



Pension National 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 Pension National 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.





Pension National 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 Pension National Scheme is a defined contribution scheme. The benefits payable by your Scheme are guaranteed by the Crown.

LOCKED-IN SECTION

The Locked-in section of the Scheme was created on 1 July 2007 as an alternative to KiwiSaver schemes. The Locked-in section has many of the benefits of KiwiSaver schemes, and also has the Crown guarantee and the 4% pa minimum earnings rate. These two features are hallmarks of the NPF schemes and are not available with KiwiSaver schemes. Further details are available on our website - www.npf.co.nz.

INVESTMENT PERFORMANCE

The asset class returns (before tax and expenses) and the comparative performance of the benchmark indices are shown in the table below.

	Return	Index
Fixed interest	5.9%	3.2%
New Zealand shares	15.5%	16.9%
Overseas shares	13.1%	10.9%

The investment return (after tax and operating expenses) earned by the Scheme for the year ended 31 March 2018 was 6.69%.

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.



Pension National Scheme

EARNINGS RATE

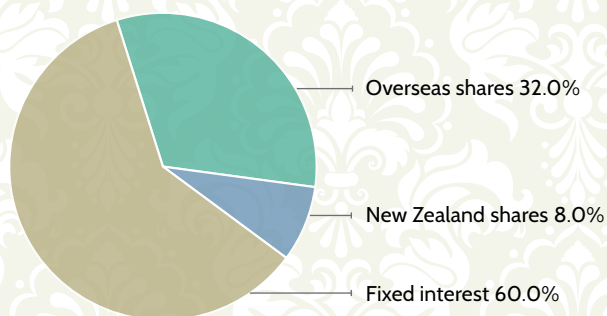
The earnings rate declared by the Board for the Scheme for the year ended 31 March 2018 was 6.32% on contributors' total credits as at 1 April 2017, and 2.53% on contributions paid during the year. In line with the Board's crediting and reserving policy, the difference between the investment return of 6.69% and the earnings rate of 6.32% credited to members' total credits as at 31 March 2018 has been added to the reserves of the Scheme. The reserves are now 8.6% of contributors' total credits (2017: 8.5%).

The objective of the Board's crediting and reserving policy is to build the reserves back up to 10% of contributors' total credits. An equitable share of any positive reserves is added to a contributor's total credit on retirement, withdrawal through redundancy or permanent incapacity, or on death before the contributor has commenced receiving a benefit.

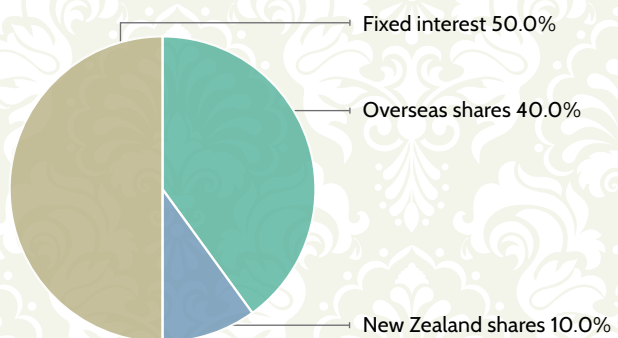
HOW YOUR MONEY IS INVESTED

The Scheme's asset allocation strategy is set by the Board and reviewed regularly. The asset allocation strategy for the Scheme was reviewed during the year. The pie charts show the Scheme's asset allocation strategy since 1 May 2014 and the new strategy effective from 1 May 2018.

