based on actual cash collected from sale of security post balance date or the value of signed sale agreements due to settle after balance date;
 - Based on a valuation report from an independent third party valuer. Where a range of values were provided by the valuer depending on outcome of future events, the Manager has adopted the most conservative scenario and discounted it further to allow for the thin market, costs and time to recover.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2018

- Where the expected recovery was dependent of the outcome of an insurance claim related to the property held as security by the Fund, and potential litigation with associated parties, the Manager has allowed a significant period for cash recovery and adopted the bottom end of the possible insurance recovery outcomes.

An advance with a gross value of \$6,116,904 plus unpaid interest (31 March 2017: \$13,309,488 for 2 advances) was past due and is impaired. A total of \$4,326,904 (31 March 2017: \$(161,632) for 2 advances) of bad debts was written off/ (back) against this advance. This advance was secured by a first mortgage over land and buildings, with CMT pursuing the recovery of the mortgage advance by realising the security. The carrying value of the loan has been determined by an assessment of the expected recoveries discounted for the time taken to recover the funds. At balance date there was significant uncertainty as to the value and timing of the future cash flows expected from the realisation of the remaining security. The ultimate recoveries may therefore be materially different from the carrying values.

In relation to the loan there are the following matters still to be resolved:

- Recognition in the 2019 financial year of further recoveries under the insurance policy, noted as a non adjusting post balance date event;
- GST treatment of the insurance proceeds, which is currently being taken through the dispute resolution process with the Inland Revenue ("IR"). GST on the interim payment is shown as a liability in the balance sheet; and
- Addressing the injunction and caveat taken over the property by GP96 Limited. The injunction prevents FM Custodians Limited, as mortgagee in possession, from demolishing, selling or leasing the property that is the remaining security interest.

4. TRUST EQUITY

	31 March 2018	31 March 2017
Unitholders Funds (Note 5)	12,141,188	18,076,014
Accumulated Undistributed Income (Note 6)	(1,639,305)	2,171,461
	<u>\$10,501,883</u>	<u>\$20,247,475</u>

5. UNITHOLDER'S FUNDS

	31 March 2018	31 March 2017
Opening Balance	18,076,014	14,655,295
Less Repayments to Unitholders	(6,280,288)	-
PIE Income/ (Loss) Allocated to Unitholders	423,000	4,200,000
Less PIE Tax Refundable by/ (Payable to) the IRD	(77,538)	(779,281)
Income/ (Losses) Applied to Investors (Net of PIE Tax)	<u>345,462</u>	<u>3,420,719</u>
Closing Balance	<u>\$12,141,188</u>	<u>\$18,076,014</u>

Units were issued at \$1 per unit. Unitholders' funds were invested for no fixed term. As described in Note 1 redemptions were suspended from 22 July 2008. The former manager resolved on 11 February 2009 to wind up the Fund. All units have equal rights in any surplus on winding up. To balance date, 31 March 2018, the Fund had repaid unitholders 85.5 cents of each dollar held at the time the decision to wind up was made (31 March 2017: 83 cents).

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2018

Fund Value as at 11 February 2009		251,400,936
Repayments to Unitholders:		
Year ended 31 March 2010	163,355,222	
Year ended 31 March 2011	33,944,706	
Year ended 31 March 2012	5,030,002	
Year ended 31 March 2013	6,280,020	
Year ended 31 March 2018	6,280,288	
Total Repaid to Date	214,890,238	85.5%

6. ACCUMULATED UNDISTRIBUTED INCOME

	31 March 2018	31 March 2017
Income/ (Loss) Attributable to Unitholders	(3,387,766)	5,694,150
PIE Loss/ (Income) applied to Unitholders	(423,000)	(4,200,000)
Increase/ (Decrease) in Undistributed Income	(3,810,766)	1,494,150
Opening Balance	2,171,461	677,311
Total Accumulated Undistributed Income at Year End	\$(1,639,305)	\$2,171,461
PIE Tax Effect Allocated on PIE Income / (Losses)	77,538	779,281

The PIE Tax Effect has been calculated at the individual unitholder's PIR (Prescribed Investor Rate).

7. RECONCILIATION OF NET PROFIT WITH NET CASH FLOW FROM OPERATIONS

	31 March 2018	31 March 2017
Profit After Tax	(3,387,766)	5,694,150
Plus		
(Decrease)/Increase from Net Repayment of Mortgages	5,547,842	(5,743,365)
Increase in Bad Debt Write Off	2,028,158	167,745
	4,188,234	118,530
(Decreases)/Increases in Working Capital Items:		
Restricted Insurance Proceeds	-	4,105,120
Trade, Other Payables and GST	261,688	627,556
Net Movements in Working Capital	261,688	4,732,676
Net Cash Flow from Operating Activities	\$4,449,922	\$4,851,206

8. RELATED PARTIES

The related parties are Trustees Executors Limited, who provide trustee services to the Fund, and Canterbury Fund Managers Limited who provide management services to the Fund.

