



DBP Annuitants Scheme

FINANCIAL STATEMENTS

For the year ended 31 March 2018

Deloitte.

This audit report, dated 21 June 2018, relates to the financial statements of the DBP Annuitants Scheme for the year ended 31 March 2018 included on this website. The Board is responsible for the maintenance and integrity of this website. We have not been engaged to report on the integrity of this website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on this website. The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 21 June 2018 to confirm the information included in the audited financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial statements and summary financial statements may differ from legislation in other jurisdictions.



NATIONAL
PROVIDENT





DBP Annuitants Scheme

ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2018

On behalf of the Board of Trustees of the National Provident Fund, set out below is a report on the performance and activities of your Scheme for the year ended 31 March 2018. Further information on the National Provident Fund's activities, and commentary on investment markets, is set out in the Review.

YOUR SCHEME

CROWN GUARANTEE

The DBP Annuitants Scheme is a defined benefit scheme. The benefits payable by your Scheme are guaranteed by the Crown. The Scheme's funding position is set out in a table in this report. The numbers in the table show the net assets are insufficient to meet the Scheme's current and future obligations to pay pensions.

The net assets available to pay the benefits of the Scheme were exhausted in May 2009, after a provision was made for future operating expenses. However, members should not be concerned as the benefits payable by your Scheme are guaranteed by the Crown.

A call was made under the Crown guarantee in May 2009 and the first payment from the Crown, to fund the pension benefits payable by the Scheme, was received on 27 May 2009. The Crown has been meeting the cost of paying pension benefits from the Scheme as they fall due since May 2009 and continues to do so.

The Board provides information to the Crown on an annual basis on the financial position of the Scheme and the Crown has made a provision in its financial statements for the future funding of the Scheme.

INVESTMENT PERFORMANCE

The residual assets of the Scheme are invested in cash. The return achieved (before tax and operating expenses) was 2.51% compared to the benchmark index of 1.93%.

The investment return (after tax and operating expenses) earned by the Scheme for the year ended 31 March 2018 was 0.41%.

See the comparison over the page for the key statistics of your Scheme over the last 10 years. For an overview of the financial performance of the Scheme, refer to the tables on the following pages.



NATIONAL
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DBP Annuitants Scheme

FUNDING POSITION

The Actuary has advised the funding level of the Scheme, as at 31 March, was:

	2018 (\$000)	2017 (\$000)
Net assets	35,938	36,765
Liabilities/vested benefits	(906,690)	(884,854)
Funding level	4.0%	4.2%

WHO INVESTS YOUR MONEY

AMP Capital Investors (New Zealand) Limited

ANZ Bank New Zealand Limited

HOW YOUR MONEY IS INVESTED

The pie chart below shows the Scheme's asset allocation strategy for the residual assets held by the Scheme.



Cash 100.0%

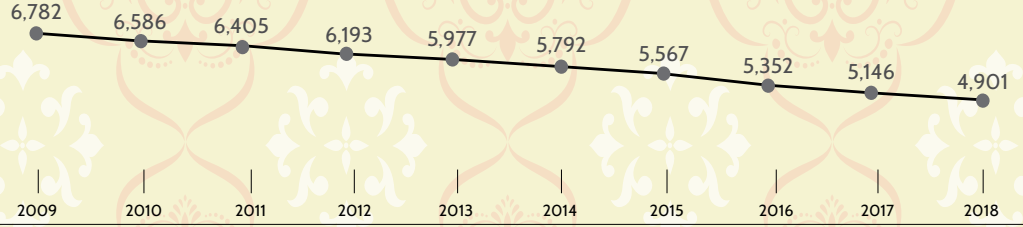
There were no significant changes to the Board's Statement of Investment Policies, Standards and Procedures (SIPSP) during the year.

See our website, www.npf.co.nz, for more information about your Scheme, including the Board's SIPSP and the Scheme trust deed.

