

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Financial Statements
For the year ended 31 March 2017

Contents	Page
Statements of Net Assets	1 - 2
Statements of Changes in Net Assets	3 - 4
Statements of Cash Flows	5 - 6
Notes to the Financial Statements	7 - 27
Independent Auditors' Report	28 - 30

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Statements of Net Assets
As at 31 March 2017

	Note	TOTAL		Cash		Conservative		Moderate	
		2017	2016	2017	2016	2017	2016	2017	2016
		\$	\$	\$	\$	\$	\$	\$	\$
ASSETS									
Cash and cash equivalents		848,327	529,640	3,212	3,201	21,180	7,462	16,472	16,375
Financial assets held at fair value through profit or loss	5	45,944,948	18,603,705	298,426	74,177	1,328,076	400,472	1,604,184	785,712
Portfolio Investment Entity taxation receivable		-	-	-	-	-	-	32,224	-
Total Assets		46,793,275	19,133,345	301,638	77,378	1,349,256	407,934	1,652,880	802,087
LIABILITIES									
Benefits payable		55,582	26,500	-	-	43,734	-	-	-
Unallocated contributions		151,982	119,048	1	167	1	161	4	-
Portfolio Investment Entity taxation payable		207,077	62,515	844	93	2,155	1,465	-	2,391
Investment management fees payable	6	9	1,788	9	10	-	38	-	74
Supervisor fees payable	6	14,999	15,000	97	88	434	318	524	618
Administration fees payable	6	5,446	5,072	39	38	136	94	203	196
Manager fees (expense recoveries) payable	6	16,462	13,490	107	54	476	290	575	570
Other expenses payable		14,370	-	93	-	415	-	502	-
Total Liabilities (excluding Net assets attributable to members)		465,927	243,413	1,190	450	47,351	2,366	1,808	3,849
NET ASSETS ATTRIBUTABLE TO MEMBERS	4	46,327,348	18,889,932	300,448	76,928	1,301,905	405,568	1,651,072	798,238
<i>Represented by:</i>									
Net assets available for benefits	4	46,327,348	18,889,932	300,448	76,928	1,301,905	405,568	1,651,072	798,238

The accompanying notes form part of and should be read in conjunction with these Financial Statements.

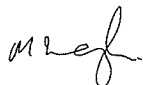
NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Statements of Net Assets
As at 31 March 2017

	Note	Balanced		Growth		High Growth		Shares	
		2017	2016	2017	2016	2017	2016	2017	2016
		\$	\$	\$	\$	\$	\$	\$	\$
ASSETS									
Cash and cash equivalents		490,618	291,267	199,015	116,892	87,074	54,665	30,756	39,778
Financial assets held at fair value through profit or loss	5	25,941,772	11,454,638	7,150,021	2,694,347	6,963,698	2,486,319	2,658,771	708,040
Portfolio Investment Entity taxation receivable		-	-	-	-	-	-	-	-
Total Assets		26,432,390	11,745,905	7,349,036	2,811,239	7,050,772	2,540,984	2,689,527	747,818
LIABILITIES									
Benefits payable		11,848	26,500	-	-	-	-	-	-
Unallocated contributions		19,915	38,561	131,680	60,336	323	1,952	58	17,871
Portfolio Investment Entity taxation payable		147,163	39,371	35,893	9,033	40,174	7,340	13,072	2,822
Investment management fees payable	6	-	1,078	-	285	-	236	-	67
Supervisor fees payable	6	8,469	9,047	2,334	2,390	2,273	1,978	868	561
Administration fees payable	6	3,271	3,256	775	635	712	623	310	230
Manager fees (expense recoveries) payable	6	9,294	8,306	2,562	1,954	2,495	1,803	953	513
Other expenses payable		8,114	-	2,236	-	2,178	-	832	-
Total Liabilities (excluding Net assets attributable to members)		208,074	126,119	175,480	74,633	48,155	13,932	16,093	22,064
NET ASSETS ATTRIBUTABLE TO MEMBERS	4	26,224,316	11,619,786	7,173,556	2,736,606	7,002,617	2,527,052	2,673,434	725,754
<i>Represented by:</i>									
Net assets available for benefits	4	26,224,316	11,619,786	7,173,556	2,736,606	7,002,617	2,527,052	2,673,434	725,754

These Financial Statements were authorised for issue by the Manager on 24 July 2017.

Mercer (N.Z.) Limited

For and on behalf of the Directors



Director



Director

The accompanying notes form part of and should be read in conjunction with these Financial Statements.

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Statements of Changes in Net Assets
For the year ended 31 March 2017

Note	TOTAL		Cash		Conservative		Moderate	
	Year ended 31 March 2017	6 months ended 31 March 2016	Year ended 31 March 2017	6 months ended 31 March 2016	Year ended 31 March 2017	6 months ended 31 March 2016	Year ended 31 March 2017	6 months ended 31 March 2016
	\$	\$	\$	\$	\$	\$	\$	\$
INCOME								
Interest income	13,429	6,208	87	25	388	134	469	262
Net gains on financial assets held at fair value through profit or loss	2,863,940	465,068	4,931	480	35,428	7,693	61,681	15,813
Refund of prior year investment management fees	1,645	-	7	-	39	-	64	-
Total income	2,879,014	471,276	5,025	505	35,855	7,827	62,214	16,075
EXPENSES								
Investment management fees	355	2,311	355	48	-	45	-	79
Supervisor fees	30,000	15,000	195	60	867	323	1,047	634
Manager fees (expense recoveries)	33,504	14,540	218	58	968	313	1,170	614
Other expenses	55,791	143	359	1	1,614	3	1,950	6
Total expenses	119,650	31,994	1,127	167	3,449	684	4,167	1,333
NET PROFIT BEFORE MEMBERSHIP ACTIVITIES	2,759,364	439,282	3,898	338	32,406	7,143	58,047	14,742
MEMBERSHIP ACTIVITIES:								
Contributions / Transfers In								
Member contributions	4,754,277	764,562	34,873	5,386	117,225	13,137	171,146	26,107
Employer contributions	3,180,247	478,655	23,288	3,058	73,617	7,037	107,090	13,516
Tax credits	565,850	109	5,804	109	11,990	-	21,016	-
Transfers in from other schemes	17,853,158	17,569,764	158,312	73,375	578,515	306,770	671,382	729,740
Transfers to/(from) funds	-	-	(1,358)	32,664	228,901	92,008	(14,690)	22,030
Total Contributions / Transfers In	26,353,532	18,813,090	220,919	114,592	1,010,248	418,952	955,944	791,393
Benefits/Transfers Out/Membership Expenses								
Benefits	(843,140)	(229,073)	-	(37,844)	(75,940)	(5,146)	(135,128)	(5,137)
Administration fees	(50,813)	(8,101)	(412)	(58)	(1,263)	(151)	(1,859)	(296)
Transfers out to other schemes	(568,133)	(61,014)	-	-	(66,776)	(13,727)	(19,276)	-
Portfolio investment entity taxation	(213,394)	(64,252)	(885)	(100)	(2,338)	(1,503)	(4,894)	(2,464)
Total Benefits / Transfers Out / Fees	(1,675,480)	(362,440)	(1,297)	(38,002)	(146,317)	(20,527)	(161,157)	(7,897)
Total transactions with members in their capacity as members	24,678,052	18,450,650	219,622	76,590	863,931	398,425	794,787	783,496
NET ASSETS ATTRIBUTABLE TO MEMBERS AT THE BEGINNING OF THE FINANCIAL YEAR/PERIOD	18,889,932	-	76,928	-	405,568	-	798,238	-
NET ASSETS ATTRIBUTABLE TO MEMBERS AT THE END OF THE FINANCIAL YEAR/PERIOD	46,327,348	18,889,932	300,448	76,928	1,301,905	405,568	1,651,072	798,238

The accompanying notes form part of and should be read in conjunction with these Financial Statements.