Trustee fees were defined by the Prospectus and subsequently agreed between the parties at 0.1% (2017: 0.1%) on Investments up to \$50 million and 0.08% (2017: 0.08%) on Investments exceeding \$50 million. Plus time and cost during the wind up for matters outside the scope of the original trustee agreement.

Management Fees paid to Canterbury Fund Managers Limited were negotiated on its appointment, in September 2013, to be reimbursement for actual expenditure incurred in undertaking the role of manager.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2018

The following transactions occurred during the period under review in regard to parties directly related to the Fund.

	31 March 2018	31 March 2017
Trustees Executors Ltd - Fees and Costs		
Trustee Fees	16,234	14,654
Additional Fees	52,338	69,062
	<u>\$68,572</u>	<u>\$83,716</u>
Canterbury Fund Managers Ltd - Management Fees		
BDO Fees	91,418	81,975
Wages and Consultants Fees	133,142	105,517
Other Operating Expenses	57,633	61,133
	<u>\$282,193</u>	<u>\$248,625</u>
Total Trustee and Managers Fees	<u>\$350,765</u>	<u>\$332,341</u>
Administration		
Fund Manager Software Service Charge	15,125	11,872
FMA registration fees and related costs	3,871	-
	<u>\$18,996</u>	<u>\$11,872</u>
Amounts Payable to Related Parties at Period End:		
Canterbury Fund Managers Limited	30,073	36,006
Trustees Executors Limited	3,344	26,180
Amounts payable are unsecured and repayable at normal trade terms.		

The personal client services division of Trustees Executors Limited invested in the Fund on behalf of its retail trust clients and as at 31 March 2018 held \$333,457 in the Fund (31 March 2017: \$498,468).

Amounts receivable from related parties at period end:

Canterbury Fund Managers Limited	\$25,000	\$25,000
Rhodes Trustee No 22 Limited	\$-	\$5,946,000

On appointment Canterbury Fund Managers Limited received an unsecured operating advance, of \$25,000, separately disclosed in the Balance Sheet. This advance provides the Manager with an operating fund, allowing the payment of expenses incurred in managing the Fund as they fall due and was agreed to by the Trustee.

Rhodes Trustee No. 22 Limited (whose shares are held as a bare trustee for the benefit of the Fund) was established to facilitate the sale by CMT of a group of securities. The amount owing by Rhodes Trustee No. 22 Limited was repaid in full during 2018, following the sale of the securities.

9. FINANCIAL INSTRUMENTS

a. Financial Risk Management Policies

Credit Risk

Credit risk is the risk that a counterparty will default on its obligation resulting in a financial loss to the Fund. Prior to the decision to wind up all prospective mortgagors were subject to lending criteria established by the former manager. These included maximum loan security value ratios, a demonstrated debt servicing ability and all advances are secured by first mortgage and/or general security agreement or specific security agreement. Approvals were by management, or by the board of directors of the former manager.

9. FINANCIAL INSTRUMENTS (continued)

For the period since the commencement of the wind up the Fund has a credit risk on outstanding advances. The Fund's policy with regard to outstanding advances is that all expired loans are required to be repaid. The Fund, with the assistance of a third party credit consultant, is working to have the loans repaid or recover the outstanding amounts by realising securities held against the loans, with the Trustee monitoring the progress on an ongoing basis.

At balance date the maximum credit exposure (net of provisions and write-offs) of the Fund is \$11,594,737 (31 March 2017: \$21,719,204). Estimated collateral held in respect of advances of \$1,430,000 (31 March 2017: \$13,471,120) is by way of registered first mortgage.

At balance date \$9,163,969 (31 March 2017: \$12,328,204) or 79.04% (31 March 2017: 47.62%) of the Fund was invested with the ANZ Bank New Zealand Limited.

Liquidity Risk

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

Management monitors the risk as follows:

- The Fund is being wound down, with funds being returned to unitholders only when sufficient reserves have been accumulated to make a repayment of capital.
- Expenses incurred protecting or realising the Fund's position on advances are paid as they fall due.
- All mortgages have expired and been called up. The Fund is working to realise its investment in the most efficient manner.

The Fund monitors its liquidity position on an ongoing basis and maintains deposits at call which, together with funds received from mortgage repayments, enable the Fund to meet its commitments as they fall due.

To meet both expected and unexpected fluctuations in operating cash flows, the Fund maintains a stock of liquid investments. As a result of the Fund's resolution to wind up the Fund, the level of funds held to cover operating cash flows has been set to levels proportionate to the risk.