DBP Annuitants Scheme

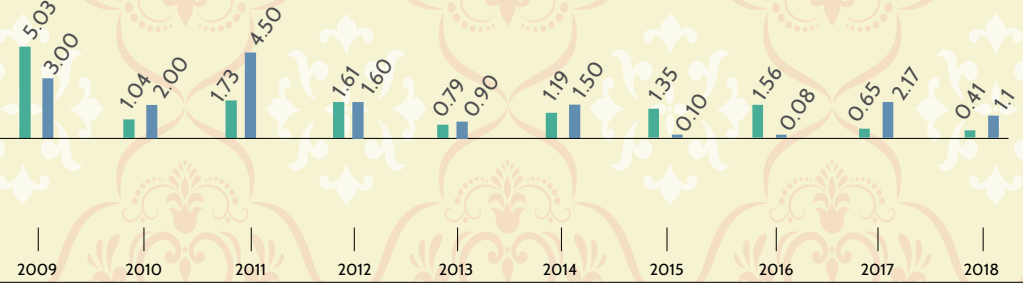
10 YEAR COMPARISON

Pensioners

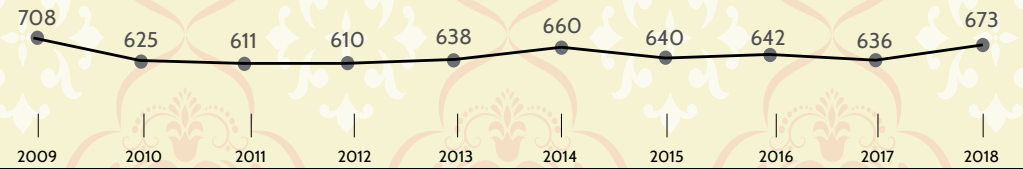


Investment returns

CPI
(percent)



Operating expenses
(\$000)



Net assets
(\$million)



DBP Annuitants Scheme (the Scheme)
Statement of Changes in Net Assets
for the year ended 31 March 2018

	Note	2018 (\$000)	2017 (\$000)
Investment income			
Income from unit fund	4	595	633
Interest received		54	91
Net investment income		<u>649</u>	<u>724</u>
Operating expenses			
Actuarial fees		43	43
Audit fees		17	2
Bank fees		4	4
Board member expenses	5	23	26
Management expenses	5	584	557
Stationery and printing		2	4
		<u>673</u>	<u>636</u>
Net (loss)/income before tax and membership activities		<u>(24)</u>	<u>88</u>
Income tax credit	6	174	152
Net income after tax and before membership activities		<u>150</u>	<u>240</u>
Scheme receipts			
Crown contributions	1	67,000	59,400
Transfers from DBP Contributors Scheme	1	19,909	29,478
Total Scheme receipts		<u>86,909</u>	<u>88,878</u>
Scheme payments			
Pensions paid		87,886	90,448
Total Scheme payments		<u>87,886</u>	<u>90,448</u>
Net membership activities		<u>(977)</u>	<u>(1,570)</u>
(Decrease) in net assets for the year	9	<u>(827)</u>	<u>(1,330)</u>
Net assets available to pay benefits at beginning of year		<u>36,765</u>	<u>38,095</u>
Net assets available to pay benefits at end of year		<u><u>35,938</u></u>	<u><u>36,765</u></u>

The notes to the financial statements on pages 4 to 13 form an integral part of these financial statements.

DBP Annuitants Scheme (the Scheme)
Statement of Net Assets
as at 31 March 2018

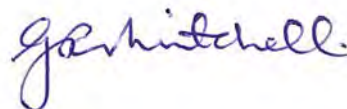
	Note	2018 (\$000)	2017 (\$000)
Investment assets at fair value through profit or loss	3		
Units held in:			
Cash Unit Fund		33,783	33,035
		33,783	33,035
Other assets at amortised cost			
Cash		1,747	3,585
Other receivables	8	324	69
Receivable from the Global Asset Trust	7	174	152
		2,245	3,806
Total assets		36,028	36,841
Current liabilities at amortised cost			
Accounts payable		90	76
Total liabilities		90	76
Net assets available to pay benefits		35,938	36,765

Authorised for issue on 21 June 2018.

On behalf of the Board of Trustees of the National Provident Fund.



Edward J Schuck
Chairman



Graeme R Mitchell
Chairman
Audit and Risk Review Committee

The notes to the financial statements on pages 4 to 13 form an integral part of these financial statements.

DBP Annuitants Scheme (the Scheme)
Statement of Cash Flows
for the year ended 31 March 2018

	Note	2018 (\$000)	2017 (\$000)
Cash flows from operating activities¹			
Cash was provided from:			
Crown contributions		67,000	59,400
Interest received and other income		54	91
Transfers from DBP Contributors Scheme		19,909	29,478
		86,963	88,969
Cash was applied to:			
Pensions paid		88,174	89,485
Operating expenses		474	494
		88,648	89,979
Net cash flows used in operating activities	9	(1,685)	(1,010)
Cash flows from investing activities²			
Cash was provided from sale of units in:			
Cash Unit Fund		-	1,500
		-	1,500
Cash was applied to purchase units in:			
Cash Unit Fund		153	142
		153	142
Net cash flows from investing activities		(153)	1,358
Net (decrease)/increase in cash held		(1,838)	348
Add opening cash brought forward		3,585	3,237
Closing cash carried forward³		1,747	3,585

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- 1 Operating Activities: includes any activities that are the result of normal business activities not classified as investing activities.
- 2 Investing Activities: comprises acquisition and disposal of units in the GAT.
- 3 Cash: comprises cash balances held with banks in New Zealand and Australia.

