Public Trust

Annual Report for the year ended 30 June 2013

with you for
generations
to come

Public
Trust

Public Trust is required under the Public Trust Act 2001, to have the principal objective of operating as an effective business, and, to this end:

- be as efficient as comparable businesses that are not owned by the Crown
- prudently manage our assets and liabilities
- maintain financial viability in the long term
- be a good employer, and
- be an organisation that exhibits a sense of social responsibility by having regard to the interests of the communities in which we operate.

This report has been prepared to meet the requirements of:

- Section 150 of the Crown Entities Act 2004; and
- Public Trust's 2013 Statement of Intent.

It covers the activities for the year ended 30 June 2013. On behalf of the Board we have the pleasure of presenting the annual report of Public Trust for the year 1 July 2012 to 30 June 2013.

Sarah Roberts	Dinu Harry
Chair	*Chair, Risk Assurance and Audit Committee*

27 September 2013

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He Tangata!

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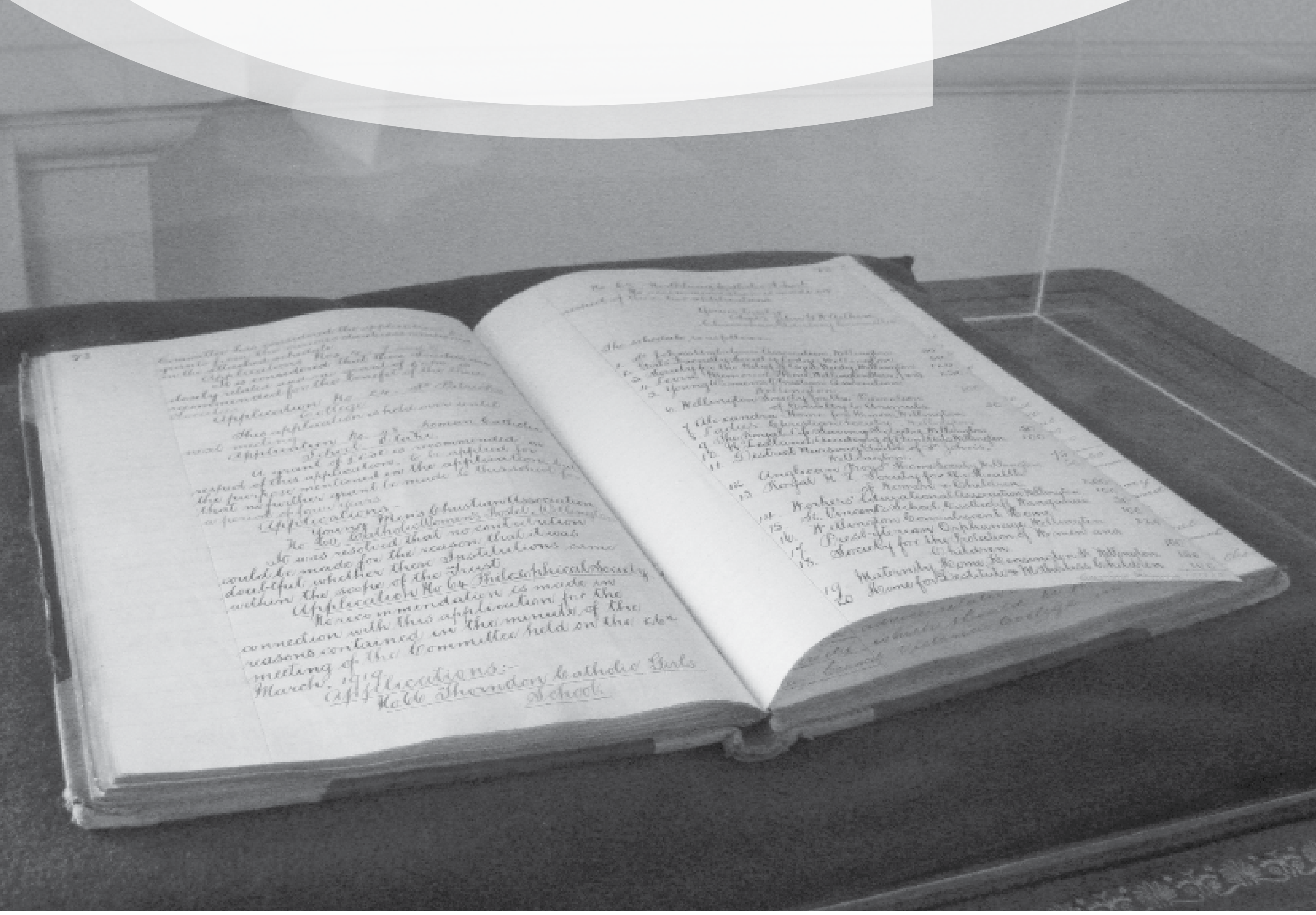
thing in this world?
It is People!
It is People!
It is People!

Foreword from the Chair



We live in a world of rapid and significant change – from evolving customer expectations, and increasing reliance on technology-driven service, to a more demanding regulatory and compliance environment.

Within Public Trust, we have experienced – and initiated – our own particular changes of real substance. From 1 July 2012, for the first time in almost 140 years, we began charging for Wills. This impacted both our customers and our business performance. Some Wills funding continued generally for those on lower incomes, but from 1 July 2013 this has also changed, with the Ministry of Justice ceasing support for any Wills. In response to this we have developed a simple Wills option for those who meet eligibility criteria.

In addition, we have accelerated our approach to changing the way we do our business. Over the last six months, we have taken lessons from earlier transformation planning and moved into the next phase of implementing a new business plan. We established a dedicated Business Implementation team to ensure orderly and effective introduction of our change and improvement initiatives.

We remain committed to the social responsibility component of our charter and have worked closely with the Ministry of Justice to construct a new Agreement under which the Crown funds a range of non-commercial protective fiduciary services provided by Public Trust. This new format provides a more relevant basis for the Crown to pay for the critical services that we provide to those who may not otherwise be able to access them.

In 2012/13 we made a net profit after tax of $7.8 million, largely driven by the reversal of investment losses. This is an increase on the 2011/12 year of $0.7 million, and has strengthened our equity position to $37.6 million from $28.8 million.

We have been operating under an exemption to the minimum capital ratio requirement of the Non-Bank

Deposit Takers regime. Our exemption expires on 1 December 2013. In order to meet a higher capital ratio thereafter, we have commenced a programme of selling some investments that were acquired pre-global financial crisis and have limited our involvement in mortgage lending. For the same reasons, we have sought alternative investment opportunities for funds that have historically been placed on term deposit directly with us. In many respects this is a counterintuitive move, but it is a consequence of the way our business has been constructed in the regulated environment.

We have taken the decision to refine our investment offering. This will enable us to focus on the needs of our core fiduciary customers. This strategic change is designed to provide a more efficient and simplified service to our customers, and will also significantly reduce the number of managed funds we offer, reducing cost and risk.

Legislative change has also been to the forefront in the year under review. Most significant has been the preparatory work to accommodate new anti-money laundering legislation. Over the course of our implementation of an Anti-Money Laundering/Countering Financing of Terrorism Programme we have trained staff to capture and report customer identification details and monitor suspicious transactions. By joining the national and global effort to prevent money laundering and terrorist financing, we are also able to ensure we are better positioned to protect our customers and Public Trust's reputation from financial crime.

In May 2013 Parliament passed the Trustee (Public Trust) Amendment Act which protects Public Trust from having to bear the costs of an appointment to replace a securities trustee. The amendment was designed to alleviate a possible floodgate effect following the Capital+Merchant case that went before the courts to determine responsibility for trustee of last resort costs. This is an interim measure until the Financial Markets Conduct Bill comes into force, which contains its own regime for dealing with the replacement of a trustee of an investment product.

The demand for, and opportunity to provide, improved information for customers continues to accelerate. Our technological capabilities need upgrading and some important platforms we rely on will no longer be supported from early in the 2014 calendar year. This means we must invest in alternative technology. We have done a lot of work to identify and develop a plan to selectively invest in systems upgrades and modernisation.

The Minister responsible for Public Trust has initiated a review of our business operations by a suitably qualified independent consultant. This review will involve analysis by sector, entity and public policy. The requirement is for that review to be presented to Treasury by the end of October and we expect to work closely with Treasury on any recommendations arising.

Operating in this environment, strong and incisive governance is paramount and I am most appreciative of the contribution of my fellow Board Members. Regrettably for Public Trust, Chair Trevor Janes, and Deputy Chair Robin Hill, and Hinerangi Raumati retired during the year. All will be missed. Trevor – for his leadership of the Board, and Robin – a long serving deputy and Chair of our Risk, Assurance & Audit Committee, deserve special recognition and acknowledgement. The Board and business thank the retiring Members for their service.

We were pleased to welcome Graeme Hansen in a permanent capacity as our Chief Executive. Neither he nor the Board underestimate the task that he has in leading our business into the future. We appreciate his dedication and energy.

Public Trust starts the 2013/2014 financial year with a new management structure and a commitment to concentrate on our core services. We are determined to ensure the protection, management and intergenerational transfer of property, possessions and treasures for New Zealanders. We have a motivated staff and senior executive who have shown flexibility and commitment over the past year. We thank them for that and look forward to their continuing endeavours in the year ahead.

With clarity of purpose and commitment to delivering a cost-effective and customer-centric service, we will at all times strive to be a vibrant, focused and efficient business for the benefit of our customers and stakeholders.

Sarah Roberts
Chair

27 September 2013

Report from the Chief Executive

Public Trust Basketball Team. Whites Aviation Ltd :Photographs. Ref: WA-15917a-G. Alexander Turnbull Library, Wellington, New Zealand.

Established in 1873, Public Trust is New Zealand's largest and oldest trustee organisation. Our services help protect, manage and enhance the intergenerational transfer of property, possessions and treasures for New Zealanders. In recognition that these are our strengths we have gone back to the future and focused our reorganisation on our core activities and responsibilities. We are basing our outlook on a return to our roots – the provision of trustee and estate management services. This is our role as stated in the Public Trust Act 2001, and where we add the most value for future generations of New Zealanders.

In recent years we have not always performed to best effect as a business and as a service provider. Our people do many things fabulously well every day. But we do not do some things as well as our customers deserve. We have recognised this and have initiated improvement and change programmes to lift our overall performance.

The financial result for 2012/13 was a net profit of $7.8 million. Significant contributing factors were:

- An increase in Common Fund revenue; up $1.7 million on last year. This includes $1.1 million from the reversal of previously recognised unrealised investment losses following a restructure of certain securities. The favourable variance is also driven by improved margins and a higher-than-expected customer preference for the security of the Government guarantee.
- Operating costs of $58.6 million, which included a $1.2 million software development write-off following impairment testing of our PACman system. This reflects changed future cash flow projections and useful life.
- Excluding the software write-off our operating costs were $2.3 million less than last year. This was achieved through tight cost control and a reduction in staff over the course of the year.
- A decline in fee revenue of $3.7 million. The impact of charging for Wills has been much greater than anticipated at the time that charging was introduced on

1 July 2012. This had an impact on volumes of both new Wills and re-writes. Wills revenue is $1.3 million below budget, and because Wills appointments often result in cross-sales of other services, we have had lower fee revenues in those areas as well.

- Strategic change costs coming in $1.5 million below budget. We chose to reflect on and refine our strategy, and consult on the management restructure that will support it. The new corporate structure was implemented on 1 July 2013.
- Reduced mortgage losses as a result of the improved quality of our mortgage book.
- Realisation of $10.2 million in reversals of previously recognised investment losses, and the sale of some legacy assets.
- Insurance recoveries of $1.5 million following damage sustained in the Christchurch earthquakes.

Wills funding from the Ministry of Justice was reduced from 1 July 2012, at which time it was signalled that all funding for Wills would cease from 1 July 2013. In preparation for this we have developed a simple Will approach, primarily as a discounted online service, but also available if needed through our Customer and Contact Centres. A new online questionnaire has been developed to allow customers to determine whether they meet the criteria.