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Statements of Changes in Net Assets
For the year ended 31 March 2017

	Note	Balanced		Growth		High Growth		Shares	
		Year ended 31	6 months	Year ended 31	6 months	Year ended 31	6 months	Year ended 31	6 months
		March 2017	ended 31 March 2016	March 2017	ended 31 March 2016	March 2017	ended 31 March 2016	March 2017	ended 31 March 2016
		\$	\$	\$	\$	\$	\$	\$	
INCOME									
Interest income		7,585	3,822	2,089	899	2,034	830	777	236
Net gains on financial assets held at fair value through profit or loss	6	1,452,950	272,344	507,661	68,941	570,605	73,751	230,684	26,046
Refund of prior year investment management fees		990	-	222	-	264	-	59	-
Total income		1,461,525	276,166	509,972	69,840	572,903	74,581	231,520	26,282
EXPENSES									
Investment management fees	6	-	1,217	-	563	-	285	-	74
Supervisor fees	6	16,939	9,235	4,669	2,172	4,547	2,005	1,736	571
Manager fees (expense recoveries)	6	18,917	8,952	5,214	2,106	5,078	1,944	1,939	553
Other expenses		31,503	88	8,682	21	8,454	19	3,229	5
Total expenses		67,359	19,492	18,565	4,862	18,079	4,253	6,904	1,203
NET PROFIT BEFORE MEMBERSHIP ACTIVITIES		1,394,166	256,674	491,407	64,978	554,824	70,328	224,616	25,079
MEMBERSHIP ACTIVITIES:									
Contributions / Transfers In									
Member contributions		2,808,805	496,740	713,400	93,834	654,585	102,046	254,243	27,312
Employer contributions		1,953,619	324,066	447,841	56,065	415,393	57,732	159,399	17,181
Tax credits		340,141	-	77,013	-	78,776	-	31,110	-
Transfers in from other schemes	8	10,764,571	11,750,754	2,457,059	2,183,284	2,240,925	1,982,436	982,394	543,405
Transfers to/(from) funds		(1,715,998)	(1,015,248)	414,249	364,687	688,358	374,914	400,538	128,945
Total Contributions / Transfers In		14,151,138	11,556,312	4,109,562	2,697,870	4,078,037	2,517,128	1,827,684	716,843
Benefits/Transfers Out/Membership Expenses									
Benefits	7	(441,156)	(125,243)	(66,617)	(15,962)	(47,285)	(26,833)	(77,014)	(12,908)
Administration fees	6	(30,794)	(5,201)	(6,919)	(995)	(6,668)	(1,028)	(2,898)	(372)
Transfers out to other schemes		(354,992)	(22,316)	(53,607)	-	(62,212)	(24,971)	(11,270)	-
Portfolio investment entity taxation		(113,832)	(40,440)	(36,876)	(9,285)	(41,131)	(7,572)	(13,438)	(2,888)
Total Benefits / Transfers Out / Fees		(940,774)	(193,200)	(164,019)	(26,242)	(157,296)	(60,404)	(104,620)	(16,168)
Total transactions with members in their capacity as members		13,210,364	11,363,112	3,945,543	2,671,628	3,920,741	2,456,724	1,723,064	700,675
NET ASSETS ATTRIBUTABLE TO MEMBERS AT THE BEGINNING OF THE FINANCIAL YEAR/PERIOD		11,619,786	-	2,736,606	-	2,527,052	-	725,754	-
NET ASSETS ATTRIBUTABLE TO MEMBERS AT THE END OF THE FINANCIAL YEAR/PERIOD		26,224,316	11,619,786	7,173,556	2,736,606	7,002,617	2,527,052	2,673,434	725,754

The accompanying notes form part of and should be read in conjunction with these Financial Statements.

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Statements of Cash Flows
For the year ended 31 March 2017

	Note	TOTAL		Cash		Conservative		Moderate	
		Year ended 31 March 2017	6 months ended 31 March 2016	Year ended 31 March 2017	6 months ended 31 March 2016	Year ended 31 March 2017	6 months ended 31 March 2016	Year ended 31 March 2017	6 months ended 31 March 2016
		\$	\$	\$	\$	\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES									
Proceeds from sale of financial assets		541,248	235,844	69,118	30,198	156,241	42,348	242,418	47,108
Interest income		13,429	6,208	87	25	388	134	469	262
Other expenses paid		(101,954)	(1,193)	(617)	(5)	(2,732)	(26)	(3,754)	(50)
Payments for purchase of financial assets		(25,018,551)	(18,374,480)	(288,436)	(103,895)	(1,048,417)	(435,126)	(999,209)	(817,007)
Investment management fees		(489)	(523)	(349)	(10)	1	(12)	(10)	(21)
Net cash used in operating activities	9	(24,566,317)	(18,134,144)	(220,197)	(73,687)	(894,519)	(392,682)	(760,086)	(769,708)
CASH FLOWS FROM FINANCING ACTIVITIES									
Member contributions		4,754,277	764,562	34,873	5,386	117,225	13,137	171,146	26,107
Employer contributions		3,180,247	478,655	23,288	3,058	73,617	7,037	107,090	13,516
Tax credits		565,850	109	5,804	109	11,990	-	21,016	-
Unallocated contributions		32,934	119,048	(166)	167	(160)	161	4	-
Transfers In from other schemes		17,853,158	17,569,763	158,312	73,375	578,515	306,769	671,382	729,740
Portfolio investment entity taxation paid		(68,832)	(1,737)	(134)	(7)	(1,648)	(38)	(39,509)	(73)
Administration fees paid		(50,439)	(3,029)	(411)	(20)	(1,221)	(57)	(1,852)	(100)
Benefits paid		(814,058)	(202,573)	-	(37,844)	(32,206)	(5,146)	(135,128)	(5,137)
Transfers out to other schemes		(568,133)	(61,014)	-	-	(66,776)	(13,727)	(19,276)	-
Transfers from / (to) portfolios		-	-	(1,358)	32,664	228,901	92,008	(14,690)	22,030
Net cash from financing activities		24,885,004	18,663,784	220,208	76,888	908,237	400,144	760,183	786,083
Net increase/ (decrease) in cash and cash equivalents		318,687	529,640	11	3,201	13,718	7,462	97	16,375
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR/PERIOD		529,640	-	3,201	-	7,462	-	16,375	-
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR/PERIOD		848,327	529,640	3,212	3,201	21,180	7,462	16,472	16,375

The accompanying notes form part of and should be read in conjunction with these Financial Statements.

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Statements of Cash Flows
For the year ended 31 March 2017

	Note	Balanced		Growth		High Growth		Shares	
		Year ended 31 March 2017	6 months ended 31 March 2016	Year ended 31 March 2017	6 months ended 31 March 2016	Year ended 31 March 2017	6 months ended 31 March 2016	Year ended 31 March 2017	6 months ended 31 March 2016
		\$	\$	\$	\$	\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES									
Proceeds from sale of financial assets		165,000	42,000	38,239	87,402	-	45,785	106,605	8,355
Interest income		7,585	3,822	2,089	899	2,034	830	777	236
Other expenses paid		(58,835)	(734)	(15,777)	(173)	(14,914)	(160)	(5,325)	(45)
Payments for purchase of financial assets		(13,199,184)	(11,224,294)	(3,986,252)	(2,712,808)	(3,906,774)	(2,458,353)	(1,826,652)	(690,349)
Investment management fees		(88)	(327)	(63)	(60)	28	(76)	(8)	(17)
Net cash used in operating activities	9	(13,085,522)	(11,179,533)	(3,961,764)	(2,624,740)	(3,919,626)	(2,411,974)	(1,724,603)	(681,820)
CASH FLOWS FROM FINANCING ACTIVITIES									
Member contributions		2,808,805	496,740	713,400	93,834	654,585	102,046	254,243	27,312
Employer contributions		1,953,619	324,066	447,841	56,065	415,393	57,732	159,399	17,181
Tax credits		340,141	-	77,013	-	78,776	-	31,110	-
Unallocated contributions		(18,646)	38,561	71,344	60,336	(1,629)	1,952	(17,813)	17,871
Transfers In from other schemes		10,764,571	11,750,754	2,457,059	2,183,284	2,240,925	1,982,436	982,394	543,405
Portfolio investment entity taxation paid		(6,040)	(1,069)	(10,016)	(252)	(8,297)	(232)	(3,188)	(66)
Administration fees paid		(30,779)	(1,945)	(6,779)	(360)	(6,579)	(405)	(2,818)	(142)
Benefits paid		(455,808)	(98,743)	(66,617)	(15,962)	(47,285)	(26,833)	(77,014)	(12,908)
Transfers out to other schemes		(354,992)	(22,316)	(53,607)	-	(62,212)	(24,971)	(11,270)	-
Transfers from / (to) portfolios		(1,715,998)	(1,015,248)	414,249	364,687	688,358	374,914	400,538	128,945
Net cash from financing activities		13,284,873	11,470,800	4,043,887	2,741,632	3,952,035	2,466,639	1,715,581	721,598
Net increase/ (decrease) in cash and cash equivalents		199,351	291,267	82,123	116,892	32,409	54,665	(9,022)	39,778
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR/PERIOD		291,267	-	116,892	-	54,665	-	39,778	-
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR/PERIOD		490,618	291,267	199,015	116,892	87,074	54,665	30,756	39,778

The accompanying notes form part of and should be read in conjunction with these Financial Statements.