The notes to the financial statements on pages 4 to 13 form an integral part of these financial statements.

**DBP Annuitants Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2018**

1 DESCRIPTION OF THE SCHEME AND FUNDING ARRANGEMENTS

The Scheme is a defined benefit scheme, governed by a Trust Deed. The Scheme is deemed to be registered on the register of managed investment schemes under the Financial Markets Conduct Act 2013 (FMCA).

When a contributor or other beneficiary of the DBP Contributors Scheme becomes a member of the Scheme, assets with a market value equal to the liability of the Scheme to pay the benefit attributable to that person's membership, are transferred from the DBP Contributors Scheme to the Scheme.

The net assets available to pay the benefits of the Scheme were exhausted in May 2009, after a provision was made for future operating expenses. A call was made under the Crown guarantee and the first payment from the Crown, to fund the pension benefits payable by the Scheme, was received on 27 May 2009.

The Board of Trustees of the National Provident Fund (the Board) provides information to the Crown on the financial position of the Scheme, on a regular basis. From May 2009, the Crown is meeting the cost of paying pension benefits from the Scheme as they fall due, after allowing for transfers from the DBP Contributors Scheme.

2 RELATED PARTIES

Under the terms of the National Provident Fund Restructuring Act 1990 (the Act), the Board is Trustee of the Scheme. Members of the Board are appointed by the Minister of Finance.

The Board and the Government Superannuation Fund Authority (the Authority) have formed a joint venture company, Annuitas Management Limited (Annuitas). Each organisation has entered into a management services agreement with Annuitas. The main function of Annuitas is to provide staff who act in management and secretarial roles on behalf of the Board and the Authority. The costs of running Annuitas are shared between the Board and the Authority on an equitable basis, as agreed between the organisations.

Edward J Schuck and Graeme R Mitchell are the two Board appointed directors of Annuitas.

The Board is also the Trustee of the Global Asset Trust (the GAT), which holds the assets of all National Provident Fund Schemes. The GAT is divided into separate unit funds, representing various asset classes, which have issued units to the Board, as Trustee of the Scheme, according to the Strategic Asset Allocation (refer note 3).

There were no transactions between the Board or management, as individuals, and the Scheme.

3 STRATEGIC ASSET ALLOCATION - INVESTMENT

The Scheme is authorised to invest in the GAT or in bank deposits. The GAT is divided into separate unit funds representing various asset classes.

Investment assets have been designated at fair value through profit or loss upon initial recognition. These are managed and their performance evaluated, on a fair value basis. This is consistent with the Scheme's documented investment strategy. The assets are investments in units in the GAT which, in turn, invest in quoted equities, fixed interest and debt instruments.

**DBP Annuitants Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2018**

3 STRATEGIC ASSET ALLOCATION – INVESTMENT (CONTINUED)

The fair value of the units held by the Scheme in the GAT is based on the valuation of the financial instruments held by the GAT. The fair value of these financial instruments is based on exit prices at balance date without any deduction for future selling costs. If the exit price for an instrument is not available on a recognised exchange the fair value is estimated taking into account comparable markets and advice from specialised advisories.

The benchmark asset allocation remained unchanged from the previous year. All assets are invested in the Cash Unit Fund of the GAT (2017: 100%).

As discussed in note 1, the net assets available to pay the benefits of the Scheme were exhausted in May 2009, after a provision was made for future operating expenses. The provision is invested in the Cash Unit Fund of the GAT. From May 2009 the income from the provision is used to meet the operating expenses of the Scheme and the Crown is meeting the cost of paying pension benefits from the Scheme as they fall due, after allowing for transfers from the DBP Contributors Scheme.

4 INCOME FROM UNIT FUND

Income from the unit fund was derived from the changes in fair value of units held by the GAT and reflects both realised and unrealised gains and losses. The income stated is net of expenses (including investment management and custodial fees) directly related to investment activities.