The Ministry of Justice continues to fund the other non-commercial protective fiduciary services provided by Public Trust, as is described in detail on pages 21-28 of this Annual Report.

We take very seriously our corporate responsibility to customers and staff. During the year, we introduced new internal procedures around complaints lodged by customers. We also reviewed our participation in the Insurance and Savings Ombudsman Scheme and have elected to continue with that scheme as our independent provider for complaints investigations. The ISO can – where necessary – investigate complaints relating to Public Trust's non-financial services on a case-by-case basis.

We also reviewed our Health and Safety programme following the findings of the Independent Taskforce on Health and Safety. We provide trustee and estate services in a range of environments, including office buildings, customers' homes and places of business; and also administer a number of farms throughout New Zealand. Our health, safety and welfare responsibilities are diverse and we continually monitor procedures for areas of improvement and development.

We know what we need to do to ensure Public Trust is a relevant and vigorous business. We will concentrate on our core estate and trustee services. In going back to the future, we are making some substantial investments – both commercially and in our organisational culture.

We are reaching a critical point in the lifespan of some of our IT platforms. It is vital that we make a significant investment in technology so that we can provide a more simple and better service to our customers through a choice of channels. We also need to reduce complexity in our processing of customer transactions. As part of our approach to that investment, we have made a strategic decision to purchase and adapt proven systems rather than building and customising our own.

Our cultural change is centred on the way we apply our deep knowledge of trustee and estate matters, and our enduring presence and reliability, and the empathy so necessary for customers. To support this, on 1 July 2013, we re-organised our business into three customer groups Retail, Business and Corporate Trustee Services.

The Retail Customers Unit brings our trustee and estate capabilities closer to the customer, and takes advantage of our national coverage and scale.

The Business Customers Unit is comprised of dedicated teams in specialist trustee and estate areas such as investment management, fee protect, charitable trusts and farms; and includes a senior trustee team who provide cross-business advice on complex matters.

Our Corporate Trustee Services team is highly experienced and well-regarded. CTS supervises over $40 billion of assets on behalf of corporate, business and retail investors.

I would like to acknowledge the dedication of our management and staff who, despite the demands of the change they are experiencing, continue to deliver on our purpose. It is with this determination and long history of supporting New Zealanders that we are committed to ensuring a relevant and sustainable future for Public Trust.

Graeme Hansen
Chief Executive

27 September 2013

Who we are

Our business

Public Trust's core business is to protect, manage, grow and enhance the intergenerational transfer of property, possessions and treasures of New Zealanders.

Estate planning and administration

We are best known for carrying out estate planning and administration services. We administer more estates than any other organisation in New Zealand. We are the single largest provider of Wills in New Zealand.

Trustee services

We have a long history of providing permanency in the provision of trustee services.

We offer a variety of trustee services to our retail customers that safeguard assets and ensure there are plans in place for future generations.

We also work with business and corporate customers, including charitable trusts and term estates. We act as independent trustee for other investment schemes, through our Corporate Trustee Services business.

We safeguard student fees on behalf of private training establishments through our 'Fee Protect' services.

Investment management services

We provide investment management services for a range of customers.

The Public Trust Common Fund is government guaranteed. Strict investment guidelines apply to our management of this fund. Our term deposit customers now have the option of investing externally with higher returns or retaining their investment in our Common Fund.

Public Trust administers a number of farms including Smedley Station, New Zealand's largest training farm.

Personal management services

Our personal management services are tailored to help people manage their financial and property matters. This could include, for example, paying bills, managing bank accounts, buying or selling assets, arranging home repairs and applying for pensions.

Non-commercial protective fiduciary services

The Public Trust Act 2001 requires us to be as efficient as comparable businesses that are not owned by the Crown. However, we also provide services for the Ministry of Justice. These are known as non-commercial protective fiduciary services.

Under the Act, we are required to exhibit a sense of social responsibility in undertaking our activities. We must ensure that all New Zealanders have access to effective and efficient last resort fiduciary protective services. In this role, we have these responsibilities:

- Act as Trustee of Last Resort – various statutes require us to provide fiduciary services when there is no other provider, or other providers are deemed to be not appropriate.
- Assistance – we assist individuals who are not in a position to look after their own affairs. There are 15 statutory Acts where we act on behalf of those unable to look after their own affairs. In many cases Public Trust is the sole designated provider.
- Protective Fiduciary Services – we provide services to those who otherwise could not afford them. Protective fiduciary services are focused on funded services for customers with low liquid assets or low value estates where the value is insufficient to sustain normal commercial charges.
- Protect Personal Property Rights – we help to define and protect personal property rights. We act to minimise costs associated with ill-defined property rights.

Our people

Workplace Profile
As at 30 June 2013

Total employees	398
Gender	
Women	63%
Men	37%
Ethnicity	
Maori	3%
Pacific Peoples	2%
NZ European	87%
Other Ethnicity	8%
Age	
20-29	9%
30-39	15%
40-49	34%
50-59	30%
60+	12%
Disability	7%
Part-time	9 %

Perspectives

Our people – whether engaging directly or indirectly with customers – work in an emotionally demanding and rewarding business. We work with people looking to build and protect families and communities. Our customers want the same things for those people as we do.

We asked some of our staff for their perspective on who we are at Public Trust, and why it is rewarding to do what we do.

"I always try to stress to staff working in the 'backroom' that there is a story or connection behind every asset they deal with – a car is not just a car, it has a whole series of family stories attached to it. This is a people business. I still get a great deal of satisfaction when I close an estate and know that we have done a good job. We have helped a family through a time of grief, and helped bring things to a closure. We draw to a close a lifetime of activity." — *Jim*

"I know in my situation my Will has nothing to do with my assets, but everything to do with my children. I know I am not alone in finding it most difficult dealing with how my children should be looked after in the event of my and my husband's death before they reach adulthood. Personally, I think Wills are about the people we love and want to protect, not the assets." — *Cathy*

"When dealing with clients I try and treat them like I would like my parents to be treated. That way I know that every customer I see receives the best level of service I can give." — *Steve*

"It is a privilege to work with our clients and their families. I see people at their best times – such as having a new child or purchasing a new house – and their worst times, when they have lost a loved one. I always remember I am dealing with people, not just another number or file. I am proud to come to work and to be able to help at either of these times. It is so rewarding to know that I may have helped in some way." — *Shelley*

Organisation capability

Good employer

Public Trust operates employment policies and programmes aimed at being a good employer. Public Trust's human resources policies address structural discrimination and bias in employment and are reviewed annually.

We recognise that a continued focus on people and culture is a critical success factor for the organisation. To deliver to our customers and increase revenue, we require a high-performing and engaged workforce where all employees work to high standards.

In 2012/13 a focus of the human resources plan has been to support the growth of our people capability and culture through continued investment in recruitment of talent, learning and development, growth in level of performance, talent management and succession planning.

Leadership

Leadership development continues to be a priority. Managers and employees who are identified as having leadership potential are invited to take part in our Leading the Way programme, building leadership capability throughout Public Trust.

The focus on succession for key leadership roles has continued. In addition to the succession planning and talent management discussions for all Public Trust leaders, 360 degree feedback is also conducted for all our level 3 managers. This has enabled targeted development plans to be put in place.

Recruitment, selection and induction

In 2012/13 we refreshed our recruitment strategy. Our new processes are faster, thorough and targeted at the skills and capability we need to deliver our strategic plan.

We have managed our level of recruitment very carefully, advertising 49 permanent roles this year. Internal candidates filled 26 of those roles.

Induction was completed for 95% of new employees. We conduct post-induction interviews three months after new employees start to ensure that they have everything they need to be successful and to inform on-going improvements in our workplace. Last year 89% described their induction experience as positive. Public Trust's turnover of new joiners decreased by 20% over 2012/13.

Development, remuneration and recognition

Public Trust has continued to invest in the development of our people. Our talent management and succession planning programme was implemented across all positions and employees in Public Trust in the 2012/13 year. A revised performance assessment process was introduced during the year, with an emphasis on "not just what you do but how you do it". It assists individuals to identify the skills and capabilities needed to progress their career. A priority for 2013/14 will be individualised performance management programmes with a focus on consistent customer-focused behaviour.

There is a clear framework for management decision-making about what we reward and why. This framework is open and transparent to all employees through a career map, published on our intranet.

Our remuneration strategy has enabled Public Trust to reward our talent and is fiscally responsible.

Flexibility and work design

Public Trust continues to offer flexible working practices, balanced with our business priorities. Employees can access the Public Trust email system and their desk-top from home. Part-time work, flexible working hours and casual arrangements are available to all who are interested, subject to the nature of their job. This particularly suits those returning to the workforce from parental leave, or who are preparing for retirement.

Internal communication

Our 2011/12 employee engagement survey identified internal communication as an area that needed significant improvement. In response we developed and implemented a new intranet in 2012/13. The intranet enables employees to have better access to information, up to date organisational developments and an improved understanding of the different business units and their functions.

The 2012/13 employee engagement survey has been deferred pending restructuring and related consultation processes.

Health and Safety

The health and safety of our staff and customers is paramount. We have built on our Health and Safety Framework this year, and continue to follow up on hazards and any specific issues identified by staff and management.

We had 40 reported incidents this year, all of which have been resolved.

In response to the findings of the Independent Taskforce on Workplace Health and Safety, planning for an enhanced hazard identification programme for 2013/14 is underway.

Public Trust maintains a zero tolerance policy towards bullying or harassment of any kind. Education through managers is supported by appropriate investigation and disciplinary action.

What we do

Public Trust staff picnic, Days Bay 1921. Photo courtesy of Archives New Zealand.

Our operating environment

The global and domestic economies

Over its 140 year history Pubic Trust has carried on its business through fluctuations of economic expansion and contraction, and through periods of war and other hardships.

The most recent financial crisis peaked in 2009. Following some challenging after-effects the recovery of our domestic economy picked up pace at the end of 2012. The Canterbury rebuild and growth in Auckland are expected to provide some uplift, and households are now assumed to be broadly comfortable with their financial position. Global policies will continue to play a key role in influencing New Zealand interest rates.

As a result of finance company defaults and other confidence-sapping events, and the global financial crisis, the public's appetite for risk remains guarded. Consumers are looking for an organisation that can deliver value for money, transparency and, most importantly, is trustworthy.

Demographic and social trends

New Zealand's population continues to age and both life expectancy and the retirement age have increased. However, our ageing population is more active, better informed and increasingly technologically savvy. Growth in internet use is strong, and will increase with improved broadband accessibility and performance.

Increasingly, New Zealanders expect to conduct their affairs electronically and require service providers to offer greater flexibility.

We are responding to these changing expectations. At the same time, there are sensitive aspects to the nature of our business that will continue to require intimate and often face-to-face relationships with customers. We will be flexible in our approach to accommodate these needs.

Regulatory environment

We operate in an environment that is subject to significant regulatory control and reform. The level of regulatory change has been substantial and will continue to be, with new legislation, regulations, guidance notes and amendments to existing legislation. The level of change brings greater complexity, additional compliance obligations and cost, and increased risk.

Our exemption to the Reserve Bank of New Zealand's Non-Bank Deposit Takers' regime expires on 1 December. As at that date we will be required to meet a higher capital ratio than before. We are working with the Reserve Bank on the ratio to apply from 1 December and will continue to manage our balance sheet to exceed the minimum requirement.