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Notes to the Financial Statements
For the year ended 31 March 2017

1 SCHEME DESCRIPTION

New Zealand Defence Force KiwiSaver scheme ("the Scheme") is a KiwiSaver Scheme registered under the KiwiSaver Act 2006. The Scheme was established by a Trust Deed on 16 September 2015. The Scheme is a defined contribution superannuation scheme and was established with the principal purpose of providing retirement benefits directly to natural persons within the New Zealand Defence Force community.

These financial statements are for the Scheme which comprises the following funds (together "the Funds"):

- Cash
- Conservative
- Moderate
- Balanced
- Growth
- High Growth
- Shares

The Scheme and the Funds invest in the following investment portfolios within Mercer Investment Trusts New Zealand ("MITNZ"):

Mercer Investment Trusts New Zealand

Mercer Diversified Trust

Investment Portfolio

- Mercer Balanced Portfolio
- Mercer Growth Portfolio
- Mercer High Growth Portfolio
- Mercer Moderate Portfolio
- Mercer Shares Portfolio
- Mercer Cash Portfolio (MNZCFIT)
- Mercer Cash Portfolio (MIT)

Mercer New Zealand Cash and Fixed Interest Trust (formerly known as Mercer New Zealand Fixed Interest Trust)

Mercer Infrastructure Trust (formerly known as Mercer Cash Trust)

During the year the Scheme transferred investments in Mercer Infrastructure Trust ("MIT") (formerly known as Mercer Cash Trust) to the Mercer New Zealand Cash and Fixed Interest Trust ("MNZCFIT") (formerly known as Mercer New Zealand Fixed Interest Trust).

Mercer (N.Z.) Limited ("Mercer") is the Manager and Issuer of the Scheme. Mercer is responsible for the management and administration of the Scheme, including responsibility for the preparation and issue of the Scheme's financial statements. The Manager's registered office is Level 18, 151 Queen Street, Auckland City, Auckland 1010.

BNP Paribas Fund Services Australasia Pty Ltd ("BNP Paribas") is the Custodian of the Scheme.

Trustees Executors Limited is the Supervisor of the Scheme and is licensed under the Financial Markets Supervisors Act 2011 to act as Supervisor in respect of the Scheme.

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Notes to the Financial Statements
For the year ended 31 March 2017

2 BASIS OF PREPARATION

The financial statements are being presented on a segregated fund basis in accordance with the requirements of the Financial Markets Conduct Act 2013 ("FMCA") Section 461A. Segregated fund reporting has also been applied to 31 March 2016 comparatives. The comparatives in the statement of changes in net assets, statement of cashflows and related notes are for the period 16 September 2015 to 31 March 2016. Therefore, they are not comparable with the the year ended 31 March 2017.

The assets of each Fund are the exclusive property of that Fund, and all liabilities incurred in relation to a Fund are the exclusive liabilities of that Fund. The Manager must ensure that the assets of a Fund are accounted for separately from other Funds and that the assets of one Fund are not available to meet the liabilities of any other Fund as stated in section 8.7 of the Trust Deed. The results and position reported for the Scheme is an aggregation of the result, position and cashflows of the Funds that make up the Scheme.

Statement of Compliance

The Scheme is the reporting entity. The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP") and the requirements of the KiwiSaver Act 2006, the Financial Markets Conduct Act 2013, the provisions of the Trust Deed and other relevant legislative requirements as appropriate for For-profit entities.

The Scheme is a Tier 1 entity and, as such, the financial statements comply with New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS"), other New Zealand accounting standards and authoritative notices as appropriate for For-profit entities. These financial statements also comply with International Financial Reporting Standards ("IFRS").

The financial statements were authorised for issue by the Manager, Mercer, on 24 July 2017.

Measurement Base

The measurement base adopted is that of historical cost modified by the revaluation of financial assets held at fair value through profit or loss.

Functional and Presentation Currency

The financial statements are presented in New Zealand dollars ("the presentation currency") which is the currency of the primary economic environment in which the Scheme operates (the "functional currency"). The financial statements are rounded to the nearest New Zealand dollar .

Assumptions, Estimates and Judgements

The preparation of the financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Scheme's accounting policies. There are no areas involving a higher degree of judgement or complexity, or areas where assumption and estimates are significant to the financial statements.

Duration of the Scheme

Clause 25 of the Trust Deed requires that the Scheme and each Member's Account will terminate at such time as:

- (i) the High Court, on the application of the Financial Markets Authority or the Supervisor, directs that the Scheme must be wound up; or
- (ii) the Manager, having obtained the Supervisor's and, where required by the Participation Agreement, the Participating Employer's written consent, determines; or
- (iii) where permitted by the Participation Agreement, the Participating Employer provides notice in writing to the Manager and to the Supervisor that the Scheme is to terminate.

Funding Policy

The Scheme is a defined contribution scheme as defined by the KiwiSaver Act 2006. Funding in the form of contributions is primarily received from three sources: members of the Scheme; employers of members of the Scheme; and the Government (in accordance with the provisions of the KiwiSaver Act 2006). A third party may contribute directly to the Scheme in respect of a Member such amounts as may be agreed from time to time between the Manager, the third party and the Member but only to the extent that the contribution: (a) is permitted under the KiwiSaver Act; and (b) is not covered by a preceding provision in Clause 6 of the Trust Deed. Members may contribute to the Scheme at varying designated additional contributions in excess of any salary or wage linked contributions. As of 31 March 2017, employer contribution rates are either 3% or greater of each relevant member's gross salary or wages (2016: Same).

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Notes to the Financial Statements
For the year ended 31 March 2017

3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies which have been adopted in the preparation of the financial statements are set out below. The accounting policies have been applied consistently to all periods, unless otherwise stated

(i) Income

Interest income

Interest income as recognised in the Statements of Changes in Net Assets is derived from cash at bank and is recognised using the effective interest method.

Changes in fair value of investments

Net gains or losses on financial assets held at fair value through profit or loss are calculated as the difference between fair value at sale, or at period end, and the fair value at the previous valuation point or weighted average cost for purchases during the year. This includes both realised and unrealised gains and losses, but does not include interest income and is net of any fees charged within underlying unit trust investments where these are incurred through a reduction in the value of the investment.

(ii) Financial Assets at Fair Value Through Profit or Loss

Classification

The Scheme designates its investment securities comprising investments in unlisted unit trusts as financial assets at fair value through profit or loss at inception.

Financial assets held at fair value through profit or loss are those that are managed and their performance evaluated on a fair value basis in accordance with the Scheme's documented investment strategy. The Scheme's policy is for the Manager to evaluate the information about these financial assets on a fair value basis together with other related financial information. As stated above, the Manager has determined that all financial assets of the Scheme are held at fair value through profit or loss with the exception of cash and cash equivalents, classified as loans and receivables.

Recognition and derecognition

Purchases and sales of investments are recognised on the trade date - the date on which the Scheme commits to purchase or sell the investment. Investments are derecognised when the rights to receive cash flows from the investment have expired or the Scheme has transferred substantially all risks and rewards of ownership.

Measurement

Financial assets held at fair value through profit or loss are initially recognised at fair value. Transaction costs are expensed in the Statements of Changes in Net Assets. Subsequent to initial recognition, all financial assets held at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the 'financial assets held at fair value through profit or loss' category are included in the Statements of Changes in Net Assets in the period in which they arise.