	2018 (\$000)	2017 (\$000)
Cash Unit Fund	<u>595</u>	<u>633</u>
Income from unit fund	<u><u>595</u></u>	<u><u>633</u></u>

Income from the unit fund is received tax paid.

5 MANAGEMENT AND BOARD MEMBER EXPENSES

Management expenses comprise administration fees charged by Datacom Connect Limited, and a share of the expenses of the Board. The Board member expenses are split evenly between the Schemes.

**DBP Annuitants Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2018**

6 INCOME TAX

Income specific to the Scheme is subject to tax at 28 percent, after allowing for deductible expenses. The income tax reconciliation is as follows:

	2018 (\$000)	2017 (\$000)
Scheme specific income	54	91
Deductible expenses	(673)	(636)
Expense election to the GAT under section DV 2	619	545
Taxable income	<u><u>-</u></u>	<u><u>-</u></u>
Net income before tax and membership activities	(24)	88
Tax at 28%	(7)	25
Adjusted for tax effect of:		
Non-assessable income	(167)	(177)
Income tax credit	<u><u>(174)</u></u>	<u><u>(152)</u></u>
Represented by:		
Income tax credit on current year income	(174)	(152)
Prior year adjustment	-	-
Income tax credit	<u><u>(174)</u></u>	<u><u>(152)</u></u>

The tax credit results from the benefit of the Scheme electing to transfer surplus deductible expenses to the GAT under section DV 2 of the Income Tax Act 2007 (refer note 7). The GAT is subject to tax at the rate of 28 percent.

Income relating to the Sinking Funds has been excluded from the tax calculation as it is exempt from income tax in accordance with section CW 31(1) of the Tax Act. Expenditure incurred in deriving the exempt income has also been excluded, as it is not deductible for tax purposes in accordance with section DA 2(3) of the Tax Act.

The income of \$595,000 (2017: \$633,000) from unit funds, shown on the Statement of Changes in Net Assets, is all received tax paid.

7 RECEIVABLE FROM THE GAT

This receivable represents the outstanding tax credits, (refer note 6), utilised by the GAT, resulting from the transfer of the Scheme's surplus deductible expenses to the GAT under section DV 2 of the Income Tax Act 2007. The Scheme will realise the receivable by investing in the Cash Unit Fund of the GAT, with the remainder being settled by cash if applicable.

DBP Annuitants Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2018

8 OTHER RECEIVABLES

Other receivables consist of:

	2018 (\$000)	2017 (\$000)
Amounts due from members	302	14
Management fee refund	22	55
Total other receivables	<u>324</u>	<u>69</u>

9 RECONCILIATION OF (DECREASE) IN NET ASSETS FOR THE YEAR TO NET CASHFLOWS USED IN OPERATING ACTIVITIES

	2018 (\$000)	2017 (\$000)
Change in net assets for the year	(827)	(1,330)
Movements in working capital:		
Change in accounts payable	14	(6)
Change in other receivables	(255)	968
	<u>(241)</u>	<u>962</u>
Less non-cash items		
Movement in receivable from the GAT	(22)	(9)
	<u>(22)</u>	<u>(9)</u>
Items classified as investing activities		
(Income) from unit funds	(595)	(633)
	<u>(595)</u>	<u>(633)</u>
Net cash flows used in operating activities	<u>(1,685)</u>	<u>(1,010)</u>

10 GUARANTEED BENEFITS

Under section 60 of the Act, the benefits payable by the Scheme are guaranteed by the Crown.

As discussed in note 1, the net assets available to pay benefits of the Scheme were exhausted in May 2009 after a provision was made for future operating expenses. A first call was made under the Crown guarantee in May 2009 to meet Scheme pension benefit payments. From May 2009, the Crown is meeting the cost of paying pension benefits from the Scheme as they fall due, after allowing for transfers from the DBP Contributors Scheme.

**DBP Annuitants Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2018**

11 ACTUARIAL EXAMINATION AND REVIEW, FUNDING LEVEL AND VESTED BENEFITS RATIO – 31 MARCH 2018

11.1 ACTUARIAL EXAMINATION AND REVIEW

Every three years, a statutory actuarial examination of the Scheme is prepared in accordance with the National Provident Fund Restructuring Act 1990 and the Financial Markets Conduct Act 2013 (refer note 12). The most recent actuarial examination was conducted as at 31 March 2015. In addition, an actuarial review of the Scheme is undertaken annually.