Effective 1 May 2014



Effective 1 May 2018

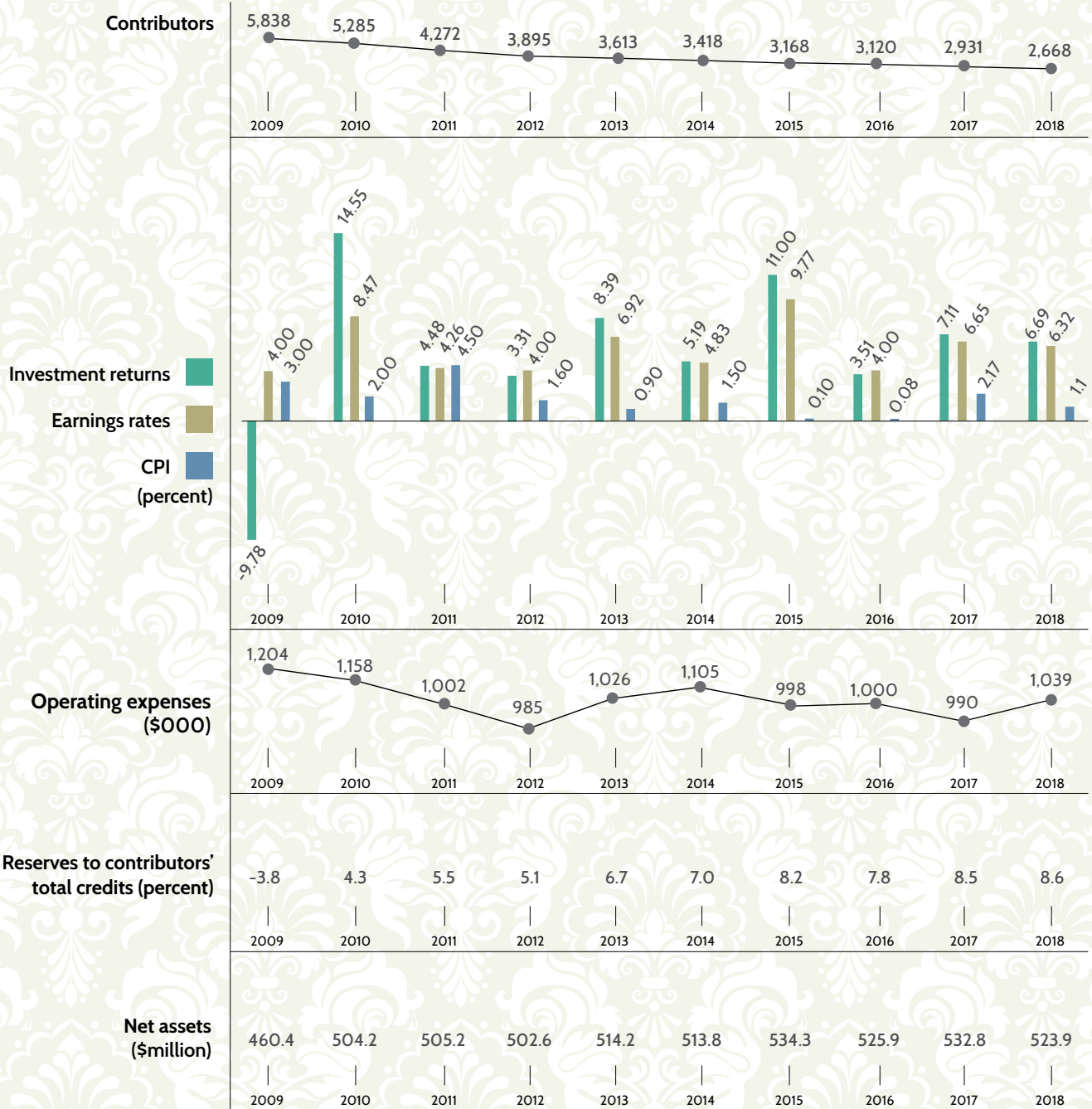


There were no significant changes to the Board's Statement of Investment Policies, Standards and Procedures (SIPSP) during the year.

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

Pension National Scheme

10 YEAR COMPARISON



Pension National 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 funds	4	34,889	36,977
Interest received		63	90
Other income		5	1
Total investment income		34,957	37,068
Operating expenses			
Actuarial fees		6	6
Audit fees		17	37
Bank fees		3	3
Board member expenses	5	5	26
Management expenses	5	23	915
Stationery and printing		985	3
Total operating expenses		1,039	990
Net income before tax and membership activities		33,918	36,078
Income tax credit	6	273	252
Net income after tax and before membership activities		34,191	36,330
Scheme receipts	1		
Contributor contributions non locked-in section		8,008	6,116
Employer contributions non locked-in section		2,814	2,943
Contributor contributions locked-in section		888	603
Employer contributions locked-in section		279	255
Member tax credits		49	43
Total scheme receipts		12,038	9,960
Scheme payments			
Benefits paid		6,587	3,183
Transfers paid to other schemes		25,273	17,283
Transfers to National Provident Pension Scheme		23,218	18,974
Total scheme payments		55,078	39,440
Net membership activities		(43,040)	(29,480)
(Decrease)/increase in liability for accrued benefits	9	(8,849)	6,850

The notes to the financial statements on pages 4 to 12 form an integral part of these financial statements.