Fair value estimation

The fair value of units held by the Scheme in managed unlisted unit trusts is determined by reference to published bid prices at the close of business on the reporting date being the redemption price established by the underlying fund manager.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statements of Net Assets when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Notes to the Financial Statements
For the year ended 31 March 2017

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(iii) **Expenses**

Expenses comprise management fees, Supervisor fees, custody fees, management expense recoveries and other expenses. All expenses are accounted for on an accrual basis.

(iv) **Taxation**

The Scheme qualifies as, and has elected to be treated as, a Portfolio Investment Entity ("PIE") for tax purposes.

Under the PIE regime, the Manager attributes the taxable income of the Scheme to members in accordance with their proportionate interest in the Scheme. The income attributed to each member is taxed at the member's prescribed investor rate ("PIR") which is currently capped at 28%. The Manager accounts for tax on behalf of natural persons and certain other members and adjusts the members' interests in the Scheme to reflect that tax is paid at varying rates on behalf of the members. There is a unit price for each Fund and for each tax rate.

As the legislation regarding the taxation of PIEs provides that the Scheme pays tax on behalf of its members, the PIE taxation expense/(refund) disclosed in the Statements of Changes in Net Assets is the expense attributable to members and is measured based on tax rates applicable to those members.

The tax amounts in the Statements of Net Assets represent the remaining tax payable/(receivable) by the Scheme on behalf of the members under the PIE regime to 31 March each year.

(v) **Loans and Receivables**

Loans and receivables comprises cash at bank. Loans and receivables are initially recognised at fair value, being the amounts receivable. They are subsequently measured at amortised cost using the effective interest method, reduced for impairment as appropriate. Any impairment charge is recognised within expenses in the Statements of Changes in Net Assets.

(vi) **Payables**

Payables may include PIE tax payable, investment management fees, administration fees, other expenses, benefits payable and unallocated contributions. Payables are not interest-bearing and are initially stated at their fair value then subsequently measured at amortised cost using the effective interest method.

(vii) **Net Assets Attributable to Members**

The net assets attributable to members represents the liability for promised retirement benefits and are measured at amortised cost.

The Scheme issue units in the Fund that are redeemable at the Members' option and do not have identical features and are therefore classified as financial liabilities. The units can be put back to the Scheme at any time for the purpose of permitted withdrawals (such as reaching the retirement age of 65 or enduring significant hardship), transferred to another Fund within the Scheme or a separate KiwiSaver Scheme and which are equal to a proportionate share of the respective Fund's net asset value which is the redemption price. The fair value of redeemable units is measured at the redemption amount that is payable at the period end date if Members exercise their right to put the units back to the Scheme.

As stipulated in the Trust Deed, each unit represents a right to an individual share in the respective Fund and does not extend to a right in the underlying assets of the respective Fund. Separate classes of units are created within the Funds to reflect the different Prescribed Investment Rates (PIR) of the Members. Each Member's account is invested in classes of units within the relevant Funds based on the member's PIR that has been most recently notified to the Manager. Each unit of a specified class has the same rights attaching to it as all other units of the same class within the relevant Fund.

Units are issued and redeemed at the holder's option at prices based on the Funds' net asset value per class of unit at the time of issue or redemption. The Funds' net asset value per class of unit is calculated by dividing the net assets attributable to all holders of units in the same class for each Fund by the total number of units on issue of the same class in each Fund.

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Notes to the Financial Statements
For the year ended 31 March 2017

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(viii) Accounting Policy for Investment Entities

Whilst the Scheme has investments in a number of related party wholesale unlisted unit trusts, it has not prepared consolidated financial statements. The Scheme has determined that it is an investment entity under the definition in NZ IFRS 10 as it meets the following criteria:

- the Scheme has obtained funds from members for the purpose of providing them with investment management services;
- the Scheme's business purpose, which it communicated directly to unit holders, is investing solely for returns from capital appreciation; and
- the performance of investments made by the Scheme are measured and evaluated on a fair value basis.

The Scheme also meets all of the typical characteristics of an investment entity.

As a consequence, in the event the interest in the wholesale unlisted unit trusts gives rise to control, the Scheme is not required to consolidate these investments, and continues to account for these investments at fair value through profit or loss.

(ix) Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, cash at bank and deposits held at call with banks with an original maturity of three months or less.

(x) Statements of Cash Flows

Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from operating activities, as movements in the fair value of these securities represents the Scheme's main income generating activity.

The cash flows of the Scheme do not include those of the investment managers. The following are definitions of the terms used in the Statements of Cash Flows:

Operating activities - are those relating to the principal income-producing activities of the Scheme and other activities that are not financing activities. These include those cash flows relating to the acquisitions, holding and disposal of investments and investments in securities not falling within the definition of cash.

Financing activities - are those activities that result in changes in the size and composition of member's funds. This includes elements of members' funds not falling within the definition of cash.

(xi) Contributions and Withdrawals

Contributions and withdrawals are accounted for on an accruals basis. Contributions are initially recognised at fair value when the Manager has confirmed the validity of the application details and instructions. Claims for death, retirement or other benefits are recognised when the Member meets the condition required for withdrawal eligibility.

Unallocated contributions arise when monies have been received but not yet allocated to members' accounts in the administration system at balance date. Unallocated contributions are recorded at their value, being the amounts received, and units are purchased at the unit price applicable on the date of allocation to members' accounts.

(xii) Goods and Services Tax (GST)

The Scheme is not registered for GST and consequently all components of the financial statements are stated inclusive of GST where applicable.

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Notes to the Financial Statements
For the year ended 31 March 2017

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(xiii) Application of Accounting Standards

(a) New, amended standards and interpretations adopted by the Scheme:

The standards, amendments to existing standards and interpretations that are effective for the first time for the financial year beginning 1 April 2016 do not have a material impact on the Financial Statements of the Scheme.

(b) New standards, amendments and interpretations not yet adopted:

NZ IFRS 9: 'Financial Instruments' (Effective date: periods beginning on or after 1 January 2018)

NZ IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in NZ IAS 39 that relates to the classification and measurement of financial instruments. NZ IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Scheme intends to adopt NZ IFRS 9 on its effective date and has yet to assess its full impact.

There are no other new standards, amendments or interpretations that are expected to have an impact on the Scheme's financial statements.

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Notes to the Financial Statements
For the year ended 31 March 2017

4 VESTED BENEFITS

Vested benefits are the rights that, under the conditions of the Scheme's Trust Deed, are not conditional on continued membership.

All benefits are fully vested to members' accounts unless otherwise indicated in the notes.

	Total		Cash		Conservative		Moderate	
	2017	2016	2017	2016	2017	2016	2017	2016
	\$	\$	\$	\$	\$	\$	\$	\$
Member accounts	46,415,833	18,943,699	300,737	77,001	1,303,646	406,202	1,654,049	800,044
Adjustments arising from valuation differences	(88,485)	(53,767)	(289)	(73)	(1,741)	(634)	(2,977)	(1,806)
Net Assets Attributable to Members	46,327,348	18,889,932	300,448	76,928	1,301,905	405,568	1,651,072	798,238

	Balanced		Growth		High Growth		Shares	
	2017	2016	2017	2016	2017	2016	2017	2016
	\$	\$	\$	\$	\$	\$	\$	\$
Member accounts	26,272,288	11,649,726	7,187,538	2,744,974	7,017,640	2,536,552	2,679,935	729,200
Adjustments arising from valuation differences	(47,972)	(29,940)	(13,982)	(8,368)	(15,023)	(9,500)	(6,501)	(3,446)
Net Assets Attributable to Members	26,224,316	11,619,786	7,173,556	2,736,606	7,002,617	2,527,052	2,673,434	725,754

Valuation differences exist between the Net assets attributable to members and vested benefits. Net assets attributable to members are derived using accounting principles on an accruals basis resulting in timing differences in the settlement of certain accrued items and the impact thereof on unit pricing, whereas vested benefits are derived as the sum of individual member account balances, which are calculated using the 31 March unit prices.

No guarantees have been made in respect of any part of the Net Assets Attributable to Members.