Provisional figures from the actuarial examination of the Scheme, as at 31 March 2018, and figures from the actuarial review of the Scheme, as at 31 March 2017, are set out below for the funding level and vested benefits ratio. The assumptions and methodology used to value the liabilities as at 31 March 2018 are those currently intended to be used for the actuarial examination of the Scheme as at 31 March 2018.

11.2 FUNDING LEVEL AND VESTED BENEFITS RATIO – 31 MARCH 2018

The funding level (solvency ratio) of the Scheme is the ratio of the net assets available to pay benefits to the value of the total liabilities. For this Scheme, the value of the vested benefits is equal to the value of the liabilities. The funding level and vested benefits calculated by the Actuary, as at 31 March, are shown below:

Valuation date	2018	2017
	(\$000)	(\$000)
Present value of -		
Liabilities/vested benefits	(906,690)	(884,854)
Net assets	35,938	36,765
(Deficit)	(870,752)	(848,088)
Funding level/vested benefits ratio	4.0%	4.2%

The table should be read in conjunction with note 10.

The key assumptions used to value the liabilities are:

- The difference between the discount rates and the rate of future pension increases. The discount rates used are the year-on-year risk-free forward rates. Pensions are assumed to increase at the Consumer Prices Index inflation rate. Both were determined according to the methodology prescribed by The Treasury for Crown financial reporting.
- The pensioner mortality assumptions, which were based on the results of the pensioners' mortality investigation in 2017 and include an allowance for improving mortality.

**DBP Annuitants Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2018**

12 STATUTORY ACTUARIAL EXAMINATION – 31 MARCH 2015

Under the National Provident Fund Restructuring Act 1990 (the Act) and the Financial Markets Conduct Act 2013, a statutory actuarial examination of the Scheme is required every three years.

The most recent statutory actuarial examination was prepared, as at 31 March 2015, by Christine Ormrod FNZSA, the Actuary to the Scheme, and is dated 7 July 2015. It covers the three years 31 March 2012 to 31 March 2015.

The report on the examination showed that the value of liabilities exceeded the value of net assets, as at 31 March 2015, based on the actuarial assumptions used. The valuation results were:

Valuation date	2015	2012
	(\$000)	(\$000)
Present value of -		
Liabilities	(976,338)	(1,052,912)
Net assets	39,251	39,922
(Deficit)	(937,087)	(1,012,990)
Funding level	4.0%	3.8%

The table should be read in conjunction with note 10.

The ratio of the net assets to the value of total liabilities is known as the funding level. A funding level of 100% indicates a balance between the net assets and liabilities of the Scheme at the date of valuation. The funding level of the Scheme at 31 March 2015 was 4.0%. This shows that the Scheme had significantly less net assets than liabilities at that date. Under section 60 of the Act, the benefits payable by the Scheme are guaranteed by the Crown.

For this Scheme, the value of vested benefits is equal to the value of the total liabilities and hence the ratio of the net assets to the value of vested benefits is the same as the funding level, i.e. 4.0% as at 31 March 2015.

At the valuation date, the Scheme only held assets to provide for the future costs of administering the Scheme, with the cost of pension payments being met predominantly by the Crown as they fall due. Therefore, no significant change in the funding level or ratio of assets to the value of vested benefits was expected prior to the next actuarial examination.

The Actuary did not express an opinion on the financial condition of the Scheme.

The most significant actuarial assumptions used by the Actuary were:

- The difference between the discount rates and the rate of future pension increases. The discount rates used are year-on-year risk-free forward rates and vary from 3.26% for the year ended 31 March 2016 to 5.5% pa from 31 March 2065. Pensions are assumed to increase from 1.9% for the year ended 31 March 2016 to 2.5% pa from 31 March 2039 onwards.
- The pensioner mortality assumptions, which were based on the results of the pensioners' mortality investigation in 2014 and include an allowance for improving mortality.

**DBP Annuitants Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2018**

12 STATUTORY ACTUARIAL EXAMINATION – 31 MARCH 2015 (CONTINUED)

RECOMMENDATIONS

The Actuary recommended:

- The next statutory actuarial examination of the Scheme be carried out as at 31 March 2018.
- The Board does not grant any benefit increases, other than the normal pension increase entitlements of pensioners.

The Board accepted the recommendations of the Actuary.

13 FINANCIAL RISK MANAGEMENT

The Scheme invests in units of the GAT based on the Strategic Asset Allocation determined for the Scheme (see note 3). The unit fund hold fixed interest and debt instruments. These instruments are all measured at fair value.