Pension National 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:			
Fixed Interest Unit Fund		315,795	311,966
New Zealand Equity Unit Fund		41,091	42,565
Overseas Equity Unit Fund		163,328	174,721
		520,214	529,252
Other assets at amortised cost			
Cash		3,375	3,366
Contributions receivable - employers		82	129
Other receivables	8	76	165
Receivable from the Global Asset Trust	7	273	252
		3,806	3,912
Total assets		524,020	533,164
Current liabilities at amortised cost			
Accounts payable		102	396
Total liabilities		102	396
Net assets available to pay benefits		523,918	532,768
Represented by:			
Liability for accrued benefits			
Allocated to contributors' total credits			
Contributor contributions		276,429	280,845
Employer contributions		194,350	199,319
Allocated to contributors' total credits			
Locked-in Section			
Contributor contributions		7,902	7,248
Employer contributions		3,582	3,424
Unallocated reserves	11	41,655	41,932
		523,918	532,768

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 12 form an integral part of these financial statements.

Pension National 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:			
Contributor contributions		9,032	6,718
Employer contributions		3,004	3,032
Interest received		63	90
Member tax credits		5	42
Other income		56	1
		<u>12,160</u>	<u>9,883</u>
Cash was applied to:			
Benefits paid		6,548	2,863
Operating expenses		722	731
Transfers paid to other schemes		25,589	16,967
Transfers to National Provident Pension Scheme		23,218	18,974
		<u>56,077</u>	<u>39,535</u>
Net cash flows from operating activities	9	<u>(43,917)</u>	<u>(29,652)</u>
Cash flows from investing activities²			
Cash was provided from sale of units in:			
Fixed Interest Unit Fund		11,983	18,774
New Zealand Equity Unit Fund		7,458	6,577
Overseas Equity Unit Fund		28,410	10,191
		<u>47,851</u>	<u>35,542</u>
Cash was applied to purchase units in:			
Fixed Interest Unit Fund		3,534	3,795
New Zealand Equity Unit Fund		310	1,604
Overseas Equity Unit Fund		81	1,308
		<u>3,925</u>	<u>6,707</u>
Net cash flows from investing activities		<u>43,926</u>	<u>28,835</u>
Net increase/(decrease) in cash held		9	(817)
Add opening cash brought forward		<u>3,366</u>	<u>4,183</u>
Closing cash carried forward³		<u>3,375</u>	<u>3,366</u>

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.

1 DESCRIPTION OF THE SCHEME AND FUNDING ARRANGEMENTS

The Scheme is a defined contribution scheme, governed by a Trust Deed. The Scheme is registered on the Disclose Register as required by the Financial Markets Conduct Act 2013 (FMCA). With respect to funding arrangements, the Scheme comprises two sections:

- Non Locked-in section (existing scheme)
- Locked-in section (complying superannuation fund)

1.1 NON LOCKED-IN SECTION

Under the terms of the Scheme Trust Deed, a contributor makes contributions to the non Locked-in section of the Scheme at a rate agreed between the contributor and the employer, provided the rate is not less than 1% of the contributor's basic remuneration, or \$10 per week, whichever is the lesser. An employer's contributions are made to the Scheme, in respect of a contributor, at a rate agreed by the employer with that contributor.

1.2 LOCKED-IN SECTION

For the Locked-in section of the Scheme, a contributor had to contribute at least 4% of base salary (before tax and excluding bonuses and allowances), and at least 2% of base salary from 1 April 2009. From 1 April 2013, the minimum employee contribution rate increased to 3%.

Until 1 April 2009, an employer had to also contribute at least 1 percent net of base salary, increasing to 2 percent from 1 April 2009. Employer Superannuation Contribution Tax (ESCT) did not apply. From 1 April 2012, ESCT applied to employer contributions and from 1 April 2013 employers were required to contribute 3 percent of base salaries (including ESCT).

1.3 GENERAL

Each year contributors are credited with an earnings rate, which is not less than 4 percent.