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Notes to the Financial Statements
For the year ended 31 March 2017

5 FINANCIAL ASSETS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS

The Scheme held units in the following MITNZ Investment Portfolios:

	TOTAL		Cash		Conservative		Moderate	
	2017	2016	2017	2016	2017	2016	2017	2016
	\$	\$	\$	\$	\$	\$	\$	\$
Mercer Cash Portfolio (MIT)	-	74,177	-	74,177	-	-	-	-
Mercer Cash Portfolio (MNZCFIT)	298,426	-	298,426	-	-	-	-	-
Mercer Conservative Portfolio	1,328,076	400,472	-	-	1,328,076	400,472	-	-
Mercer Moderate Portfolio	1,604,184	785,712	-	-	-	-	1,604,184	785,712
Mercer Balanced Portfolio	25,941,772	11,454,638	-	-	-	-	-	-
Mercer Growth Portfolio	7,150,021	2,694,347	-	-	-	-	-	-
Mercer High Growth Portfolio	6,963,698	2,486,319	-	-	-	-	-	-
Mercer Shares Portfolio	2,658,771	708,040	-	-	-	-	-	-
Total financial assets held at Fair Value through profit or loss	45,944,948	18,603,705	298,426	74,177	1,328,076	400,472	1,604,184	785,712

Percentage of financial assets held in the relevant class of security for the Scheme:

1% 1% 3% 2% 3% 4%

Percentage of financial assets held in the relevant class of security for the respective Fund:

100% 100% 100% 100% 100% 100%

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Notes to the Financial Statements
For the year ended 31 March 2017

5 FINANCIAL ASSETS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS

	Balanced		Growth		High Growth		Shares	
	2017	2016	2017	2016	2017	2016	2017	2016
	\$	\$	\$	\$	\$	\$	\$	\$
Mercer Cash Portfolio (MIT)	-	-	-	-	-	-	-	-
Mercer Cash Portfolio (MNZCFIT)	-	-	-	-	-	-	-	-
Mercer Conservative Portfolio	-	-	-	-	-	-	-	-
Mercer Moderate Portfolio	-	-	-	-	-	-	-	-
Mercer Balanced Portfolio	25,941,772	11,454,638	-	-	-	-	-	-
Mercer Growth Portfolio	-	-	7,150,021	2,694,347	-	-	-	-
Mercer High Growth Portfolio	-	-	-	-	6,963,698	2,486,319	-	-
Mercer Shares Portfolio	-	-	-	-	-	-	2,658,771	708,040
Total financial assets held at Fair Value through profit or loss	25,941,772	11,454,638	7,150,021	2,694,347	6,963,698	2,486,319	2,658,771	708,040

Percentage of financial assets held in the relevant class of security for the Scheme:

	56%	62%	16%	14%	15%	13%	6%	4%
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Percentage of financial assets held in the relevant class of security for the respective Fund:

	100%	100%	100%	100%	100%	100%	100%	100%
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Fair Value Hierarchy

The Scheme's financial instruments carried at fair value are grouped into Levels 1 to 3 based upon the degree to which the fair value is observable. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as published prices being the redemption price established by the underlying fund manager) or indirectly (i.e., derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets held at fair value through profit or loss are classified as Level 2 under the fair value hierarchy as the fair value of these financial assets at balance date is determined using the last available redemption unit price of those funds. During the year there were no transfers of investments between levels.

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Notes to the Financial Statements
For the year ended 31 March 2017

6 RELATED PARTIES

Related parties comprise the Manager, the Supervisor and their related parties.

The Manager and Supervisor are entitled to remuneration from the Scheme. This is represented by the Investment management, Administration and Supervisor fees in the Statements of Changes in Net Assets. These are recovered through the cancellation of units for member fixed fees and a unit price adjustment for net asset based fees.

Subject to the Relevant Requirements, the Supervisor is entitled to be paid a fee for its services as supervisor as approved by the Manager and, where required by a Participation Agreement, the relevant Participating Employer and as from time to time disclosed in the Product Disclosure Statement ("PDS").

The minimum Trustees Executors Limited Supervisor fees per annum are \$30,000.

The fee rates for 2017 and 2016 are disclosed below:

Fund	Investment	Administration	Supervisor
	management	fee	fee
	fee	\$ per month	fee
	% p.a.	per member	% p.a.
Cash	0.320%	\$2.50	0.040%
Conservative	0.500%	\$2.50	0.040%
Moderate	0.590%	\$2.50	0.040%
Balanced	0.680%	\$2.50	0.040%
Growth	0.770%	\$2.50	0.040%
High Growth	0.820%	\$2.50	0.040%
Shares	0.900%	\$2.50	0.040%

Investment management fees incurred by the Scheme are deducted through two components:

- The first component comprises investment management fees charged at Mercer Investment Trusts New Zealand ("MITNZ") level, a series of wholesale investment trusts managed by Mercer as disclosed in Note 5. These investment management fees are incurred through a reduction in the MITNZ unit price. This is reflected within net gains on financial assets held at fair value through profit or loss in the Statements of Changes in Net Assets.
- The second component is fees deducted directly from the Scheme and invoiced by Mercer. These represent the balancing amounts of net asset based investment management fees once the deduction of fees in MITNZ are taken into account.

All related party transactions are conducted on normal commercial terms and conditions.

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Notes to the Financial Statements
For the year ended 31 March 2017

6 RELATED PARTIES (Continued)

Amounts paid to Mercer and Mercer Investments (New Zealand) Limited ("MINZL") for their services as investment manager and administrator including investment management fees paid to Mercer (N.Z.) Limited, other related and third parties via the MITNZ unit price and Supervisor fees for the year are disclosed below. As outlined in the Scheme's Trust Deed, the Manager is also entitled to be reimbursed for various fees and expenses incurred in acting as Manager. In the disclosure below these expenses are titled Manager fees (expense recoveries) and may include legal and other professional services, audit and tax fees and filing fees.

	Total		Cash		Conservative		Moderate	
	2017	2016	2017	2016	2017	2016	2017	2016
	\$	\$	\$	\$	\$	\$	\$	\$
Investment management fees								
Investment management fees expense to Mercer	355	2,311	355	48	-	45	-	79
Investment management fees expense to Mercer, other related and third party investment managers via MITNZ unit price	223,949	25,397	321	11	4,147	426	6,421	896
Total investment management fees	224,304	27,708	676	59	4,147	471	6,421	975
Administration fees								
Administration fees expense to Mercer	50,813	8,101	412	58	1,263	151	1,859	296
Supervisor fees								
Supervisor fees expense to Trustees Executors Limited	30,000	15,000	195	60	867	323	1,047	634
Manager fees (expense recoveries)								
Manager fees (expense recoveries) to Mercer	33,504	14,540	218	58	968	313	1,170	614
Total fees	338,621	65,349	1,501	235	7,245	1,258	10,497	2,519

	Balanced		Growth		High Growth		Shares	
	2017	2016	2017	2016	2017	2016	2017	2016
	\$	\$	\$	\$	\$	\$	\$	\$
Investment management fees								
Investment management fees expense to Mercer	-	1,217	-	563	-	285	-	74
Investment management fees expense to Mercer, other related and third party investment managers via MITNZ unit price	121,872	15,320	37,196	3,322	39,022	4,250	14,970	1,172
Total investment management fees	121,872	16,537	37,196	3,885	39,022	4,535	14,970	1,246
Administration fees								
Administration fees expense to Mercer	30,794	5,201	6,919	995	6,668	1,028	2,898	372
Supervisor fees								
Supervisor fees expense to Trustees Executors Limited	16,939	9,235	4,669	2,172	4,547	2,005	1,736	571
Manager fees (expense recoveries)								
Manager fees (expense recoveries) to Mercer	18,917	8,952	5,214	2,106	5,078	1,944	1,939	553
Total fees	188,522	39,925	53,998	9,158	55,315	9,512	21,543	2,742

The manager fee expense recoveries include legal and other professional fees. In the period to March 2016 the manager incurred expenses for setting up the Scheme, which were absorbed by the manager and not recharged to the Scheme.

Outstanding balances due to related parties are due within seven days and are not interest bearing.