Under *NZ IFRS 13: Fair Value measurement*, disclosures for fair value instruments are required using a three-level fair value hierarchy. These tiers reflect the availability of observable market inputs. The scheme's investment in units of the GAT is classified as a level 2 investment as the unit prices are based on a net asset valuation derived from either quoted prices for similar assets or unquoted but observable inputs.

The Scheme's major risk in relation to its investment in the GAT is the price risk that the value of its units may fluctuate. Other risks, such as market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk, are managed in the GAT.

For more information on the disclosures under *NZ IFRS 13* and the risks mentioned above reference should be made to the financial statements of the GAT. A copy of the financial statements of the GAT can be viewed on the National Provident Fund's website (www.npf.co.nz).

The Board manages the other risks by determining a diversified Strategic Asset Allocation appropriate for the provision to meet the operating expenses of the Scheme. In addition, the Board selects the investment managers, sets their mandates and monitors performance against those mandates.

The long run investment return for the Scheme is estimated to be 0.5% per annum. This is based on the Scheme's Strategic Asset Allocation Strategy and the long term rate of return for cash (after investment management, custody fees and tax).

If the long term rate of return for Cash increased by 10% this would increase the investment return from 0.5% to 0.7% per annum. Similarly, if the long term rate of return for Cash decreased by 10%, the investment return would decrease to 0.3% per annum. This would increase or decrease the profit by approximately \$68,000.

14 SUBSEQUENT EVENTS

There were no material events subsequent to balance date requiring amendments to these financial statements.

**DBP Annuitants Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2018**

15 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied consistently to all periods presented in these financial statements.

15.1 BASIS OF PREPARATION

The financial statements have been prepared under the requirements of clause 34 of the Scheme Trust Deed and in accordance with the FMCA. For a description of the Scheme and its funding arrangements see note 1.

15.2 STATEMENT OF COMPLIANCE

These financial statements comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board, and other applicable financial reporting standards as appropriate for profit-oriented entities.

15.3 MEASUREMENT BASE

The measurement base adopted is that of historical cost, except for investment assets which are stated at their fair value as set out below.

15.4 PRESENTATIONAL AND FUNCTIONAL CURRENCY

The financial statements are presented in New Zealand dollars, the Scheme's functional currency, rounded to the nearest thousand dollars (\$000).

15.5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In compliance with NZ IFRS, preparation of the financial statements requires judgements, estimates and assumptions to be made that affect the application of policies and the reported amounts of assets, liabilities, income and expenses.

Judgement has been applied in selecting the accounting policy to designate assets at fair value through profit or loss upon initial recognition. This policy has a significant impact on the amounts disclosed in the financial statements.

There are no material assumptions or major sources of estimation uncertainty that have a significant risk of causing material adjustments to the carrying amounts of scheme assets at year end. Asset values are subject to variation due to market fluctuations.

The estimates and associated assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period; or in the period of the revision and future periods, if the revision affects both current and future periods.

15.6 STANDARDS ISSUED BUT NOT EFFECTIVE

Certain new accounting standards and interpretations have been issued that are not mandatory for 31 March 2018 reporting periods and have not been adopted early by the Board. Of these standards, only *NZ IFRS 9 Financial Instruments* is applicable to the Scheme. This standard will be adopted for the 2018/19 financial year. The Board's assessment of the impact is set out below.

No change will be necessary with regard to the classification, measurement, recognition and derecognition of financial assets and financial liabilities. Financial assets held by the Scheme are

**DBP Annuitants Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2018**

15.6 STANDARDS ISSUED BUT NOT EFFECTIVE (CONTINUED)

recognised and measured at fair value through profit or loss (FVPL). The Scheme does not have financial liabilities designated at FVPL.

NZ IFRS 9 introduces a new expected credit loss model which broadens the information that an entity is required to consider when determining its expectations of impairment. Under this new model, expectations of future events must be taken into account, resulting in the earlier recognition of larger impairments.

Modelling of past performance of financial assets will be undertaken as a basis of expectation of impairment. This will be recognised in 2018/19 financial statements.

The Scheme does not use Hedge Accounting.

15.7 FINANCIAL INSTRUMENTS

Financial instruments include both financial assets and financial liabilities.

Financial assets classified as loans and receivables include balances due from members, receivables from related parties and other receivables (if applicable).

Financial liabilities, measured at amortised cost, include accounts payable and bank overdrafts (if applicable).

15.8 RECOGNITION

The Scheme recognises financial assets and financial liabilities on the date the Scheme becomes a contractual party to the financial instruments.