If a contributor elects to receive a pension; their membership, the liability to pay their pension (including any pension or other benefit contingently payable and any minimum payment) and assets to meet that liability are transferred to the National Provident Pension Scheme.

2 RELATED PARTIES

Under the terms of the National Provident Fund Restructuring Act (1990), the Board of Trustees of the National Provident Fund (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 (GAT), which holds the assets of all the 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 Strategy (refer note 3).

2 RELATED PARTIES (CONTINUED)

There were no transactions between the members of the Board as individuals and the Scheme. One member of management is a contributor to the Scheme as part of their normal employment contract with Annuitas (2017:2).

3 STRATEGIC ASSET ALLOCATION – INVESTMENT

The Scheme is authorised to invest in the Global Asset Trust (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. 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 Strategic Asset Allocations as at 31 March 2018 and 31 March 2017 are shown below.

	2018	2017
	%	%
Fixed Interest Unit Fund	60.0	60.0
New Zealand Equity Unit Fund	8.0	8.0
Overseas Equity Unit Fund	32.0	32.0

Pension National Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2018

4 INCOME FROM UNIT FUNDS

Income from unit funds is 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. The income per Unit Fund is as follows:

	2018 (\$000)	2017 (\$000)
Fixed Interest Unit Fund	12,277	14,457
New Zealand Equity Unit Fund	5,674	3,100
Overseas Equity Unit Fund	16,938	19,420
Income from unit funds*	34,889	36,977

* The income from unit funds 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.

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	63	90
Deductible expenses	(1,039)	(989)
Expense election to the GAT under section DV 2	976	899
Taxable income	-	-
Net income before tax and membership activities	33,918	36,078
Tax at 28%	9,497	10,102
Non-assessable income	(9,770)	(10,354)
Income tax credit	(273)	(252)
Represented by:		
Income tax credit on current year income	(273)	(252)
Prior year adjustment	-	-
Income tax credit	(273)	(252)

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.

The income of \$34.889 million (2017: \$36.977 million) from unit funds, shown on the Statement of Changes in Net Assets, is all received tax paid.

Pension National Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2018

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 unit funds of the GAT, with the remainder being settled by cash if applicable.

8 OTHER RECEIVABLES

Other receivables consist of:

	2018 (\$000)	2017 (\$000)
Member tax credits accrued at 31 March	28	36
Management fee refund	48	129
Total other receivables	<u>76</u>	<u>165</u>

The member tax credits, accrued at 31 March 2018, will be claimed from the Inland Revenue Department as part of a total member tax credit claim for the year ending 30 June 2018.

9 RECONCILIATION OF (DECREASE) IN LIABILITY FOR ACCRUED BENEFITS TO NET CASH FLOWS USED IN OPERATING ACTIVITIES

	2018 (\$000)	2017 (\$000)
(Decrease)/increase in liability for accrued benefits	(8,849)	6,850
Movements in working capital:		
Change in accounts payable	(294)	272
Change in other receivables	89	334
Change in contributions receivable	47	(129)
	<u>(158)</u>	<u>477</u>
Change in non-cash items		
Movement in receivable from the GAT	(21)	(2)
	<u>(21)</u>	<u>(2)</u>
Items classified as investing activities		
(Income) from unit funds	(34,889)	(36,977)
	<u>(34,889)</u>	<u>(36,977)</u>
Net cash flows used in operating activities	<u><u>(43,917)</u></u>	<u><u>(29,652)</u></u>

10 GUARANTEED BENEFITS

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

Pension National Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2018

11 UNALLOCATED RESERVES

The unallocated reserves are derived from: the net income after tax and before membership activities; earnings not allocated to contributors' total credits; and balances of any total credits not transferred or otherwise disbursed, in accordance with the provisions of the Scheme Trust Deed.

Movements in reserves during the year were as follows:

	2018	2017
	(\$000)	(\$000)
Reserves at beginning of year	41,932	38,131
Applied to transfers	(4,001)	(1,681)
Extinguished liabilities	(502)	161
Net income after tax for the year	34,191	36,330
Applied to exits	(1,849)	(869)
Applied to contributors' total credits	(28,116)	(30,140)
Reserves at end of year	<u>41,655</u>	<u>41,932</u>

Unallocated reserves may be distributed at the discretion of the Board, in accordance with the Scheme Trust Deed, principally for:

- Meeting all or part of contributors' or employers' contributions on an equitable basis.
- Increasing total credits of all contributors on an equitable basis.
- Providing benefits, other than retirement benefits, to all contributors on an equitable basis.
- Providing hardship benefits to contributors or their dependants.
- Paying Scheme expenses.