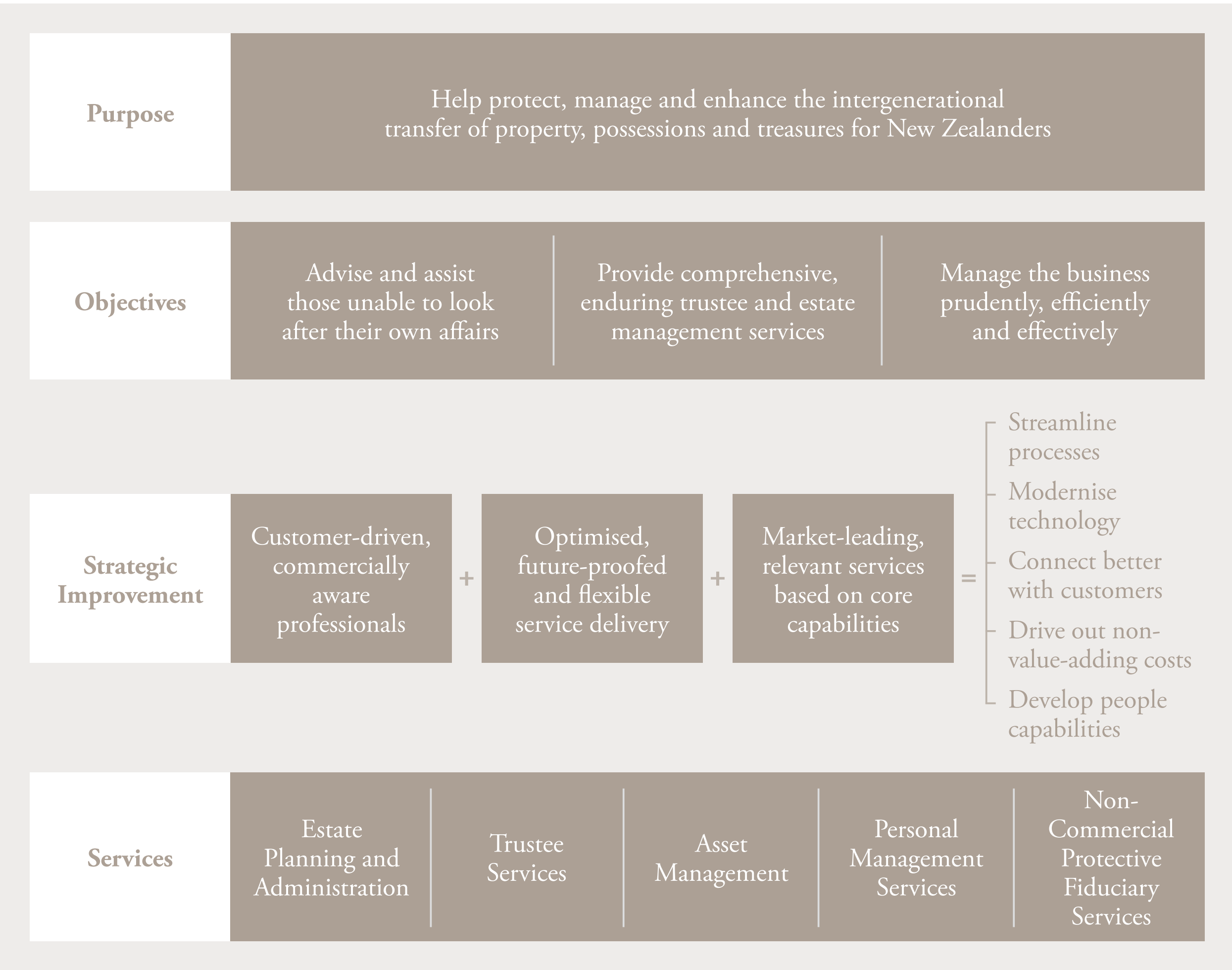
The Financial Markets Conduct Bill is expected to result in changes to how we offer some of our financial services to the public and we must ensure compliance with the Anti-Money Laundering and Countering Financing of Terrorism Act. We are also continuing to monitor the Law Commission's review of trusts.

Our strategic framework

Our direction is clearly focused on our core responsibilities: providing trustee and estate management to New Zealanders. Over the 2012/13 year we refined our strategy and a made a shift to streamlining our internal processes.

Our commercial success will depend on our plans for strategic improvement outlined below. We are doing what we need to do to ensure Public Trust is a relevant and vigorous business with a sustainable future.

Figure 1: Public Trust's Strategic Direction



Our contribution to community

We are very proud that we are able to contribute to the success of so many organisations that have a positive impact on local communities. Public Trust administers more than 400 charitable trusts with interests as diverse as science, education, medicine, disability and agriculture. We distribute funds on behalf of these trusts to groups and individuals.

This year we formed a strategic alliance with the Graeme Dingle Foundation (GDF) whereby Public Trust facilitates GDF bequests, alongside management of the investment portfolio. We share a commitment to building strong communities and providing young New Zealanders with a better future.

TG Macarthy Trust – celebrating a 100-year legacy

In the hundred years since the TG Macarthy Trust was established an extraordinary $61.7 million has been distributed to more than 1,000 education providers, charitable organisations and community groups in the greater Wellington province.

Managed and administered by Public Trust, the Trust has assets valued at over $73 million.

To mark the Trust's 100th anniversary, a special one-off contribution of $1,000 each was made to 40 toy libraries within the Trust's region

Other significant contributions were made this year to Plunket, Skylight Children's Grief Centre, Mary Potter Hospice, and Starjam Charitable Trust.

A new theatre at Ronald McDonald House in Wellington has been named the Thomas George Macarthy Community Theatre in acknowledgment of a $300,000 grant over three years to assist with the building, completed in 2012. The contribution is also noted on a 'Donor Wall' art installation at Ronald McDonald house created by Weta Workshop.

The TG Macarthy Board of Governors is working with Wellington Sculpture Trust to commission a sculpture to recognise the contribution TG Macarthy has made to the Wellington region. The sculpture will take pride of place at the bottom of Cuba Street in the vicinity of Bond Street, the Opera House and the Town Hall (all significant landmarks associated with TG Macarthy) and is expected to take two to three years to commission and complete.

Who was TG Macarthy?

Thomas George Macarthy was born in London in 1833. As a young man he travelled to Australia in search of gold, and from there made his way to New Zealand – first to Otago, and then the West Coast. He settled in Wellington in 1877, where he established himself as a brewer and hotelier. Macarthy was also actively involved in public affairs, reflecting his concern for the wellbeing of the wider community – often donating to charities anonymously.

On his death, Macarthy left half his fortune to the Trust, and it has been benefiting people in the Wellington region ever since.

Thomas George Macarthy was inducted into the Fairfax Media Business Hall of Fame in 2012.

Photograph Hawkes Bay Today

Smedley Station: an agricultural education success story

Over 94 years ago Tikokino farmer Josiah Howard had the generosity and foresight to leave a large property to the Crown after his death. His intention was to enable young people to train in agriculture on a working farm.

Smedley Station took its first cadet in 1931 and since then has trained over 600 cadets from all over New Zealand.

The 5,054ha sheep, beef and deer farm near Tikokino in the Hawke's Bay is home to 22 cadets from across New Zealand. The trainees live on the property for two years learning how to work the farm – including how to break in and train station horses, alongside classroom lessons.

The farm gained nationwide attention this year when it won several awards, including the 2013 East Coast Ballance Farm Environment Award for practising profitable and sustainable management, and teaching this ethos to tomorrow's agricultural leaders.

Public Trust supervises the management of the farm, along with the Josiah Howard Advisory board. The farm manager is Terry Walters.

When asked what farmer Josiah Howard would think of Smedley Station now, Terry says, "It would be beyond all of his expectations. He'd be extremely proud of the young people graduating into the agricultural sector now. It hasn't finished growing yet and who knows what's around the corner. Public Trust and the Josiah Howard Estate advisory board are taking a proactive approach with leasing, acquisition and joint-venture opportunities and are fully supportive of our ideals."

Recent recognition of Smedley Station

2012 Farm Business Trainer of the Year

2013 Supreme title in East Coast Ballance Farm Environment Awards

2013 Introduced agriculture theory programme run by Telford, a division of Lincoln University

2013 Ballance Nutrient Management award

2013 Beef+Lamb New Zealand Livestock award

2013 Hill Laboratories Harvest award

2013 Donaghys Farm Stewardship award

Governance

Public Trust Office legal branch, Wellington. S P Andrew Ltd :Portrait negatives. Ref: 1/1-014618-G. Alexander Turnbull Library, Wellington, New Zealand.

Public Trust is a statutory corporation under the Public Trust Act 2001 and is deemed to be a statutory entity for the purposes of the Crown Entities Act 2004 and the Public Finance Act 1989. Public Trust is governed by a Board, appointed by the Minister of Justice acting with the agreement of the Minister of Finance (together, the responsible Ministers).

Role of the Board

The Public Trust Board is made up of not fewer than five and not more than nine members. The Board currently has five members: Sarah Roberts (Chair), Fiona Oliver (Deputy Chair), Rodger Finlay, Dinu Harry and Sue McCormack.

The Board and its members are responsible for supervising or directing the management of the affairs of Public Trust. They appoint the Chief Executive, delegate to the Chief Executive appropriate authority for the day-to-day management of Public Trust, and monitor management's performance on a regular basis. The Chief Executive is responsible to the Board for the efficient and effective management of the affairs of Public Trust.

Separation of the governance role of the Board from the management role of the Chief Executive is reinforced by the express bar in the Public Trust Act 2001 on the Chief Executive being a member of the Board. In addition to providing leadership to and effective management of the Board, the Board Chair acts as the primary interface between the Board and the Chief Executive and management.

The Board provides the Ministry of Justice with formal reports on a quarterly basis.

The Board is committed to the highest standards of ethical behaviour and accountability. It operates under a Charter, the purpose of which is to promote high standards of corporate governance and clarify the role and responsibilities of the Board. Committees have been created to increase the overall effectiveness and efficiency of the Board.

Board committees

The Board has four standing committees that operate under delegated authority and Charters approved by the Board: the Risk, Assurance and Audit Committee, the Investment Committee, the Governance and Remuneration Committee and the Due Diligence Committee. The Chair, by right of office (ex officio), is a member of each Committee.

Membership of the Committees is set out below. Committee members named were members of the applicable Committee for all or part of the year to 30 June 2013. Members of the Board whose term ended during the year are also noted.

Risk, Assurance and Audit Committee (RAAC) to 30 June 2013

Robin Hill (Chair until 30 April 2013)

Dinu Harry (member, then Chair from 1 May 2013)

Trevor Janes (ex officio)

Hinerangi Raumati (until 31 October 2012)

Sarah Roberts

The RAAC assists the Board in fulfilling its risk management and audit responsibilities by overseeing and providing advice to the Board on Public Trust's:

- risk management assurance;
- internal control mechanisms;
- internal and external audit functions;
- policies and processes that ensure compliance with applicable legislation, regulations and code of practice; and
- financial statements relating to Public Trust and the Public Trust Managed Funds.

The RAAC meets a minimum of four times a year. Management, counsel and external and internal auditors attend on request.

Board policy is that non-audit services for Public Trust may not be undertaken for, or sought from, the organisation's external auditors without prior RAAC approval.

Investment Committee to 30 June 2013

Rodger Finlay (Chair)

Dinu Harry (from 23 November 2012)

Trevor Janes (ex officio)

Sue McCormack (from 23 November 2012)

Fiona Oliver

Hinerangi Raumati (until 31 October 2012)

The Investment Committee meets a minimum of four times a year. The Committee oversees the investment philosophy, policy, strategy, implementation, performance, compliance and risk in respect of the investment of:

- the Common Fund, the Public Trust Investment Service Funds, Public Trust Investment Funds, Group Investment Funds and Charitable Trust PIEs (together 'Funds');
- estate financial assets other than those invested in the Funds; and
- the free working capital of Public Trust.

Due Diligence Committee to 30 June 2013

Sarah Roberts (Chair)

Dinu Harry

Trevor Janes (ex officio)

Sue McCormack

The Due Diligence Committee supervises the due diligence process for prime documents in respect of securities offered to the public issued by Public Trust and/or in respect of which Public Trust in the trustee. The Committee meets as required.