15.9 MEASUREMENT

Financial assets that are classified at fair value through profit or loss are recorded at fair value where all resulting gains or losses are recorded in the Statement of Changes in Net Assets.

Financial assets, classified as other receivables, and other financial liabilities are recorded at amortised cost using the effective interest rate method, less any impairment losses. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument to the net carrying amount of the financial asset or liability.

15.10 IMPAIRMENT

Financial assets that are recorded at amortised cost are reviewed at each financial statement date to determine whether there is objective evidence of impairment. If any such evidence exists, an impairment loss is recognised in the Statement of Changes in Net Assets as the difference between the asset's carrying amount and the recoverable amount.

15.11 DERECOGNITION

The Scheme derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or the Scheme transfers the financial asset and the transfer qualifies for derecognition in accordance with *NZ IAS 39: Financial Instruments: Recognition and Measurement*. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

**DBP Annuitants Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2018**

15.12 CASH AND CASH EQUIVALENTS

Cash comprises current deposits with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, where there is an insignificant risk of change in value. Cash equivalents are held for the purpose of meeting short-term cash commitments.

15.13 INVESTMENT INCOME RECOGNITION

Interest income is recognised using the effective interest rate of the instrument. Changes in the fair value on the GAT unit fund are recognised in the Statement of Changes in Net Assets. Interest income on financial assets classified at fair value through profit or loss is accrued at balance date.

15.14 TRANSFERS FROM DBP CONTRIBUTORS SCHEME

Transfers are accounted for on a due and receivable basis.

15.15 EXPENSES

All expenses are recognised in the Statement of Changes in Net Assets on an accrual basis.

15.16 TAXATION

Income arising from the movement in the fair value of the Cash Unit Fund of the GAT is received by the Scheme tax paid. The Scheme's deductible operating expenses are offset against the Scheme's interest received to result in nil assessable income.

Any surplus deductible operating expenses are transferred to the GAT under section DV 2 of the Income Tax Act 2007 (refer notes 6 and 7).

**DBP Annuitants Scheme (the Scheme)
Trustee's Report
for the year ended 31 March 2018**

16 OTHER INFORMATION

The Board, as Trustee of the Scheme, provides members with the following information:

16.1 SCHEME MEMBERSHIP

Changes in the Scheme membership numbers during the year were as follows:

	Pensioners
Opening membership as at 1 April 2017	5,146
Transfers from DBP Contributors Scheme	27
Pensioner change of beneficiary	89
Deaths	(361)
Closing membership as at 31 March 2018	4,901

16.2 CONTRIBUTIONS RECEIVED AND BENEFITS PAID

Under the terms of the Scheme Trust Deed, contributions are not required to be made to the Scheme.

The Board certifies that, to the best of its knowledge, all benefits required to be paid from the Scheme were paid in accordance with the terms of the Scheme Trust Deed.

16.3 VESTED BENEFITS

The Board, based on the advice of the Actuary, certifies that the net market value of the Scheme's assets was less than the total value of the vested benefits of the Scheme, as at 31 March 2018 (refer note 11 to the financial statements).

16.4 TRUST DEED

The Scheme Trust Deed has not been amended since 22 June 2017, being the date of the Scheme's last annual report.

16.5 DIRECTORY

Trustee	<p>Board of Trustees of the National Provident Fund Members of the Board are: Edward J Schuck <i>(Chairman from 1 September 2017)</i> Catherine M McDowell <i>(Chairman until 31 August 2017)</i> Graeme R Mitchell Daniel J Mussett Fiona A Oliver <i>(retired 30 June 2017)</i> Wayne L Stechman Stephen P Ward</p>
Administration manager	Datacom Connect Limited
Investment managers	<p>Cash Managers AMP Capital Investors (New Zealand) Limited ANZ Bank New Zealand Limited</p>
Actuary	Christine D Ormrod, PricewaterhouseCoopers

**DBP Annuitants Scheme (the Scheme)
Trustee's Report
for the year ended 31 March 2018**

16.5 DIRECTORY (CONTINUED)

Auditor	Michael R Wilkes, Deloitte Limited (on behalf of the Auditor-General)
Solicitor	DLA Piper New Zealand
Bank	Bank of New Zealand
Custodian	JP Morgan Chase Bank

16.6 CORRESPONDENCE

All correspondence relating to the Scheme should be addressed to:

The Manager
National Provident Fund Administration
Datacom Connect Limited
PO Box 1036
WELLINGTON 6140

OR

The Secretary
Board of Trustees of the National Provident Fund
PO Box 3390
WELLINGTON 6011

For and on behalf of the Board of Trustees of the National Provident Fund.