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Notes to the Financial Statements
For the year ended 31 March 2017

6 RELATED PARTIES (Continued)

Amounts payable to Mercer as at 31 March are as follows:

Fund	Investment management fees		Administration fees		Manager fees (expense recoveries)		Supervisor fees	
	2017	2016	2017	2016	2017	2016	2017	2016
	\$	\$	\$	\$	\$	\$	\$	\$
Cash	9	10	39	38	107	54	97	88
Conservative	-	38	136	94	476	290	434	318
Moderate	-	74	203	196	575	570	524	618
Balanced	-	1,078	3,271	3,256	9,294	8,306	8,469	9,047
Growth	-	285	775	635	2,562	1,954	2,334	2,390
High Growth	-	236	712	623	2,495	1,803	2,273	1,978
Shares	-	67	310	230	953	513	868	561
Total	9	1,788	5,446	5,072	16,462	13,490	14,999	15,000

Investment in related parties

The Scheme invests in MITNZ. MINZL, a wholly owned subsidiary of Mercer, is the Trustee for the MITNZ. During the year no related entity was a member of the Scheme.

The Scheme holds the following financial assets in MITNZ:

	Opening Balance		Purchases		Sales		Net Change in Fair Value		Closing Balance	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Mercer Cash Portfolio (MIT)	74,177	-	163,116	103,895	(239,100)	(30,198)	1,807	480	-	74,177
Mercer Cash Portfolio (MNZCFIT)	-	-	341,020	-	(45,718)	-	3,124	-	298,426	-
Mercer Conservative Portfolio	400,472	-	1,048,417	435,126	(156,241)	(42,348)	35,428	7,693	1,328,076	400,472
Mercer Moderate Portfolio	785,712	-	999,209	817,007	(242,418)	(47,108)	61,681	15,813	1,604,184	785,712
Mercer Balanced Portfolio	11,454,638	-	13,199,184	11,224,294	(165,000)	(42,000)	1,452,950	272,344	25,941,772	11,454,638
Mercer Growth Portfolio	2,694,347	-	3,986,252	2,712,808	(38,239)	(87,402)	507,661	68,941	7,150,021	2,694,347
Mercer High Growth Portfolio	2,486,319	-	3,906,774	2,458,353	-	(45,785)	570,605	73,751	6,963,698	2,486,319
Mercer Shares Portfolio	708,040	-	1,826,652	690,349	(106,605)	(8,355)	230,684	26,046	2,658,771	708,040
Scheme Total	18,603,705	-	25,470,624	18,441,832	(993,321)	(303,196)	2,863,940	465,068	45,944,948	18,603,705

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Notes to the Financial Statements
For the year ended 31 March 2017

6 RELATED PARTIES (Continued)

Investment in related parties (Continued)

During the year the Scheme transacted the following purchases and sales between portfolios in the MITNZ:

	Purchases		Sales	
	2017	2016	2017	2016
	\$	\$	\$	\$
Mercer Cash Portfolio (MIT)	-	-	(236,873)	-
Mercer Cash Portfolio (MNZCFIT)	215,700	-	-	-
Mercer Conservative Portfolio	24,000	-	-	-
Mercer Moderate Portfolio	-	-	(50,200)	-
Mercer Balanced Portfolio	-	-	(165,000)	(42,000)
Mercer Growth Portfolio	60,000	18,000	-	(25,352)
Mercer High Growth Portfolio	110,200	49,352	-	-
Mercer Shares Portfolio	42,173	-	-	-
Total	452,073	67,352	(452,073)	(67,352)

7 BENEFITS

	TOTAL		Cash		Conservative		Moderate	
	2017	2016	2017	2016	2017	2016	2017	2016
	\$	\$	\$	\$	\$	\$	\$	\$
Retirement	-	-	-	-	-	-	-	-
Serious ill health	10,542	-	-	-	10,542	-	-	-
Death or disability	-	3,289	-	3,289	-	-	-	-
Significant financial hardship	21,916	-	-	-	-	-	-	-
First home assistance	810,682	225,784	-	34,555	65,398	5,146	135,128	5,137
Permanent emigration to Australia	-	-	-	-	-	-	-	-
Permanent emigration excluding Australia	-	-	-	-	-	-	-	-
Total	843,140	229,073	-	37,844	75,940	5,146	135,128	5,137

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Notes to the Financial Statements
For the year ended 31 March 2017

7 BENEFITS (Continued)

	Balanced		Growth		High Growth		Shares	
	2017	2016	2017	2016	2017	2016	2017	2016
	\$	\$	\$	\$	\$	\$	\$	\$
Retirement	-	-	-	-	-	-	-	-
Serious ill health	-	-	-	-	-	-	-	-
Death or disability	-	-	-	-	-	-	-	-
Significant financial hardship	9,770	-	4,601	-	5,747	-	1,798	-
First home assistance	431,386	125,243	62,016	15,962	41,538	26,833	75,216	12,908
Permanent emigration to Australia	-	-	-	-	-	-	-	-
Permanent emigration excluding Australia	-	-	-	-	-	-	-	-
Total	441,156	125,243	66,617	15,962	47,285	26,833	77,014	12,908

8 TRANSFERS IN FROM OTHER SCHEMES

	TOTAL		Cash		Conservative		Moderate	
	2017	2016	2017	2016	2017	2016	2017	2016
	\$	\$	\$	\$	\$	\$	\$	\$
Transfers from other KiwiSaver Schemes	15,662,148	16,167,334	158,312	70,854	510,713	298,619	637,661	607,260
Transfers from other superannuation schemes	1,940,893	1,402,430	-	2,521	67,802	8,151	33,721	122,480
Transfers from Trans-Tasman portability	250,117	-	-	-	-	-	-	-
Total	17,853,158	17,569,764	158,312	73,375	578,515	306,770	671,382	729,740

	Balanced		Growth		High Growth		Shares	
	2017	2016	2017	2016	2017	2016	2017	2016
	\$	\$	\$	\$	\$	\$	\$	\$
Transfers from other KiwiSaver Schemes	9,818,925	10,968,866	2,001,866	1,913,370	1,782,208	1,820,892	752,463	487,473
Transfers from other superannuation schemes	851,733	781,888	445,463	269,914	355,574	161,544	186,600	55,932
Transfers from Trans-Tasman portability	93,913	-	9,730	-	103,143	-	43,331	-
Total	10,764,571	11,750,754	2,457,059	2,183,284	2,240,925	1,982,436	982,394	543,405

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Notes to the Financial Statements
For the year ended 31 March 2017

9 RECONCILIATION OF NET PROFIT BEFORE MEMBERSHIP ACTIVITIES TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	TOTAL		Cash		Conservative		Moderate	
	2017	2016	2017	2016	2017	2016	2017	2016
	\$	\$	\$	\$	\$	\$	\$	\$
Net profit before membership activities	2,759,364	439,282	3,898	338	32,406	7,143	58,047	14,742
<i>Adjustments for:</i>								
Net gains on financial assets held at fair value through profit or loss	(2,863,940)	(465,068)	(4,931)	(480)	(35,428)	(7,693)	(61,681)	(15,813)
Proceeds from sale of financial assets	541,248	235,844	69,118	30,198	156,241	42,348	242,418	47,108
Payments for purchase of financial assets	(25,018,551)	(18,374,480)	(288,436)	(103,895)	(1,048,417)	(435,126)	(999,209)	(817,007)
<i>Changes in assets and liabilities:</i>								
Increase in liabilities (excluding portfolio investment entity tax payable, benefits payable and unallocated contributions)	15,562	30,278	154	152	679	646	339	1,262
Net Cash flows used in Operating Activities	(24,566,317)	(18,134,144)	(220,197)	(73,687)	(894,519)	(392,682)	(760,086)	(769,708)

	Balanced		Growth		High Growth		Shares	
	2017	2016	2017	2016	2017	2016	2017	2016
	\$	\$	\$	\$	\$	\$	\$	\$
Net profit before membership activities	1,394,166	256,674	491,407	64,978	554,824	70,328	224,616	25,079
<i>Adjustments for:</i>								
Net gains on financial assets held at fair value through profit or loss	(1,452,950)	(272,344)	(507,661)	(68,941)	(570,605)	(73,751)	(230,684)	(26,046)
Proceeds from sale of financial assets	165,000	42,000	38,239	87,402	-	45,785	106,605	8,355
Payments for purchase of financial assets	(13,199,184)	(11,224,294)	(3,986,252)	(2,712,808)	(3,906,774)	(2,458,353)	(1,826,652)	(690,349)
<i>Changes in assets and liabilities:</i>								
Increase in liabilities (excluding portfolio investment entity tax payable, benefits payable and unallocated contributions)	7,446	18,431	2,503	4,629	2,929	4,017	1,512	1,141
Net Cash flows used in Operating Activities	(13,085,522)	(11,179,533)	(3,961,764)	(2,624,740)	(3,919,626)	(2,411,974)	(1,724,603)	(681,820)

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Notes to the Financial Statements
For the year ended 31 March 2017

10 AUDITORS' REMUNERATION

During the reporting period, the following fees were paid or payable to the auditor of the Scheme. Audit fees for the Scheme may be recovered from the Manager for expenses incurred in acting as Manager (Refer note 8). The auditor of the Scheme is PricewaterhouseCoopers (PwC).