Governance and Remuneration Committee to 30 June 2013

Fiona Oliver (Chair)

Robin Hill (until 30 April 2013)

Trevor Janes (ex officio)

Sue McCormack

The Governance and Remuneration Committee meets a minimum of three times a year. The committee assists and advises the Board to fulfil its corporate governance responsibilities in relation to the:

- governance and management of the Board's business including through its committees;
- performance of the Board and its committees;
- appointment and remuneration of the Chief Executive and the management of his or her performance;
- human resources strategy ; and
- consultation with the Chief Executive on appointment of members of the Executive team, including terms and conditions of employment and remuneration.

Board members as at 27 September 2013

Sarah Roberts *(Chair) LLB (Hons), MInstD*

Board Member since May 2007, Chair since 1 July 2013

As Chair is an ex officio member of the Risk, Assurance and Audit, Investment, Due Diligence, and Governance and Remuneration Committees.

Sarah is a senior corporate partner with law firm Buddle Findlay specialising in commercial transactions across the public and private sectors. She advises major institutions and substantial companies on a variety of acquisitions, dispositions, joint ventures, management buyouts and structuring matters. Sarah is on the Auckland University Council and is a trustee of the University of Auckland Foundation. She has also served as a member of the Board of Healthcare Hawkes Bay and was Chair of Buddle Findlay from 2004 to 2007. Sarah is a member of the Australian Venture Capital Association.

Fiona Oliver *(Deputy Chair) BA, LLB, MInstD*

Board Member since November 2009, Deputy Chair since August 2013. Chair of the Governance and Remuneration Committee. Member of Investment and Risk, Assurance and Audit Committees

Fiona has experience in operational leadership from roles in Auckland, Sydney and London in asset and funds management, private equity and the wider financial services industry. Fiona is currently General Manager, Wealth Management for AMP Financial Services (NZ) Limited. From 2006 to 2009, Fiona was the Chief Operating Officer of BT Funds Management (NZ) Limited, the investment arm of Westpac. Fiona has also worked as a corporate and commercial lawyer in private practice and in-house in Auckland and London, specialising in corporate finance. She was a board member of the Insurance Savings & Investment Association (now known as the Financial Services Council of New Zealand Inc) from 2006 until 2009. Fiona also serves on the boards of Dress for Success Auckland and the National Provident Fund where she is a member of the investment committee.

Rodger Finlay *BCom, CA, AMInstD*

Board Member since May 2009

Chair of the Investment Committee. Member of Risk, Assurance and Audit Committee

Rodger is a company director and former investment banker. He has extensive experience in natural resources, the rural sector, financial services, funds management and investment banking. He is Deputy Chairman of Rural Equities Limited and serves as a Director of New Zealand Oil and Gas, Moeraki Limited and Mundane Asset Management Limited, of which he is also Chairman. Rodger has more than 25 years' experience in the financial services industry including senior investment banking and funds management positions with a range of major international institutions including UBS, Paribas and Credit Suisse First Boston.

Dinu Harry *BBusS, FCA (PP), MInstD*

Board Member since April 2011

Chair of the Risk, Assurance and Audit Committee

Member of the Investment and Due Diligence Committees

Dinu is a Chartered Accountant with extensive governance, business, and accounting and financial management experience in the public, private and not-for-profit sectors. He is a director of Bertelsen Harry Waters Limited, and has extensive experience in ethical and sustainable business practices in New Zealand. Dinu has a proud tradition of involvement with the New Zealand Institute of Chartered Accountants (NZICA). He has served on the National Public Practice Committee and Practice Review Board and was President of the Institute in 2010. For a number of years he was a tutor at Massey University in first and second year Financial and Management Accounting and enjoys helping students develop a passion for the profession. He is also a member of the Council of Unitec Institute of Technology, Auckland where he is Chair of the Audit and Risk Management Committee.

Sue McCormack *BA, LLB, MInstD*

Board Member since May 2010. Chair of the Due Diligence Committee. Member of the Governance and Remuneration and Investment Committees

Sue is senior partner with law firm Mortlock McCormack Law of Christchurch, specialising in corporate and commercial law with a special interest and expertise in insurance law and provides legal support for major property developers in the Christchurch rebuild. Sue is an experienced company director and has sat on a number of public and private boards. Sue is Pro-Chancellor of the University of Canterbury.

During the financial year the following Board Members retired:

Trevor Janes, who was a Board Member from May 2009 to June 2013, and Chair from May 2010 to June 2013

Robin Hill, who was a Board Member and Deputy Chair from May 2007 to April 2013

Hinerangi Raumati, who was a Board Member from November 2009 to October 2012

Executive team as at 27 September 2013

We implemented a new corporate structure on 1 July 2013. Our Senior Executive Committee members are:

Graeme Hansen *BCom*

Chief Executive since August 2012

Graeme has an extensive background in the financial services industry as a board member and chief executive, both in New Zealand and overseas where he has was chief executive of companies in the Barclays Banking Group in Australia, Canada and the UK. In these roles, Graeme has demonstrated notable leadership as a champion of change and transformation for business improvement.

In addition, Graeme was the Chief Executive of a Statutory Body, the New Zealand Racing Board, from 2004 to 2009, and led this organisation to achieve significant growth in net revenue and performance.

During the financial year, Grenville Gaskell completed his term as Chief Executive. He was Chief Executive from April 2007 to September 2012.

Dennis Church *BBS, MBA, CA, MInstD, CFIP, AETI*

General Manager Corporate Trustee Services

Dennis joined Public Trust in 2005, and was appointed to his current role in 2008. With over 20 years' experience in the corporate trustee industry, Dennis has particular expertise in corporate finance, structured finance transactions and all forms of securities issues. He has extensive business experience, including as a share broker, and management consultant for a global consulting group.

Mike Creamer *BE, MBA*

General Manager Business Implementation

Mike joined Public Trust in January 2013, in a new role with specific responsibility for implementing our new business improvement programmes and leading the systems and process change initiatives.

Prior to joining Public Trust, Mike spent many years working at a senior level across a range of industries. His skill lies in leading large teams of people, with particular expertise and strengths in service transformation and the delivery of complex and challenging projects.

Cheryl Crooks *BA*

General Manager Human Resources

Cheryl joined Public Trust as GM Human Resources in July 2011. She is responsible for the development and implementation of the organisation's human resources strategy.

Having held executive leadership roles since 2004, Cheryl has an extensive career in Human Resource management and organisation performance and change. She was the Group General Manager Strategy and Capability at New Zealand Trade and Enterprise and prior to that has held senior roles with Industry New Zealand and the Ministry of Fisheries. Cheryl has a diploma in Driving Government Performance from Harvard University.

Martin Jones *BCA, ACA*
Financial Controller

Martin has been Financial Controller since 1 July 2013. He previously was the Public Trust Finance Manager/Head of Finance, a role he had held since 2003. He is a Chartered Accountant and a member of the New Zealand Institute of Chartered Accountants.

Martin joined Public Trust in 1992. He has worked in senior financial management roles in both the trustee and transport sectors. Martin's experience includes management of financial and management reporting systems, administration and financial control over a range of managed funds and management of the finance function, including provision of financial information, board and audit committee reporting and external reporting.

Alex Polaschek *BCA*
General Manager Integration of Personal & Business and Operations

Alex was formerly the General Manager for Personal & Business, and responsible for the distribution of Public Trust's services across the national retail network. In his current role Alex is overseeing the integration of the former Personal and Business and Operations teams into the new Retail Customers unit. He is also managing incorporation of new improvement initiatives driven by the Business Implementation team.

He has previously held senior management roles with major energy companies in positions that covered sales and marketing, corporate sales, and commercial and pricing management.

We are currently recruiting for the role of General Manager, Retail Customers to lead the new unit.

Liz Style *LLB, LLM*
Acting General Manager Governance & Risk

Liz started at Public Trust on 24 June on a short-term contract to bring together a new Governance & Risk unit. She has extensive commercial, legal and operating experience at a senior level and has held roles as General Counsel and as Chief Operating Officer, in addition to many years spent in private legal practice.

Liz's previous commercial experience includes general commercial law, project management, change management, commercial operations, due diligence and corporate structure and governance.

Monique Twort *BBS*
General Manager Business Customers

Monique has been General Manager Business Customers since 1 July 2013. She has experience in senior management roles in the financial services sector. Monique joined Public Trust in 2010 and was appointed National Manager Trustee Services in December 2011 and Acting General Manager, Operations (November 2012) prior to her current role.

Monique's experience includes administration of managed funds and insurance products, management of product, strategy and planning and risk functions.

Financial Information

Statement of Service Performance

The Public Trust Act 2001 specifies that Public Trust is to have the principal objective of operating as an effective business, while at the same time exhibiting a sense of social responsibility having regard to the interests of the communities in which it operates.

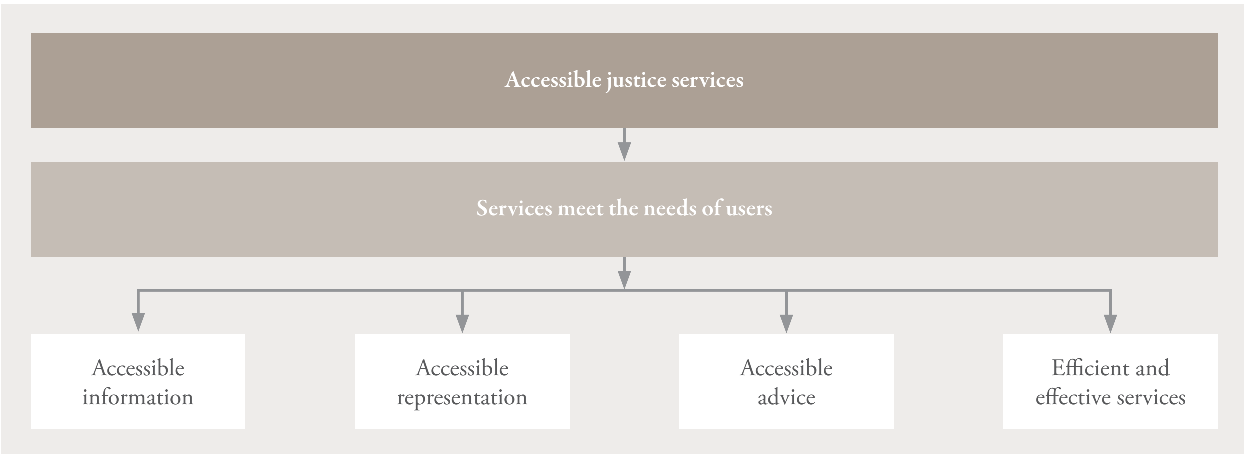
Under the Act, Public Trust is charged with ensuring that access is maintained for all New Zealanders to effective and efficient 'last resort' fiduciary protective services. In this role, Public Trust has the following responsibilities:

- **Act as Trustee of Last Resort** – Various statutes require Public Trust to provide fiduciary services when there is no other provider, or other providers are deemed not to be appropriate[1].
- **Assistance** – Assist individuals who are not in a position to look after their own affairs – there are 15 Statutory Acts where Public Trust acts on behalf of those unable to look after their own affairs. In many cases Public Trust is the sole designated provider.
- **Protective Fiduciary Services** – Provide services to those who otherwise could not afford them – protective fiduciary services are focused on funded services for customers with low liquid assets or low value estates where the value is insufficient to sustain normal commercial charges.
- **Protect Personal Property Rights** – Help to define and protect personal property rights – we act to minimise costs associated with ill-defined property rights.

Crown outcome – access to justice

Justice services that are available to all members of the public are a requirement of a fair and democratic society. To achieve the 'accessible justice services' outcome (Figure 2), the services provided by Public Trust need to be accessible to the public and satisfy their requirements on both quality and timeliness. Public Trust must also be able to provide services in an effective and efficient manner

Figure 2 – Accessible Justice Outcome



Source: New Zealand Justice Sector Civil and Democratic Outcomes Report (June 2009)

[1] A recent law change [the Trustee (Public Trust) Amendment Act 2013] has amended s46 of the Trustee Act 1956, which is a "trustee of last resort" provision. The change requires certain conditions to be met before the Court may appoint Public Trust under s46 as a replacement trustee for products regulated by the Securities Act 1978. This change ensures Public Trust does not bear the financial burden of acting as a replacement trustee for such products where the trust in relation to those products has no assets. The change does not affect the ability of the Court to appoint Public Trust under s46 as a replacement trustee in other circumstances.