12 VESTED BENEFITS

The value of vested benefits is the value of the benefits contributors would have been entitled to if they left the Scheme. As at 31 March 2018, the transfer values of contributors exceeded their total credits. Therefore the value of vested benefits has been calculated, by the Actuary, as the amount that would have been payable if all contributors had transferred out of the Scheme on this date.

	2018	2017
	(\$000)	(\$000)
Value of vested benefits	508,787	524,211
Value of net assets	523,918	532,768

This table should be read in conjunction with note 10.

Pension National Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2018

13 ACTUARIAL VALUATION

The Scheme is a defined contribution scheme. As the Scheme has no pensioners, an actuarial valuation is not required under the Financial Markets Conduct Act (2013).

The National Provident Fund Restructuring Act (1990) does however require an actuarial examination to be undertaken every three years. The last examination was undertaken, as at 31 March 2015, and covered the three years 31 March 2012 to 31 March 2015.

The Actuary reported that the funding level of the Scheme increased from 105.1 percent to 108.2 percent over the three years to 31 March 2015. The valuation results were:

Valuation date	2015	2012
	(\$000)	(\$000)
Present value of –		
Total credits	491,395	475,531
Provision for extinguished liabilities	2,290	2,777
Reserves	40,607	24,315
Net assets	534,292	502,623
Funding level	108.2%	105.1%

14 FINANCIAL RISK MANAGEMENT

The Scheme invests in units of the GAT based on the Strategic Asset Allocation determined for the Scheme (see note 3 above). The unit funds hold quoted equity, 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.

More information on the disclosures under *NZ IFRS 13* and the risks mentioned above is provided in 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 Strategy appropriate for the Scheme's liabilities. 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 3.4 percent per annum. This is based on the Scheme's Strategic Asset Allocation Strategy as at 1 May 2018 and the long term rate of return for each asset class (after investment management, custody fees, and tax), and after deducting a provision for the Scheme's operating expenses (after tax).

If the long term rates of return for all of the asset classes in the Strategic Asset Allocation Strategy increased by 10 percent this would increase the investment return from 3.4 percent to 3.7 percent per annum. Similarly, if the long term rates of return for the asset classes in the Strategic Asset Allocation Strategy decreased by 10 percent, the investment return would decrease to 3.0 percent per annum. This would increase or decrease profit by approximately \$1.56 million.

14 FINANCIAL RISK MANAGEMENT (CONTINUED)

The earnings rate each year is determined with reference to the investment return, and is not less than 4.0 percent per annum as per the Scheme Trust Deed.

15 SUBSEQUENT EVENTS

The following subsequent event is to be noted:

On 1 May 2018 the Strategic Asset Allocation was changed. The benchmark asset allocation is now: 50 percent in the Fixed Interest Unit Fund (previously 60 percent), 40 percent in the Overseas Equity Unit Fund (previously 32 percent) and 10 percent in the New Zealand Equity Unit Fund (previously 8 percent).

16 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

16.1 BASIS OF PREPARATION

The financial statements have been prepared under the requirements of clause 50 of the Scheme Trust Deed and in accordance with the FMCA. For a description of the Scheme and its funding arrangements see note 1.

16.2 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.

16.3 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.

16.4 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).

16.5 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.

16.5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

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.

16.6 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 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.

16.7 FINANCIAL INSTRUMENTS

Financial instruments include both financial assets and financial liabilities.

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

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

16.8 RECOGNITION

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

16.9 MEASUREMENT

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

Financial assets classified as loans and receivables and 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.

16.10 IMPAIRMENT

Financial assets which 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 recoverable amount.

16.11 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.

16.12 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.

16.13 INVESTMENT INCOME RECOGNITION

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

16.14 EXPENSES

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

16.15 TAXATION

Any income or loss arising from the movement in the fair value of the unit funds 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).

16.16 CONTRIBUTIONS

Contributions are recognised in the Statement of Changes in Net Assets when they become receivable.

16.17 BENEFITS

Benefits are recognised in the Statement of Changes in Net Assets when a request for payment is made and all relevant criteria for payment has been met.