	TOTAL		Cash		Conservative		Moderate	
	2017	2016	2017	2016	2017	2016	2017	2016
	\$	\$	\$	\$	\$	\$	\$	\$
Audit fees for the audit of financial statements and registry testing	82,800	94,300	538	376	2,393	2,030	2,891	3,983
Tax Services - review of tax returns	4,667	5,463	30	22	135	118	163	231
Total	87,467	99,763	568	398	2,528	2,148	3,054	4,214

	Balanced		Growth		High Growth		Shares	
	2017	2016	2017	2016	2017	2016	2017	2016
	\$	\$	\$	\$	\$	\$	\$	\$
Audit fees for the audit of financial statements and registry testing	46,751	58,062	12,885	13,657	12,550	12,603	4,792	3,589
Tax Services - review of tax returns	2,636	3,363	726	791	707	730	270	208
Total	49,387	61,425	13,612	14,448	13,257	13,333	5,062	3,797

11 FINANCIAL RISK MANAGEMENT

The Scheme's financial assets are comprised of units in unlisted unit trusts which is exposed to equities, interest bearing securities, units in unit trusts and derivative financial instruments. The Manager has determined that these types of investments are appropriate for the Scheme and are in accordance with its investment objectives. The objectives of the Scheme are to achieve a return (over the medium to long term) which is competitive with comparable trusts that have similar risk characteristics; and to outperform the notional return of a benchmark portfolio of suitable market indices over periods of one year or greater.

The Scheme's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Scheme's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Scheme's financial performance.

The Manager has considered the above investment risks in constructing the asset portfolios of the Scheme and aims to manage those risks primarily through diversification, including using some or all of the following (as applicable):

- investing across different asset classes (to reduce market risk and liquidity risk);
- investing predominantly in unit trusts which, in turn, invest with a number of different portfolios managed by several investment managers;
- investing across different countries (to reduce market risk); and
- investing in a number of individual securities within each asset class.

Professional investment managers are appointed on a research-based process of selection to manage the assets of the MITNZ via a set of investment guidelines. Risk management activities are performed within the underlying investment portfolios, not at the Scheme level. The investment managers of underlying investment portfolios may use derivatives and other instruments, including share price and bond futures, interest rate swaps and forward currency contracts, to manage exposures resulting from changes in interest rates, foreign currencies, equity price risks and exposures from forecast transactions.

The New Zealand Defence Force KiwiSaver Scheme invests in MDT that in turn invests in other MITNZ investment portfolios and MNZCFIT (2016: The New Zealand Defence Force KiwiSaver Scheme invests in MDT that in turn invests in other MITNZ investment portfolios and MIT) . The investment in the MITNZ investment portfolios are directly exposed to market risk, credit risk and liquidity risk.

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Notes to the Financial Statements
For the year ended 31 March 2017

11 FINANCIAL RISK MANAGEMENT (Continued)

a) Market Risk

Market risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and price risk.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Market risk is minimised by the Manager through research and analysis of the investment mix within investment portfolios and ensuring that all investment activities are undertaken in accordance with established investment strategies. The Scheme's overall market positions are monitored by the Scheme's manager who uses research and analysis to form a view on these matters and then rebalances the investment mix of the investment portfolios to reduce the impact of market risk.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

The Scheme does not hold financial instruments denominated in currencies other than the New Zealand dollar, the functional currency. It is therefore not exposed to currency risk. Currency risk disclosure has been considered on the basis of the Scheme's direct investments and not on a look through basis for financial assets held indirectly through unit trusts. Consequently the Scheme may be exposed indirectly to currency risk where the Scheme has significant financial assets in unit trusts which have exposure to foreign currencies.

Exposure to currency risk is managed through hedging using derivative investments, which may include forward exchange contracts, within the underlying MITNZ investment portfolios.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The majority of the Scheme's financial assets are non-interest bearing. As a result, the Scheme is not subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates. Any excess cash and cash equivalents are invested at short-term market interest rates. Any sensitivity is immaterial.

Interest rate risk disclosures have been considered on the basis of the Scheme's direct investments and not on a look through basis for investments held indirectly through unit trusts. Consequently the Scheme may be exposed indirectly to interest rate risk where the Scheme has significant investments in unit trusts which have interest bearing securities.

Exposure to interest rate risk is managed through the use of derivatives, diversification in holdings and the duration of fixed interest investments within the underlying investment portfolios.

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Notes to the Financial Statements
For the year ended 31 March 2017

11 FINANCIAL RISK MANAGEMENT (Continued)

a) Market Risk (Continued)

Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market price (other than those arising from interest rate risk or currency risk). The Scheme's financial assets are susceptible to market price risk arising from uncertainties about future values of the financial assets which will directly affect net investment income.

As the majority of the Scheme's financial instruments are carried at fair value, all changes in market conditions will directly affect investment returns, recognised in the Statements of Changes in Net Assets. The Scheme's price risk is managed through diversification of the financial assets within the Fund and within the underlying investments in the MITNZ. In addition, price risk may be hedged using derivative financial instruments such as options or futures within the underlying MITNZ investment portfolios.

As at 31 March, the Scheme's exposure to market price risk through unlisted unit trusts was as follows:

Fund	TOTAL		TOTAL	
	2017 \$	2017 %	2016 \$	2016 %
Cash	298,426	1%	74,177	1%
Conservative	1,328,076	3%	400,472	2%
Moderate	1,604,184	3%	785,712	4%
Balanced	25,941,772	56%	11,454,638	62%
Growth	7,150,021	16%	2,694,347	14%
High Growth	6,963,698	15%	2,486,319	13%
Shares	2,658,771	6%	708,040	4%
Total Unlisted Unit Trusts	45,944,948	100%	18,603,705	100%

The table below shows the sensitivity to market price of the financial assets held at fair value through profit and loss, if all other variables were held constant and investment markets fluctuated by the percentages disclosed below.

Fund	2017				2016			
	Net profit before membership activities		Net Assets Attributable to Members		Net profit before membership activities		Net Assets Attributable to Members	
	10% increase	10% decrease	10% increase	10% decrease	10% increase	10% decrease	10% increase	10% decrease
	\$	\$	\$	\$	\$	\$	\$	\$
Cash	29,843	(29,843)	29,843	(29,843)	7,418	(7,418)	7,418	(7,418)
Conservative	132,808	(132,808)	132,808	(132,808)	40,047	(40,047)	40,047	(40,047)
Moderate	160,418	(160,418)	160,418	(160,418)	78,571	(78,571)	78,571	(78,571)
Balanced	2,594,177	(2,594,177)	2,594,177	(2,594,177)	1,145,464	(1,145,464)	1,145,464	(1,145,464)
Growth	715,002	(715,002)	715,002	(715,002)	269,435	(269,435)	269,435	(269,435)
High Growth	696,370	(696,370)	696,370	(696,370)	248,632	(248,632)	248,632	(248,632)
Shares	265,877	(265,877)	265,877	(265,877)	70,804	(70,804)	70,804	(70,804)
Total	4,594,495	(4,594,495)	4,594,495	(4,594,495)	1,860,371	(1,860,371)	1,860,371	(1,860,371)

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Notes to the Financial Statements
For the year ended 31 March 2017

11 FINANCIAL RISK MANAGEMENT (Continued)

b) Credit Risk

Credit risk represents the risk that the counterparty to the financial instrument will fail to discharge an obligation and cause the Scheme to incur a financial loss. The Scheme is exposed to counterparty credit risk on cash and cash equivalents. None of these assets are impaired nor past due (but not impaired) (2016:Same).