Statement of Service Performance *(continued)*

Many of the services provided by Public Trust contribute to the Justice sector outcome of enabling access to justice for all through providing quality protective fiduciary services.

Public Trust provides services to people who are not well placed to look after their own affairs and/or to people who, because they have limited financial means, are unlikely to have their needs met by private sector trustee organisations.

The linkages between what Public Trust does (its outputs) and the outcome are shown in Figure 3.

The Statement of Service Performance in the next section shows how our performance is measured against these outputs for the 2012/13 year. As noted at the end of this section, a new Services Agreement is in force for 2013/14.

Figure 3 – Public Trust Outputs and Outcomes

Outputs

- Preparation of Wills for those who meet eligibility criteria
- Advice provided on behalf of incapacitated persons
- PPPR administration, audit and advice services to incapacitated persons
- Administration of small estates and trusts
- Representation, audit, review, administration of the assets, and rights of missing, unknown or incapable owners

These Outputs create the following Impacts

Impacts

- Access to advice and justice services are known and available for individuals including those who otherwise may not be able to afford them
- Individuals' rights are explained and defined
- The rights of represented individuals are protected and acted upon

These Impacts contribute to the following Outcomes

Outcome

Accessibility of the justice system to all who require it

For the 2012/13 year Public Trust and the Crown (acting through the Minister of Justice) entered into an Output Agreement (referred to as the Agreement) under which the Crown purchases a range of non-commercial protective fiduciary services. Under the Agreement, non-commercial services are paid for by the Crown to ensure that, among other things, reasons of affordability do not prevent or preclude New Zealanders from obtaining key services relating to the management of their estates and personal affairs. Payment of these services is managed by the Ministry of Justice on behalf of the Crown.

Statement of Service Performance *(continued)*

Outputs

The non-commercial services to be provided by Public Trust under the Output Agreement are classified as Output Class 1 Provision of Protective Fiduciary Services. This output class contains the following outputs:

1. Preparation of Wills for New Zealanders who meet defined income eligibility criteria.
2. Advice provided on behalf of incapacitated persons on matters relating to the Protection of Personal Property Rights (PPPR) Act 1988.
3. Providing PPPR administration, audit, and advice services to incapacitated persons.
4. Administration of small estates and trusts.
5. Representation, audit, review or administration of assets and rights of missing, unknown or incapable owners.

Access to quality justice services is known and available

We know that people have access to – and are aware of – quality justice services when:

- Independent surveys indicate people are aware of Public Trust and the services that it offers

PERFORMANCE MEASURE	ACHIEVEMENT
Public Trust Awareness Score of >49%	Not achieved Awareness at year-end was 43% This is a result of reduced nationwide marketing activity and a change of focus to local services activity.

- Customers are satisfied with the quality and timeliness of Public Trust's outputs and we receive referrals from our customers, the Courts and other service providers

The service quality of our outputs is regulated through Public Trust's internal quality control framework, our internal audit programme, and our customer surveys administered by an independent survey provider.[2] Public Trust monitors the requirement for quality and timely advice on individual rights through measuring customer satisfaction with our services and by meeting demand.

PERFORMANCE MEASURE	ACHIEVEMENT
Customer satisfaction rating of >7.5 (Range: 1 = poor, 10 = excellent).	Achieved Customer satisfaction at year end was 7.6 while the average over 2012/13 was 7.8
Net Promoter Score ≥10	Not achieved Net Promoter Score at year end was -11 while the average over 2012/13 was -3.3[3]

Over the 2012/13 financial year Public Trust has shifted its focus to introducing improvements to our processes and performance for beneficiaries of our estates.

- We continue to maintain a mix of channels through which the public and others can easily access Public Trust and its services.

[2] In October 2012 we ceased our internal feedback channel, Voice of the Customer because we were not able to specifically and accurately measure quality and timeliness. The cost of collecting the data outweighed the benefit of the information. We continued to measure quality and timeliness through quarterly surveys of customer satisfaction, awareness and Net Promoter Score conducted by independent provider AC Nielsen.

[3] For future years we have removed NPS as a measure. The sample size is small, and covers customers whose experience of Public Trust was 12-18 months in the past. This and the nature of our business and pace of strategic change mean that the results are less meaningful.

Statement of Service Performance *(continued)*

PERFORMANCE MEASURE	ACHIEVEMENT
Nationwide network of Public Trust offices available during business hours	Achieved Public Trust operates out of 28 full-time and 13 by-appointment offices across the Country
0800 customer line available during business hours with < 5 hours unavailable	Achieved No closure recorded in 2012/13
Website available with < 40 hours downtime	Achieved No reported outages of the Public Trust Website over 2012/13

Individuals' rights are explained and defined

It is not always easy for individuals to understand the areas of the law that Public Trust operates in. Part of our role is to explain individuals' rights to them. In many cases, this also involves having to define those rights. Output 1 (Wills) and Output 3 (PPPR Advice) deliver to this intermediate outcome.

We know we are performing this role well when:

- our people have the right technical/legal knowledge and can effectively apply and communicate that knowledge to our customers
- we provide the right advice
- we have the policies, systems and processes in place to support the delivery of high quality and consistent advice and our internal quality assurance processes indicate these are working as intended
- we receive enquiries from organisations and other professionals because we are recognised as being an authoritative source of advice.

Public Trust was funded to prepare Wills for customers with limited financial means and, provide advice on matters relevant to the PPPR Act[4] or assist with PPPR agencies where the recipient could not meet the charges of the service.

The rights of represented individuals are protected and acted upon

To ensure access to justice, Public Trust also protects the rights of customers who cannot represent themselves (e.g. because they are absent, incapacitated or deceased). We know that we are having the intended impact:

- By the number of people who we protect directly and the number of hours we spend in actively protecting their rights
- By the number of people we help to protect indirectly through PPPR manager audits and providing the Courts with guidelines aimed at ensuring the quality of PPPR managers.

Outputs 2, 4 and 5 deliver to this outcome.

[4] Protection of Personal and Property Rights, under the Protection of Personal and Property Rights Act 1988.

Statement of Service Performance *(continued)*

Public Trust as a safety net for PPPR individuals

The PPPR Act 1988 helps people who have lost capacity to make or understand decisions about their own affairs or property, or who are no longer able to tell other people what they have decided. It can apply to a wide range of people including those who are mentally ill, with an intellectual disability, with severe head injuries, or elderly people who have become incapacitated.

In these situations a third party must apply to the Family Court under the PPPR Act for the Court to appoint a property manager (to manage financial and property matters) and a welfare guardian (makes decisions about their care, where they will live etc).

Public Trust is often approached by family, social workers and rest home managers to help with Court Applications and in many cases, to act as property manager. Alternatively, the Family Court will ask Public Trust to act as property manager when there is no candidate.

Where Public Trust or another Trustee company are not acting as property manager for PPPR individuals, the accounts of these individuals are reviewed by Public Trust.

As such, Public Trust acts as a safety net for people who might otherwise be vulnerable to financial and emotional abuse by:

- Making sure professional services are accessible to all who require them
- Providing services nationwide
- Applying consistent standards
- Independently reviewing other property managers, and
- Ensuring affordability is not a barrier

Output 1: Wills advice and preparation

Advice to New Zealanders on the benefits of Will-making and preparation of a Will if so requested.

Quantity

PERFORMANCE MEASURE	ACHIEVEMENT
5,000 new eligible Wills prepared that meet the defined eligibility criteria	Not achieved 3,233 eligible new Wills prepared This is a new measure. The introduction of charging for Wills on 1 July 2012 saw an unanticipated and significant reduction in the number of Wills appointments.

Quality and timeliness

PERFORMANCE MEASURE	ACHIEVEMENT
Internal legal audit of a random selection of 10 Wills per month will be undertaken with an error rate of no more than one requiring re-writing	Achieved 233 Wills audited with two requiring redraft
85% of Wills will be available for signing within seven days of taking instructions	Not achieved 77% of Wills available within seven days Public Trust is working to improve its processes to meet this measure in the context of increasing complexity of Wills' content.

Statement of Service Performance *(continued)*

Output 2: Protection of Personal and Property Rights non-commercial services

Administration, audit and advice services to incapacitated persons pursuant to the PPPR Act under orders or elections, or under Public Trust agencies, where charges to the recipient will not meet the costs of the service.

Quantity

PERFORMANCE MEASURE	ACHIEVEMENT
600 PPPR individuals protected through administration of their financial affairs	Achieved Public Trust administers the financial affairs of 632 PPPR individuals
6,232 actions requiring 7,246 hours administering the financial affairs of incapacitated persons under the Protection of Personal and Property Rights Act	Achieved 6,428 actions requiring 6,727 hours administering the financial affairs of incapacitated persons

Quality and timeliness

PERFORMANCE MEASURE	ACHIEVEMENT
All services comply with Court Orders and PPPR legislation	Achieved Performance in these areas is monitored through the Quarterly Compliance declarations signed by all relevant Managers.
Compliance with Public Trust Best Practice Standards and Public Trust's Social Responsibility Policy, and are provided in a timely manner	
Complaints dealt with in a professional and timely manner according to the Public Trust complaints procedure	

Output 3: Advice for the Protection of Personal and Property Rights (PPPR)

Advice and research by Public Trust relating to enquiries on behalf of incapacitated persons on matters relevant to the PPPR Act 1988 or under Public Trust agencies where charges to the recipient will not meet the costs of the service.

Quantity

PERFORMANCE MEASURE	ACHIEVEMENT
1,442 enquiries requiring 700 hours to provide services and advice on behalf of incapacitated persons	Not achieved 530 enquiries resulting in 284 hours spent providing service on behalf of incapacitated persons Levels of demand and actual service requirements are variable

Quality and timeliness

PERFORMANCE MEASURE	ACHIEVEMENT
Compliance with Public Trust Best Practice Standards and Public Trust's Social Responsibility Policy, and are provided in a timely manner	Achieved Performance in these areas is monitored through the Quarterly Compliance declarations signed by all relevant Managers.
No substantiated cases of Public Trust failing to act on a query regarding an incapacitated person	
Complaints dealt with in a professional and timely manner according to the Public Trust complaints procedure	

Statement of Service Performance *(continued)*

Output 4: Small estates and trusts

Administration of small and/or complex estates and trusts for which reasonable charges do not cover costs. Providing advice and assistance to deal with assets that do not warrant formal administration, whether or not a Will has been made.

Quantity

PERFORMANCE MEASURE	ACHIEVEMENT
600 new estates	Not achieved 519 new estates
6,200 continuing estates	Not Achieved 5,746 continuing estates
8,000 hours to manage and advise on small estates and trusts	Achieved 8,323 hours spent managing and advising on small estates and trusts
700 tax returns prepared for small estates and trusts	Achieved 982 tax returns completed

Quality and timeliness

PERFORMANCE MEASURE	ACHIEVEMENT
All services comply with Court Orders and relevant legislation	Achieved
Compliance with Public Trust Best Practice Standards and Public Trust's Social Responsibility Policy, and are provided in a timely manner	Performance in these areas is monitored through the Quarterly Compliance declarations signed by all relevant Managers.
Public Trust provided effective advice and assistance regarding intestacies for small estates	
Complaints dealt with in a professional and timely manner according to the Public Trust complaints procedure	

Statement of Service Performance *(continued)*

Output 5: Administration of assets and other public functions

Representation, audit, review, administration of the assets and rights of missing, unknown or incapable owners arising from Parts 7 and 8 of the Public Trust Act 2001 and several other statutes that represent a public function, for which Public Trust has no prospect of being paid or charges are insufficient to cover costs.