Edward J Schuck
Chairman

21 June 2018

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF DBP ANNUITANTS SCHEME'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

The Auditor-General is the auditor of DBP Annuitants Scheme (the Scheme). The Auditor-General has appointed me, Michael Wilkes, using the staff and resources of Deloitte Limited, to carry out the audit of the financial statements of the Scheme on his behalf.

Opinion

We have audited the financial statements of the Scheme on pages 1 to 13, that comprise the Statement of Net Assets as at 31 March 2018, the Statement of Changes in Net Assets, and Statement of Cash Flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion the financial statements of the Scheme on pages 1 to 13:

- present fairly, in all material respects:
 - its net assets as at 31 March 2018; and
 - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Our audit was completed on 21 June 2018. This is the date at which our opinion is expressed.

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

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 of Trustees for the financial statements

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

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

In preparing the financial statements, the Board of Trustees is responsible on behalf of the Scheme for assessing the Scheme's ability to continue as a going concern. The Board of Trustees 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 Scheme or to cease operations, or there is no realistic alternative but to do so.

The Board of Trustees' responsibilities arise from the Financial Markets Conduct Act 2013 and clause 34 of the Scheme's Trust Deed.

Responsibilities of the auditor 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 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.

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

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, 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 Scheme's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Trustees.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Trustees and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Scheme'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 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 Scheme to cease to continue as a going concern.
- We evaluate 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.

We communicate with the Board of Trustees 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 of Trustees is responsible for the other information. The other information comprises the information included on pages 14 to 15, but does not include the financial statements, and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on 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 Scheme in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1(Revised): *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 Scheme.



Michael Wilkes, Partner
For Deloitte Limited
On behalf of the Auditor-General
Christchurch, New Zealand



DBP Annuitants Scheme

DIRECTORY as at 21 June 2018

BOARD MEMBERS

Edward Schuck PhD, MBA (appointed 2015 and Chair from 1 September 2017).

Catherine McDowell (appointed 2013 and Chair from 1 July 2016 to 31 August 2017)

Graeme Mitchell BA, CA, FCA (appointed 2010, Deputy Chair from 1 July 2016)

Daniel Mussett (appointed 2016)

Wayne Stechman (appointed 2012)

Stephen Ward (appointed 2016)

There was one change to the Board members during the year - Fiona Oliver, appointed 2011, retired from the Board effective 30 June 2017.

Further information on the Board members is provided on our website - www.npf.co.nz.

MANAGEMENT

Simon Tyler
Chief Executive

Fiona Morgan
Chief Financial Officer

Philippa Drury
General Manager - Schemes

Janet Shirley
Manager - Schemes

Paul Bevin
General Manager - Investments

Nicky Rumsey
Manager - Investments

Peter McCaffrey
Manager - Equities and Alternatives

The former Chief Financial Officer, Euan Wright, retired on 30 June 2017. Fiona Morgan was appointed as Chief Financial Officer effective August 2017.

There were no changes to the Auditor, Actuary, Bank, Custodian or Solicitor during the year.

DATAKOM

ADMINISTRATION

Datakom Connect Limited is the administrator of the NPF Schemes.

CONTACT DETAILS

You are welcome to contact Datakom if you have any specific questions about the information in this package, if you would like to receive a free copy of the full financial statements in the mail, to purchase a copy of the trust deed (\$10) or the actuarial valuation (\$10), or to enquire about your Scheme membership in general.

Please quote your identity number when contacting Datakom.

Free phone: 0800 628 776

between 8.30 am and 5.00 pm, Monday to Friday.

Phone: (04) 381 0600

Post:

The Manager
National Provident Fund Administration
Datakom Connect Limited
P O Box 1036
WELLINGTON 6140
Email: npfenquiries@datakom.co.nz

If you would like to know more about NPF in general, or if you would like to view or download a copy of the Scheme's full financial statements rather than receive a copy in the mail, please visit our website - www.npf.co.nz.

You may contact the Board by writing to:

The Chief Executive
Board of Trustees of the National Provident Fund
Level 12, The Todd Building
95 Customhouse Quay
WELLINGTON 6011

Auditor: Michael Wilkes, Deloitte Limited, on behalf of the Auditor-General

Actuary: Christine D Ormrod, PricewaterhouseCoopers Consulting (New Zealand) LP

Bank: Bank of New Zealand Limited

Custodian: JPMorgan Chase Bank, N.A.

Solicitor: DLA Piper New Zealand