With respect to credit risk arising from the cash and cash equivalents of the Scheme, the Scheme's exposure to credit risk arises from default of the counterparty, with the current exposure equal to the carrying amount disclosed in the Statements of Net Assets. This represents the current maximum risk exposure at the reporting date.

Credit risk disclosure has been considered on the basis of the Scheme's direct investments and not on a look through basis for financial assets held indirectly through the MITNZ Portfolios. The investment manager of the MITNZ Investment Portfolio manage credit risk by establishing controls which are either specified in the Statement of Investment Policy Objectives or outlined in the Product Disclosure Statement/information memorandum of underlying unit trust investments that it makes. Credit risk limitations include diversification of investments over a wide range of asset classes, companies, industries and maturities within the underlying investment portfolios.

The Scheme's cash balances are held with Westpac New Zealand Limited (AA- rating, as measured by Standard & Poor's) (2016:Same).

c) Liquidity Risk

Liquidity risk is the risk that the Scheme will not be able to meet its financial obligations as they fall due. The Scheme's approach to managing liquidity is to ensure, as far as possible, that there will always be sufficient liquidity to meet liabilities when due, under normal and stressed conditions, without incurring unacceptable losses or risking damage to the Scheme's reputation.

The Scheme is exposed to daily cash redemptions of redeemable units.

The Scheme's liquidity risk is managed by investing in unlisted investment trusts which, in turn, invest in different asset classes and predominantly liquid assets.

Members are able to transfer their balances to another KiwiSaver Scheme at any time. As such, the liability for promised retirement benefits is deemed to be repayable on demand. All other financial liabilities of the Scheme are due within one month.

d) Capital Risk Management

The Scheme manages its Net assets attributable to Members as capital, notwithstanding Net assets attributable to Members is classified as a liability. The amounts of Members' funds can change significantly on a daily basis as the Funds can be transferred, withdrawn as set out in the conditions of the KiwiSaver Act 2006. The Scheme's objective when managing capital is to safeguard the Scheme's ability to continue as a going concern in order to provide returns for Members and to maintain a strong capital base to support the development of the investment activities of the Scheme. In order to maintain or adjust the capital structure, the Scheme's policy is to perform the following:

- a) monitor the level of daily applications and redemptions relative to the assets it is able to liquidate within seven days; and
- b) redeem and issue new units in accordance with the constitutional documents of the Scheme, which includes the ability to restrict redemptions in accordance with the KiwiSaver Act 2006. The Scheme does not have any externally imposed capital requirements.

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Notes to the Financial Statements
For the year ended 31 March 2017

11 FINANCIAL INSTRUMENTS BY CATEGORY

	TOTAL		Cash		Conservative		Moderate	
	2017	2016	2017	2016	2017	2016	2017	2016
	\$	\$	\$	\$	\$	\$	\$	\$
ASSETS								
Designated at fair value through profit or loss								
Financial assets	45,944,948	18,603,705	298,426	74,177	1,328,076	400,472	1,604,184	785,712
Total financial assets designated at fair value through profit or loss	45,944,948	18,603,705	298,426	74,177	1,328,076	400,472	1,604,184	785,712
Loans and Receivables								
Cash and cash equivalents	848,327	529,640	3,212	3,201	21,180	7,462	16,472	16,375
Total loans and receivables	848,327	529,640	3,212	3,201	21,180	7,462	16,472	16,375
Total assets	46,793,275	19,133,345	301,638	77,378	1,349,256	407,934	1,620,656	802,087
LIABILITIES								
Amortised Cost								
Investment management fees payable	9	1,788	9	10	-	38	-	74
Supervisor fees payable	14,999	15,000	97	88	434	318	524	618
Benefits payable	55,582	26,500	-	-	43,734	-	-	-
Unallocated contributions	151,982	119,048	1	167	1	161	4	-
Administration fees payable	5,446	5,072	39	38	136	94	203	196
Manager fees (expense recoveries) payable	16,462	13,490	107	54	476	290	575	570
Other expenses payable	14,370	-	93	-	415	-	502	-
Net assets attributable to members	46,327,348	18,889,932	300,448	76,928	1,301,905	405,568	1,651,072	798,238
Total liabilities	46,586,198	19,070,830	300,794	77,285	1,347,101	406,469	1,652,880	799,696

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Notes to the Financial Statements
For the year ended 31 March 2017

11 FINANCIAL INSTRUMENTS BY CATEGORY

	Balanced		Growth		High Growth		Shares	
	2017	2016	2017	2016	2017	2016	2017	2016
	\$	\$	\$	\$	\$	\$	\$	\$
ASSETS								
Designated at fair value through profit or loss								
Financial assets	25,941,772	11,454,638	7,150,021	2,694,347	6,963,698	2,486,319	2,658,771	708,040
through profit or loss	25,941,772	11,454,638	7,150,021	2,694,347	6,963,698	2,486,319	2,658,771	708,040
Loans and Receivables								
Cash and cash equivalents	490,618	291,267	199,015	116,892	87,074	54,665	30,756	39,778
Total loans and receivables	490,618	291,267	199,015	116,892	87,074	54,665	30,756	39,778
Total assets	26,432,390	11,745,905	7,349,036	2,811,239	7,050,772	2,540,984	2,689,527	747,818
LIABILITIES								
Amortised Cost								
Investment management fees payable	-	1,078	-	285	-	236	-	67
Supervisor fees payable	8,469	9,047	2,334	2,390	2,273	1,978	868	561
Benefits payable	11,848	26,500	-	-	-	-	-	-
Unallocated contributions	19,915	38,561	131,680	60,336	323	1,952	58	17,871
Administration fees payable	3,271	3,256	775	635	712	623	310	230
Manager fees (expense recoveries) payable	9,294	8,306	2,562	1,954	2,495	1,803	953	513
Other expenses payable	8,114	-	2,236	-	2,178	-	832	-
Net assets attributable to members	26,224,316	11,619,786	7,173,556	2,736,606	7,002,617	2,527,052	2,673,434	725,754
Total liabilities	26,285,227	11,706,534	7,313,143	2,802,206	7,010,598	2,533,644	2,676,455	744,996

At 31 March 2017 the carrying amount of cash and cash equivalents and liabilities at amortised cost approximates their fair value (2016: Same).

12 CONTINGENT LIABILITY, ASSET AND COMMITMENTS

There were no material contingent liabilities or commitments as at 31 March 2017 (2016: Same).

13 EVENTS AFTER BALANCE DATE

There have been no material events after balance date that require adjustment to or disclosure in the financial statements.



Independent auditor's report

To the members of New Zealand Defence Force KiwiSaver Scheme ("the Scheme") comprising the following Funds:

Cash
Conservative
Moderate
Balanced
Growth
High Growth
Shares

(Collectively referred to as the "Funds")

The Funds' and Scheme's financial statements comprise:

- the statements of net assets as at 31 March 2017;
- the statements of changes in net assets for the year then ended;
- the statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the Funds' and the Scheme's financial statements present fairly, in all material respects, the net assets of the Funds and the Scheme as at 31 March 2017, their changes in net assets and their cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

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

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



Our firm carries out other services for the Scheme in the areas of tax compliance and advisory services. The provision of these other services has not impaired our independence as auditor of the Scheme.

Information other than the financial statements and auditor's report

Mercer (N.Z.) Limited (the Manager) is responsible for the annual report.

Our opinion on the financial statements does not cover the other information included in the annual report and we do not, and will not, express any form of assurance conclusion on other information. At the time of our audit, there was no other information available to us.

In connection with our audit of the financial statements, if other information is included in the annual report, 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 in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of our auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Responsibilities of the Manager for the financial statements

The Manager is responsible for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Manager determines 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 each Fund's and the Scheme'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 Funds or the Scheme or to cease operations, or have 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 ISAs NZ and ISAs 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.



A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at: <https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-5/>

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Scheme's members, as a body. Our audit work has been undertaken so that we might state those matters which 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 Scheme's members, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Sam Shuttleworth.

For and on behalf of:

A handwritten signature in black ink that reads 'PricewaterhouseCoopers' in a cursive, stylized script.

Chartered Accountants
24 July 2017

Auckland