Quantity

PERFORMANCE MEASURE	ACHIEVEMENT
40 hours on 60 contracts spent providing services involving public functions in relation to assets and rights of missing, unknown or incapable persons	Achieved 116 hours spent providing services on 170 contracts Levels of demand and actual service requirements are variable

Quality and timeliness

PERFORMANCE MEASURE	ACHIEVEMENT
All services comply with Court Orders and relevant legislation	Achieved
Compliance with Public Trust Best Practice Standards and Public Trust's Social Responsibility Policy, and are provided in a timely manner	Performance in these areas is monitored through the Quarterly Compliance declarations signed by all relevant Managers.
Effective control of funds received and distributed, and efficient administration of assets referred for management, and provided in a timely manner	
Interests of missing or incapable owners are fully represented and properly safeguarded in compliance with relevant legislation	
Complaints dealt with in a professional and timely manner according to the Public Trust complaints procedure	

Revenues and expenses

PERFORMANCE MEASURE	ACTUAL 2012/13 $000	BUDGET 2012/13 $000	ACTUAL 2011/12 $000
Revenue received for provision of non-commercial services	3,802	4,500	4,500
Less estimated cost of providing non-commercial services	4,500	4,500	6,398
Net cost of providing non-commercial services	698	-	1,898

Forecasting service provision is complicated by the variability in levels of demand and individual requirements of each service.

New services agreement 2013/14

In 2013 Public Trust negotiated a services agreement with the Minister of Justice for services purchased from Public Trust. The two year agreement also reflects the fact that Public Trust no longer receives funding to provide free Wills. We have simplified the performance measures we use for these services, and developed a forecast statement of service performance that is more relevant to how we will do business under the new agreement.

Report on the Statement of Intent

For the year ended 30 June 2013

The Statement of Intent set out a number of performance measures and targets. The following table outlines actual performance against these.

	2011/12 ACTUAL	2012/13 ACTUAL	2012/13 TARGET[1]	2013/14 TARGET[2]
Ownership perspective				
Profit post-tax ($000)	7,056	7,770	2,912	142
Return on equity[3]	27.9%	23.4%	10.3%	5.0%
Capital ratio[4]	5.9%	8.0%	-	7.8%
Distributions to Crown	Nil	Nil	Nil	Nil
Efficiency and effectiveness perspective				
Cost to Income Ratio[5]	96.9%	98.4%	88.7%	91.0%
Capability perspective				
Employee engagement[6]	38%	Deferred	45%	35%
Customer and market perspective				
Market share[7]				
– Wills	16.0%	16.0%	15.2%	-
– Estates (probates)	14.2%	13.8%	14.3%	-
Customer satisfaction[8]	6.8	7.6	7.9	8.0
Net promoter score[9]	(1)	(11)	10	-

1. Source: 2013/15 Statement of Intent.
2. Source: 2014/16 Statement of Intent.
3. Return on Equity is surplus / (deficit) (including investment gains / (losses) after tax divided by the average of opening and closing equity. This ratio includes the benefit of tax losses.
4. Capital Ratio is calculated in accordance with the Non-Bank Deposit Takers' Regulations. This is a new measure in the 2014/16 Statement of Intent.
5. Total Expenses (excluding mortgage losses and strategic change costs) / Revenue (excluding investment gains/losses). The method of calculation changes from 2013/14 to Total Expenses (including mortgage losses and excluding strategic change costs) / Revenue (excluding investment gains/losses).
6. Independent annual survey of employee engagement completed by Kenexa. The 2012/13 employee engagement survey has been deferred pending restructuring and related consultation processes. A new organisational structure was put in place on 1 July 2013, preceded by 3 months of review and staff consultation. Time has been allowed for staff to settle into the new structure before surveying engagement.
7. Independently conducted survey of market share. This is no longer a measure in the 2014/16 Statement of Intent.
8. Independently conducted survey of customer satisfaction (1 = poor; 10 = excellent).
9. Net Promoter Score (NPS) is used to determine the likelihood of customers recommending their current provider. It is derived from asking customers the question "Would you recommend their services to friends and family." A scale of 1 to 10 is used, with 10 being 'extremely likely to recommend' and 1 being 'not all likely to recommend'. NPS is calculated by subtracting those that gave a 1-5 rating (detractors) from those that gave a 9-10 rating (promoters). This is no longer a measure in the 2014/16 Statement of Intent.

Funds under Management

As at 30 June 2013

Public Trust has responsibility for funds under management, including fiduciary responsibility for trusts under management and trusts under supervision. The following table details the assets under management or supervision.

	2011 ACTUAL $M	2012 ACTUAL $M	2013 ACTUAL $M
Fiduciary assets			
Funds under management			
Common Fund	869	775	578
Managed Funds	460	470	406
Assets under management	2,755	2,733	3,079
Funds under supervision	34,849	38,116	42,133

Statement of Responsibility

For the year ended 30 June 2013

The Board of Public Trust accepts responsibility for the preparation of the financial statements and Statement of Service Performance and for the judgements in them. The judgements applied in the preparation of the financial statements are reported in the Notes to the Financial Statements.

The Board of Public Trust accepts responsibility for establishing, and has established and maintains a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting.

In the opinion of the Board of Public Trust, the financial statements and Statement of Service Performance for the year ended 30 June 2013 fairly reflect the financial position, results of operations and cash flows of Public Trust.

Sarah Roberts	Dinu Harry
Chair	*Chair, Risk, Assurance and Audit Committee*

27 September 2013

Statement of Financial Position

As at 30 June 2013

	NOTES	GROUP ACTUAL 2013 $000	UNAUDITED GROUP BUDGET 2013 $000	GROUP ACTUAL 2012 $000	PARENT ACTUAL 2013 $000	PARENT ACTUAL 2012 $000
Assets						
Cash and cash equivalents	5	72,697	32,147	55,307	72,348	55,297
Investment securities	6	420,582	349,559	564,889	420,582	564,889
Derivative financial instruments	7	378	2,267	1,996	378	1,996
Advances to clients		4,521	5,292	6,647	4,521	6,647
Trade receivables & Work in progress	8	7,050	6,174	6,245	6,582	5,793
Due from subsidiary	33	-	-	-	287	20
Advances secured by mortgage	9	119,154	160,000	171,599	119,154	171,599
Total financial assets		624,382	555,439	806,683	623,852	806,241
Sundry receivables	10	72	975	83	72	83
Prepayments		643	1,277	729	644	729
Current tax	11	241	227	230	241	230
Property, plant & equipment	12	7,905	9,247	9,211	7,905	9,211
Intangibles	13	4,087	2,825	3,434	1,582	929
Investments in subsidiaries	14	-	-	-	4,654	4,654
Total assets		**637,330**	**569,990**	**820,370**	**638,950**	**822,077**
Liabilities						
Liabilities to clients – at call or short term		428,489	419,763	427,804	428,489	427,804
Liabilities to clients – term deposits	16	149,218	105,000	346,324	149,218	346,324
Prepaid estate administration	17	403	435	462	403	462
Total liabilities to clients		578,110	525,198	774,590	578,110	774,590
Trade payables	18	8,270	2,391	3,987	8,149	3,870
Other payables	19	2,582	1,472	2,241	2,582	2,241
Derivative financial instruments	7	5,192	3,151	4,315	5,192	4,315
Prepaid income		132	232	212	-	-
Employee benefits	20	4,329	4,220	5,237	4,329	5,237
Provisions	21	1,092	1,102	960	1,092	958
Loan from subsidiary	33	-	-	-	8,193	7,597
Total liabilities		**599,707**	**537,766**	**791,542**	**607,647**	**798,808**
Equity						
Contributed equity		90,174	90,174	90,174	90,174	90,174
Cash flow hedging reserve		(762)	(947)	(1,787)	(762)	(1,787)
Retained earnings		(51,789)	(57,003)	(59,559)	(58,109)	(65,118)
Total equity	22	**37,623**	**32,224**	**28,828**	**31,303**	**23,269**
Total liabilities plus equity		**637,330**	**569,990**	**820,370**	**638,950**	**822,077**

For and on behalf of the Board, who authorised the issue of the financial statements on 27 September 2013.

Sarah Roberts
Chair

Dinu Harry
Chair, Risk, Assurance and Audit Committee

Statement of Changes in Equity

For the year ended 30 June 2013

	NOTES	GROUP ACTUAL 2013 $000	UNAUDITED GROUP BUDGET 2013 $000	GROUP ACTUAL 2012 $000	PARENT ACTUAL 2013 $000	PARENT ACTUAL 2012 $000
Equity at the start of the year		28,828	29,012	21,667	23,269	16,735
Comprehensive income						
Other comprehensive income						
- movement in cash flow hedging reserve		1,025	300	105	1,025	105
Profit (loss) after tax		7,770	2,912	7,056	7,009	6,429
Total comprehensive income		8,795	3,212	7,161	8,034	6,534
Equity at the end of the year	22	**37,623**	**32,224**	**28,828**	**31,303**	**23,269**

Statement of Profit and Loss and Other Comprehensive Income

For the year ended 30 June 2013

	NOTES	GROUP ACTUAL 2013 $000	UNAUDITED GROUP BUDGET 2013 $000	GROUP ACTUAL 2012 $000	PARENT ACTUAL 2013 $000	PARENT ACTUAL 2012 $000
Revenue						
Revenue from financial instruments						
Interest from interest bearing securities		21,092	25,027	25,488	21,092	25,488
Interest from advances secured by mortgage		9,193	9,244	11,634	9,193	11,634
		30,285	34,271	37,122	30,285	37,122
Less: Interest expense		15,785	20,264	23,152	15,986	23,366
		14,500	14,007	13,970	14,299	13,756
Fees and commission revenue		40,773	49,428	43,214	38,809	40,644
Less: Fees and commission expense		2,034	2,550	1,779	1,978	1,580
Other revenue	30	1,794	550	810	2,784	2,170
Revenue from the Crown	33	3,802	4,500	4,500	3,802	4,500
Revenue before expenses	30	**58,835**	**65,935**	**60,715**	**57,716**	**59,490**
Expenses						
Employee benefits	30	37,868	41,122	40,121	37,868	40,121
Operating lease costs		3,468	4,450	3,877	3,468	3,877
Depreciation	12	1,900	2,302	1,833	1,900	1,833
Amortisation of intangibles	13	574	175	272	574	272
Net losses on disposals of property, plant & equipment and intangibles		75	75	76	75	76
Impairment losses on property, plant & equipment and intangibles	13	1,187	-	-	1,187	-
Impairment losses on advances secured by mortgage	9	96	758	782	96	782
Other expenses		17,247	16,294	16,588	17,185	16,234
Total expenses		**62,415**	**65,176**	**63,549**	**62,353**	**63,195**
Net gains on financial instruments	30	11,350	2,153	9,890	11,350	9,890
Profit (loss) before tax for the year		**7,770**	**2,912**	**7,056**	**6,713**	**6,185**
Tax expense (benefit)	31	-	-	-	(296)	(244)
Profit (loss) after tax for the year		**7,770**	**2,912**	**7,056**	**7,009**	**6,429**
Other comprehensive income						
Items that may be reclassified to profit and loss:						
Movement in cash flow hedging reserve	22	1,025	300	105	1,025	105
Total comprehensive income for the year		**8,795**	**3,212**	**7,161**	**8,034**	**6,534**

Statement of Cash Flows

For the year ended 30 June 2013

	NOTES	GROUP ACTUAL 2013 $000	UNAUDITED GROUP BUDGET 2013 $000	GROUP ACTUAL 2012 $000	PARENT ACTUAL 2013 $000	PARENT ACTUAL 2012 $000
Cash flows from operating activities						
Fees and other revenue		44,903	54,479	47,655	44,031	46,432
Interest revenue		30,045	34,271	39,317	30,045	39,317
Taxation		(11)	-	(2)	(11)	242
Payments to suppliers and employees		(59,848)	(63,716)	(60,307)	(59,711)	(59,794)
Interest expense		(18,027)	(20,264)	(24,162)	(18,228)	(24,376)
Net GST expense		(995)	(700)	(127)	(994)	(115)
Net cash flows from operating activities	32	**(3,933)**	**4,070**	**2,374**	**(4,868)**	**1,706**
Cash flows from investing activities						
Net flows from non-trading investments		217,210	286,434	124,081	217,210	124,081
Sale of property, plant & equipment		7	-	3	7	3
Purchase of property, plant & equipment		(2,465)	(3,077)	(3,270)	(2,465)	(3,270)
Purchase of intangibles		(626)	(75)	(624)	(626)	(624)
Net cash flows from investing activities		**214,126**	**283,282**	**120,190**	**214,126**	**120,190**
Cash flows from financing activities						
Net (payments to) /receipts from clients		(192,803)	(287,352)	(92,971)	(192,207)	(92,274)
Net cash flows from financing activities		**(192,803)**	**(287,352)**	**(92,971)**	**(192,207)**	**(92,274)**
Net increase (decrease) in cash and cash equivalents		17,390	-	29,593	17,051	29,622
Cash and cash equivalents at beginning of the year		55,307	32,147	25,714	55,297	25,675
Cash and cash equivalents at the end of the year	5	**72,697**	**32,147**	**55,307**	**72,348**	**55,297**

Statement of Commitments

As at 30 June 2013

Commitments to be met by Public Trust are as follows:

	2013 $000	2012 $000
Analysis of non-cancellable lease commitments		
Payable within 1 year	3,421	3,787
Payable after 1 year and within 5 years	4,321	5,283
Payable after 5 years	45	43
	7,787	**9,113**

Operating leases

Public Trust sublets two properties (2012: two). The income received during the year from sublet properties was $127,500 (2012: $143,000).