16.18 ACCRUED BENEFITS

The liability for accrued benefits is the Scheme's present obligation to pay benefits to contributors and beneficiaries. This has been calculated as the difference between the carrying amounts of the assets and the carrying amounts of the Scheme's liabilities, as at balance date.

**Pension National Scheme (the Scheme)
Trustee's Report
for the year ended 31 March 2018**

17 OTHER INFORMATION

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

17.1 SCHEME MEMBERSHIP

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

	Non Locked-in section	Locked-in section	Total
Opening membership as at 1 April 2017	2,789	142	2,931
Retirements	(240)	(7)	(247)
Withdrawals	(8)	-	(8)
Transfers	(86)	-	(86)
Deaths and disablements	(57)	(1)	(58)
Joins/re-joins	3	-	3
Reinstated extinguished liabilities*	133	-	133
Closing membership as at 31 March 2018	<u>2,534</u>	<u>134</u>	<u>2,668</u>

* Following a Trust Deed amendment on 5 April 2001, once reasonable efforts have been made to locate a member, who has been missing for at least five years, the Board may extinguish the liabilities to that member.

Where a person re-establishes contact with the Board within 15 years of the liabilities to that person being extinguished, the person is reinstated as a member of the Scheme.

As at 31 March 2018 there were 134 members in the Locked-in section, with assets amounting to \$11,484,000 (2017: \$10,672,000). There were eight retirements totalling \$1,009,232 and no members joined the Scheme during the year to 31 March 2018.

17.2 CONTRIBUTIONS RECEIVED AND BENEFITS PAID

On the basis of evidence available, the Board believes that all contributions required to be made to the Scheme, in accordance with the terms of the Scheme Trust Deed, have been made.

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.

17.3 VESTED BENEFITS

The Board, based on the advice of the Actuary, certifies that, as at 31 March 2018, the market value of the net assets of the Scheme exceeded the total value of vested benefits. The amounts are shown in note 12 to the financial statements.

17.4 INVESTMENT WITH PARTIES TO THE SCHEME

The Board confirms that, to the best of its knowledge, not more than 10% of the net market value of the Scheme assets were invested with employers (or associated entities), either directly or indirectly, who are parties to the Scheme.

17.5 EARNINGS RATE

The Scheme's earnings rate (crediting rate) declared by the Board for the year ended 31 March 2018 was 6.32 percent.

**Pension National Scheme (the Scheme)
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for the year ended 31 March 2018**

17.6 ADMINISTRATION FEES

Total Scheme administration fees are calculated on fee per member and fee per transaction bases, and are charged to the Scheme as a whole. As at 1 October 2017 the administration fees increased in line with inflation. The Board certifies it is satisfied the increase in the administration fee for the Scheme is not unreasonable. The Board is satisfied the total management fees charged to the Scheme are not unreasonable.

17.7 TRUST DEED

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

17.8 DIRECTORY

Trustee	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
Administration Manager	Datacom Connect Limited
Investment Managers	Fixed Interest Managers Ashmore Investment Management Limited Brandywine Global Investment Management, LLC Pacific Investment Management Company LLC Wellington Management Australia Pty Limited <i>(contract ended June 2018)</i> New Zealand Equity Managers Devon Funds Management Limited Harbour Asset Management Limited Overseas Equity Managers AQR Capital Management, LLC Arrowstreet Capital, Limited Partnership Lazard Asset Management, LLC Marathon Asset Management, LLP Foreign Exchange Hedging Managers ANZ Bank New Zealand Limited Bank of New Zealand Limited
Actuary	Christine D Ormrod, PricewaterhouseCoopers
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

**Pension National Scheme (the Scheme)
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for the year ended 31 March 2018**

17.9 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
P O Box 3390
WELLINGTON 6140

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 PENSION NATIONAL SCHEME'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

The Auditor-General is the auditor of Pension National 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 12, 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 12:

- 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 50 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 13 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.

A handwritten signature in black ink, appearing to read "Michael Wilkes".

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



Pension National 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

Datacom Connect Limited is the administrator of the NPF Schemes.

CONTACT DETAILS

You are welcome to contact Datacom 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 Datacom.

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
Datacom Connect Limited
P O Box 1036
WELLINGTON 6140

Email: npfenquiries@datacom.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