The remaining advance is significantly impaired and set as non-accruing. Interest rates on bank call and term deposit accounts are within the range of .25% to 4.0%. Interest rates can be reset daily for call accounts or on maturity of the term deposit.

While all financial assets/liabilities are ultimately at call the ability to liquidate a financial asset to repay unitholders is ultimately constrained by the timeliness to realise the asset. It is not possible to predict with any certainty when the remaining mortgage advances will be repaid.

Capital Management

The Fund has no externally imposed capital requirements other than those set out in the Trust Deed dated 26 June 2001 (as amended) and Investment guidelines. However, since the decision was taken to wind up the Fund, the focus has been on maximising loan recoveries. All surplus funds will be repaid to unitholders.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2018

b. Quantitative Risk Exposure Disclosures

Concentration of Funding

	31 March 2018	31 March 2017
Canterbury Region	7,799,885	11,707,485
Other South Island Regions	1,836,565	2,704,151
North Island Regions	2,303,144	3,388,605
Offshore	201,594	275,773
	<u>\$12,141,188</u>	<u>\$18,076,014</u>

Funding is primarily from unitholders in the Canterbury region of New Zealand and excludes undistributed income as detailed in Note 6. Refer to Note 5 for details on movements in the balance.

Sensitivity Analysis

The Fund has been focused solely on the recovery of the remaining loan, which is significantly in arrears with no principle or interest payments being made by the borrower. It is not considered relevant or practical to calculate the Fund's sensitivity to changes in interest rates. The overall recovery of the loan is more sensitive to the property market and the outcome of the insurance claim, as these factors will determine the Fund's overall recovery on the remaining loan.

10. ASSET QUALITY

a. Impaired Assets

	31 March 2018	31 March 2017
Opening Impaired Assets	13,471,120	7,895,500
New Impaired Assets	-	3,889,374
Net Bad Debt Reversal/ (Expense)	94,325	6,319,699
Impaired Assets Repaid/Written Off	(11,775,445)	(4,633,453))
Closing Impaired Assets	<u>\$1,790,000</u>	<u>\$13,471,120</u>

The impaired assets include the total amounts owing by the borrowers who are in arrears, not just the past due portion. The recorded amounts are net of write-downs for previously identified impairments.



Building a better
working world

Chartered Accountants

INDEPENDENT AUDITOR'S REPORT

TO UNITHOLDERS OF CANTERBURY MORTGAGE TRUST GROUP INVESTMENT FUND

Opinion

We have audited the financial statements of Canterbury Mortgage Trust Group Investment Fund ("the Fund") on pages 4 to 17, which comprise the balance sheet of the Fund as at 31 March 2018, and the statement of comprehensive income, statement of changes in Unitholders' Funds and statement of cash flows for the year then ended of the Fund, and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the financial statements on pages 4 to 17 present fairly, in all material respects, the financial position of the Fund as at 31 March 2018 and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

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

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

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

Emphasis of Matter

Basis of Preparation of the Financial Statements

The financial statements have been prepared on a realisation basis as described in Note 1. This basis differs from the normal convention in that financial statements are usually prepared on the basis that the Fund will carry on business as a going concern. These financial statements include adjustments to the net book value of assets, reducing them to the amounts expected to be realised. Since there is no set date for the Fund wind-down, operating expenses are recognized as and when incurred during the wind-down process rather than accruing for the cessation costs.

Non adjusting events subsequent to balance date

As disclosed in note 2 to the financial statements, post balance date receipts of \$13.75 million have been reported by the Fund. These amounts arise from the settlements of an insurance claim relating to the security interest in a property, and claims against the prior Manager and prior auditor. Of these amounts, \$13.3 million has been considered as non adjusting post balance date events and are therefore not recorded in these financial statements, as the actual amounts were only determined post year end at mediations giving rise to the settlements.

Our opinion is not qualified in respect of these matters.

Information Other than the Financial Statements and Auditor's Report

The Manager is responsible for other information, which includes information as disclosed in pages 2 and 3 of the financial statements.

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

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

If, based upon the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Manager's responsibilities for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with International Standards on Auditing (New Zealand), 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 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 Fund's 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 Manager's use of the going concern basis of accounting. When such use is inappropriate and the Manager uses an alternative basis of accounting, we conclude on the appropriateness of the Manager's use of the alternative basis of accounting. We also evaluate the adequacy of the disclosures describing the alternative basis of accounting and reasons for its use. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.
- Evaluates the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 logo for Ernst & Young, featuring the company name in a stylized, cursive script.

Chartered Accountants
Christchurch
31 October 2018

Canterbury Fund Managers Limited
Unit 6a, 212 Antigua Street, Christchurch
PO Box 13299, Armagh, Christchurch, 8141

03 377 5201 • team@cmt.co.nz
www.cmt.co.nz