Public Trust's significant operating leases are for premises and motor vehicles.

The majority of premises leases have renewal terms with the rental reviewed on a two or three year cycle on their renewal dates. The average lease will expire within two years. Most leases allow subletting with the approval of the lessor.

Motor vehicle leases are for three year terms. Lease payments for the fleet of motor vehicles are reviewed annually.

Other Commitments

Public Trust has commitments of $24,100 (2012: nil) to purchase property, plant & equipment and no commitments to purchase intangible IT assets (2012: nil).

Public Trust has no other non-cancellable commitments (2012: nil).

Public Trust, in connection with its mortgage lending activities, has commitments to a value of $5.8 million to provide funding under undrawn revolving credit facilities and approved but undrawn applications (2012: $16.6 million).

Statement of Contingent Liabilities

As at 30 June 2013

As at 30 June 2012, Public Trust had a contingent liability in relation to prior interpretation of the terms of a trust deed. The matter relates to whether the Official Assignee is entitled to a member's KiwiSaver contribution in the event of the member's bankruptcy. The potential liability is estimated at $170,000. As at 30 June 2013, this contingency is still unresolved.

As at 30 June 2013, Public Trust also has a contingent liability in relation to Perpetual Trustees' application to the High Court for an order appointing Public Trust as replacement trustee in respect of Capital & Merchant. On 6 September 2013 the High Court ruled that Public Trust is appointed as replacement trustee, and that Perpetual Trustee is not liable to cover its costs of appointment. Accordingly, if Public Trust is not able to recover its costs from the Capital & Merchant assets, then it has a potential liability for costs that will need to be incurred to perform its duties as trustee. The potential liability is estimated at between $250,000 and $300,000.

Notes to the Financial Statements

For the year ended 30 June 2013

1 General information

Public Trust is a body corporate established in New Zealand by the Public Trust Act 2001 (the 2001 Act), and includes those liabilities defined as the Common Fund by the 2001 Act. The Public Trust Group (the Group) comprises Public Trust (the Parent) and its subsidiaries.

Public Trust is a Crown Entity for the purposes of the Crown Entities Act 2004 and is domiciled in New Zealand. Public Trust's ultimate parent is the New Zealand Crown. Public Trust is an issuer for the purposes of the Financial Reporting Act 1993. In accordance with the requirements of these statutes, separate financial statements for the Parent and consolidated financial statements for the Group are prepared.

The activities and assets of Group Investment Funds managed by the Parent are not included except for cash balances held in the Common Fund, and to the extent that the Parent invests those funds on its own account. Similarly the assets managed for individual trusts, except for liabilities to clients held in the Common Fund, are not included. These entities are not consolidated within the Group's financial statements as the Group does not control these funds and trusts so as to obtain ownership benefits.

2 Basis of preparation

These financial statements are for the year ended 30 June 2013. They have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for profit-oriented entities. The financial statements also comply with International Financial Reporting Standards.

Comparatives

The comparatives presented are for the year ended 30 June 2012 (except for the reclassifications noted below), as appropriate.

Fees and commission expense

During the preparation of the financial statements we have reassessed costs included in Fees and Commission expense. It was determined that administration fees relating to the outsourcing of the investment portfolio is an operational cost to the organisation rather than a deduction from fee revenue. As such the associated cost has been reallocated in the *Statement of Profit and Loss and Other Comprehensive Income* from Fees and Commission expense to Other expenses.

Credit Risk – Credit ratings

During the preparation of the financial statements we have reassessed the calculation of credit rating categories. This has resulted in restatement between the long and short term categories of credit ratings, AA- and A+ respectively. There was no overall impact on the total financial assets for which credit ratings are applicable.

Trade Receivables

During the financial year Public Trust implemented a new system which included trade receivables. The new system provides more detailed information relating to the make up of trade receivables and this has resulted in trade receivables being split into two categories, trade receivables and work in progress. The comparative numbers have been restated to appropriately reflect the two categories.

Measurement basis

The financial statements have been prepared on a historical cost basis, except for financial assets and financial liabilities at fair value through profit and loss and derivatives, which have been measured at fair value.

2 Basis of preparation *(continued)*

Functional and presentation currency
All transactions and balances are presented in New Zealand dollars, which is also the functional currency. All amounts are rounded to the nearest thousand dollars ($'000) unless otherwise stated.

Budget
The budget figures are not audited.

Use of judgements and estimates
The preparation of financial statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, revenue and expenses. Actual results may differ from these estimates.

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

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 8 – Trade receivables & Work in progress
- Note 9 – Advances secured by mortgages
- Note 13 – Intangibles
- Note 15 – Deferred tax asset
- Note 17 – Prepaid estate administration
- Note 21 – Provisions
- Note 26 – Credit risk
- Note 28 – Fair value

3 Accounting policies

The accounting policies set out below have been consistently applied to all periods presented in these financial statements, and have been consistently applied by Group entities, except for the initial application of new standards, amendments to standards or interpretations. The following amended standards have been adopted during the year:

NZ IAS 1 *Presentation of Financial Statements – Presentation of Other Comprehensive Income*: This standard requires entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss in subsequent periods (reclassification adjustment).

Basis of consolidation
The consolidated financial statements comprise the financial statements of Public Trust and its subsidiaries as at and for the year ended 30 June 2013.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent, using consistent accounting policies.

In preparing the consolidated financial statements, all intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends have been eliminated in full. The purchase method of accounting is used to account for the acquisition (prior to 1 July 2009) of subsidiaries in a business combination.

3 Accounting policies *(continued)*

There was no acquisition of subsidiaries after this date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. The current carrying value of goodwill includes any post-acquisition impairment losses recognised in profit or loss.

Financial instruments

On initial recognition, financial instruments are classified into one of the following categories which then determine the accounting treatment of the instrument:

- financial assets at fair value through profit or loss;
- financial assets comprising loans and receivables;
- financial liabilities at fair value through profit or loss; and
- other financial liabilities.

Offsetting financial instruments

Financial assets and liabilities are offset and net balances reported in the Statement of Financial Position where there is a legally enforceable right to set off, and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Recognition and derecognition

All regular way purchases and disposals of financial instruments are accounted for on a trade date basis.

Financial assets are derecognised when the Group neither retains the risks and rewards of ownership nor controls the contractual rights to the cash flows arising from them.

Financial liabilities are derecognised when the contractual obligations are discharged, cancelled or expired.

Effective interest rate method

The effective interest rate method is used in accounting for certain financial instruments and the revenue derived from them. The effective interest rate is the rate, determined upon acquisition, that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument.

Financial assets at fair value through profit or loss

A financial asset is designated at fair value through profit or loss if it is either:

- held for trading, having been acquired principally for the purpose of resale in the short term; or
- part of a group of financial instruments that are managed, including performance evaluation, on a fair value basis.

Financial instruments classified at fair value through profit or loss include:

- investments in interest bearing securities; and
- derivative financial instruments classified as held for trading.

Financial assets at fair value through profit or loss are initially recognised at their fair value. This comprises their trade date transaction price and excludes any transaction costs associated with the purchase which are expensed as incurred.

Subsequent to initial recognition, financial assets at fair value through profit or loss are carried at their fair value.

Unless otherwise stated, the fair value of these instruments is determined in accordance with the bid price quoted in the relevant active market or the most recent transaction price, where the bid price is not available.

3 Accounting policies *(continued)*

For financial assets not trading in an active market, prices are obtained using a valuation technique. The valuation technique makes maximum use of market inputs and relies as little as possible on entity specific inputs and may include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis.

Gains and losses on these financial instruments arise where their fair value on initial recognition differs from their subsequent fair value measurement. All such gains and losses, including those arising upon sale, derecognition and foreign currency translation, are recognised in profit or loss.

For interest bearing securities and interest related derivatives, subsequent measurement is carried out in a two-stage process. Firstly, the amortised cost of the instrument is calculated in accordance with the effective interest rate method. This gives rise to interest revenue or expense as the case may be. The amortised cost value is then compared to the fair value as computed and the difference is recorded as a gain or loss.

Derivative financial instruments

Derivative financial instruments are future-settled contracts whose value changes in accordance with changes in a specified underlying variable.

Derivative financial instruments entered into for risk management purposes are instruments that are used to hedge exposures to interest rate risk. Some of these hedged exposures qualify for hedge accounting.

Derivative financial instruments are recognised on the date on which a derivative contract is entered into and are subsequently measured to fair value.

Where derivative financial instruments form part of an effective hedge relationship, they are valued on the basis of the mid-price of the bid/offer spread for the relevant interest rates. Any related revaluation of a hedged item is similarly valued on the same basis.

Subsequent to initial recognition, gains and losses from remeasurement of derivative financial instruments to fair value are recognised in profit or loss, with the exception of gains and losses on derivative financial instruments which are designated and effective as hedge accounting instruments. Hedge accounting instruments are accounted for as set out below.

Where the instrument is recognised in profit or loss, that component of the change in fair value that relates to interest received or accrued in the current year is included in net interest revenue. The remainder is included in gain or loss on financial instruments.

The proceeds from the realisation of interest rate swaps held for trading are split between capital value and accrued interest and recognised in realised gains/losses and interest revenue respectively.

Receipts or payments on maturity of forward rate agreements are recognised in interest revenue.

Derivative financial instruments designated as hedging instruments – cash flow hedges

Derivative financial instruments, whose purpose is to match the cash flows arising from interest rate changes on floating rate mortgages and liabilities to clients at call, are designated as cash flow hedges. To the extent that individual hedges are effective at inception and remain so, changes in the fair value of these instruments are recognised in other comprehensive income (the cash flow hedging reserve). Any ineffective portion is recognised in profit or loss.

When the hedging instrument expires or is sold, the hedge no longer meets the criteria for hedge accounting or the hedge designation is revoked, the cumulative gain or loss on the hedging instrument remaining in the cash flow hedging reserve is transferred to profit or loss when the forecast transaction occurs.

When the forecast transaction is no longer expected to occur, the cumulative gain or loss on the hedging instrument recognised in the cash flow hedging reserve is transferred to profit or loss immediately.

3 Accounting policies *(continued)*

Derivative financial instruments designated as hedging instruments – fair value hedges

Derivative financial instruments, whose purpose is to match the changes in fair value of long-dated term deposit liabilities as interest rates change, are designated as fair value hedges. To the extent that individual hedges are effective at inception and remain so, changes in the fair value of the hedging instrument, together with any changes in fair value of the relevant (hedged) risk of the term deposit liabilities are recognised in profit or loss.

When a hedging instrument expires or is sold, the hedge no longer meets the criteria for hedge accounting or the hedge designation is revoked, the resulting adjustment to the carrying amount of the hedged item is amortised to profit or loss over the period to maturity of the instrument hedged.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments for which market values are not quoted in an active market.

Financial assets in this category include:

- cash and cash equivalents;
- term deposits;
- advances to clients;
- trade receivables;
- work in progress;
- due from subsidiary (Parent financial statements); and
- advances secured by mortgage.

Loans and receivables are initially recognised at their fair value plus transaction costs. Subsequent to initial recognition, loans and receivables are carried at their amortised cost in accordance with the effective interest rate method.

Gains and losses on these financial assets arise on sale, derecognition or impairment and are recognised in profit or loss. Any interest revenue arising on loans and receivables is recognised in profit or loss in accordance with the associated effective interest rate.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash at bank (including any overdraft), money market deposits on call and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are recognised at their cash settlement value.

Investment securities

Term deposits within investment securities are classified as loans and receivables. The initial and subsequent recognition are as described above.

Advances to clients

Advances to clients include client overdrafts and advances to client beneficiaries. The initial and subsequent recognition are as described above.

Trade receivables

The receivable from the Crown represents sums due, but not yet received, for services.

Receivables of uncertain timing represent certain claims for estate administration services where payment is not due until an uncertain point in the future. The timing of the future cash flows has been based on life expectancy and discounted at a rate appropriate to the estimated point of collection.

3 Accounting policies *(continued)*

All other trade receivables are short term in nature, do not carry any interest and are accordingly stated at their nominal value. The initial and subsequent recognition are as described above.

Work in progress

Work in progress represents time incurred in providing trustee and estate administration services to clients that is not yet invoiced. Work in progress is assessed for recoverability by taking into consideration the type of clients and the nature of the services provided.

Impairment

Loans and receivables are regularly reviewed for impairment, both individually and collectively in groups of financial assets with similar risk profiles.

An impairment loss is recognised when there is objective evidence that future cash flows from the asset will decline from the previous expected levels. The amount of any impairment is measured as the difference between the asset's carrying value and the present value of the re-estimated cash flows, discounted at the original effective interest rate. Any impairment loss is recognised in profit or loss with a corresponding reduction in the carrying value of the financial asset through an impairment allowance account.

Advances secured by mortgage

Advances secured by mortgage are initially recognised at cost (including origination fees), plus any transaction costs that are directly attributable to the issue of the advance. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by amortising advances secured by mortgage including fees and costs to profit or loss over the expected term of the advance.

Advances secured by mortgage – impairment

Advances secured by mortgage are regularly reviewed for impairment loss. The carrying amount of the advance is reduced through the use of an impairment allowance account and the amount of the loss is recognised in profit or loss.

An individual impairment allowance is provided when there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the advance. The impairment allowance is an estimation of the amount and timing of future cash flows.

When an advance is uncollectible, it is written off against the carrying amount. The related impairment allowance previously provided for is reversed in profit or loss.

For the purposes of a collective evaluation of impairment, advances secured by mortgage, excluding those where an individual impairment allowance has been provided, are grouped together on the basis of similar risk characteristics.

Future cash flows of the group are estimated on the basis of the contractual cash flows and historical loss experience for assets with similar risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Any collective impairment loss is recognised in profit or loss with a corresponding reduction in the carrying value of the financial asset through a collective impairment allowance account.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss is comprised solely of those derivative financial instruments held for trading in a loss position which cannot be offset against a countervailing balance which forms part of a qualifying offset agreement.

Unless otherwise stated financial liabilities at fair value through profit or loss are valued applying the 'ask' value from the range of relevant interest rates.

3 Accounting policies *(continued)*

Term deposit liabilities – subject to fair value hedges
Term deposits liabilities that are the hedged item in a fair value hedge accounting relationship are carried at amortised cost plus an adjustment to arrive at the fair value ascribed to the risk being hedged. The fair value change is recognised in profit or loss.

Other financial liabilities
Other financial liabilities include:

- liabilities to clients (except for those term deposit liabilities that are the hedged item in a fair value hedge accounting relationship);
- trade payables; and
- loan from subsidiary (Parent financial statements).

Other financial liabilities are initially recognised at their fair value plus any transaction costs directly attributable to their acquisition or issue.

Subsequent to initial recognition, other financial liabilities are carried at their amortised cost in accordance with the effective interest rate method.

Any interest expense arising on other financial liabilities is recognised in profit or loss in accordance with the associated effective interest rate.

Foreign currency transactions
Transactions in foreign currencies are translated to New Zealand dollars at the rate of exchange prevailing at the transaction date. At the reporting date, foreign currency monetary assets and liabilities are translated into New Zealand dollars using the exchange rates prevailing at the reporting date. Exchange differences arising on the settlement or translation of foreign currency monetary items are recognised in profit or loss.

Property, plant & equipment
Property, plant & equipment are initially recognised at the cost necessary to bring each item to the working condition intended by management. Until the assets are in a workable condition, costs are accumulated as capital work in progress. Once the asset is capable of operation, the cost, less the asset's estimated residual value, is depreciated over its useful life using the straight-line method.

The useful lives of major depreciable asset categories are as follows:

Plant, furniture and fittings	3-10 years
Information technology (IT) equipment and operating software	3-5 years

In the case of fixtures and fittings installed in leasehold properties, the useful life is considered to correspond to the estimated occupancy period based on the contractual terms of the relevant lease.

A review of property, plant & equipment is undertaken at the end of each financial year to ensure the estimates of useful life, depreciation method and residual value remain relevant.

Computer software that is deemed integral to the operation of associated hardware is classified as property, plant & equipment; otherwise it is classified as an intangible asset.

Subsequent to initial recognition, items of property, plant & equipment are carried at their cost less any accumulated depreciation and any accumulated impairment losses. Any impairment losses are recognised in profit or loss.

3 Accounting policies *(continued)*

Intangible assets
Intangible assets are recognised where they are clearly identifiable, and have probable future economic benefits that can be reliably measured.

Goodwill
Goodwill arising from the purchase of a business is recognised in the Group's Statement of Financial Position. It is initially recognised at cost and subsequently carried at cost, less any accumulated impairment losses, subject to the concession to allow pre-existing goodwill to be carried at its carrying amount at the date of transition to NZ IFRS.

After initial recognition, goodwill is measured at the amount recognised at acquisition date less any accumulated impairment losses.

Intangible IT assets
Intangible IT assets comprise computer software that is not integral to the operating systems of computer and server equipment. These are classified as finite life intangible assets that are initially recognised at the cost necessary to bring the software to the condition intended for functionality. Until the intangible IT assets are at this level of functionality, costs are accumulated as capital work in progress. Once the software is capable of functionality, the cost is amortised over its estimated useful life of three to five years using the straight-line method.

A review of intangible IT assets is undertaken at the end of each financial year to ensure the estimates of useful life and the amortisation method remain relevant.

Intangible IT assets are subsequently carried at cost, less any accumulated amortisation and accumulated impairment losses.

Impairment of non – financial assets other than goodwill
Non-financial assets other than goodwill are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An annual internal review of asset values is performed at the end of each financial year. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

Any impairment losses are recognised in profit or loss.

Impairment of goodwill
Goodwill is subject to an annual recoverable amount impairment test. Any impairment is recognised in profit or loss as a permanent reduction in the carrying value. Impairment losses recognised for goodwill are not subsequently reversed.

Goodwill has been allocated to the Corporate Trustee Services cash generating unit (CGU), being the lowest level of asset group for which there are separately identifiable cash inflows. Impairment testing is done using a discounted cash flows model. Further details on the methodology and assumptions used are outlined in note 13.

3 Accounting policies *(continued)*

Parent investment in subsidiaries

Investments in subsidiaries are accounted for by the cost method. Under this method the cost of an acquired subsidiary is measured as the fair value of the assets given in exchange at the date of acquisition, plus costs directly attributable to the acquisition, subject to the concession to allow the acquisition to be carried at the deemed cost at the date of transition to NZ IFRS.

Subsequent to acquisition, investments in subsidiaries are subject to annual review for impairment.

Upon receipt of a dividend payment from a subsidiary, the Parent will assess whether any indicators of impairment to the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value exceeds its recoverable amount, an impairment is recognised.

Prepaid income

The Group receives certain management fees for services to be provided over more than one financial year. The prepaid portion is carried in the Statement of Financial Position at the value of the services yet to be performed measured in accordance with the underlying contract on a straight-line basis.

Prepaid estate administration

The Group has entered into contracts, where a fee is taken in advance, for services to be delivered upon the death of the client. The liability to these clients is valued at the net present value of the estimated cost necessary to complete the contract, determined in accordance with the probabilities associated with life expectancy.

Employee benefits

Annual leave

Provision is made for annual leave in accordance with the accumulated entitlement as at the reporting date. This is carried at the cash amount necessary to settle the obligation.

Sick leave

The sick leave allowance is calculated by assuming each person on the relevant contract is entitled to a certain number of days sick leave in a year. An estimate is made of the likelihood of each person drawing upon an accumulated entitlement over and above the standard number of sick leave days in the forthcoming year. These surplus days are valued at the current rate of pay plus an increment to represent the pay rate at which the sick leave is likely to crystallise.

Long-service leave

Provision is made for long-service leave benefits on an actuarial basis. Projected cash flows are estimated in accordance with both national and entity experience. The resulting projected cash flows are discounted in accordance with market yields on New Zealand Government bonds as at the reporting date.

Provisions

Restructuring

The restructuring provision relates to the termination of employment. This is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly before or at the reporting date. This provision is carried at the estimated amount of cash necessary to settle the obligation.

Vacant space

The vacant space provision represents gross rentals payable on premises no longer used for operational purposes discounted at the risk-free rate.

Remedial work and litigation

The remedial work and litigation provision relates to a number of matters where fault with the Group's service delivery has been alleged or other contractual dispute has arisen, including some matters that may take a number of years to resolve.

3 Accounting policies *(continued)*

Where the Group assesses that a present obligation exists in any such matter, a provision is recognised and is carried at the estimated amount of cash necessary to settle the obligation.

Where it is expected that some or all of a provision will be reimbursed by a third party, the reimbursement is recognised as a separate asset under sundry receivables when the reimbursement is virtually certain.

Expense

The expense relating to any provision is recognised in profit or loss net of any expected reimbursement and separately from any interest expense arising from the discounting of provision obligations.

Leases

Leases entered into by the Group where substantially all the risks and rewards of ownership do not transfer to the Group are operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the year(s) of the lease.

Lease incentives

Any lease incentives are amortised over the estimated occupancy periods and offset against lease expenditure in profit or loss. The estimated occupancy period is based on the contractual terms of the lease and is reviewed annually.

Tax

Income tax expense comprises current tax and deferred tax. Income tax expense is recognised in profit or loss, except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax

Current tax is the tax receivable/payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax receivable/payable in respect of previous years.

Deferred tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts, together with any future income tax benefits arising from unutilised tax losses in the financial statements. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction (other than a business combination) that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Goods and services tax

All revenues and expenses are recognised net of goods and services tax (GST). Any GST on expenses that is not recoverable is recognised in profit or loss.

Where the cost of property, plant & equipment and intangible assets includes an element of irrecoverable GST, such costs are included as part of the initial carrying amount of the relevant asset.

Receivables and payables are recognised inclusive of any applicable GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

3 Accounting policies *(continued)*

Fee revenue

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Fees

Fees from services are recognised in profit or loss in accordance with the underlying service contract. Depending on the nature of the service, this is either based on time spent or following the performance of a specific act.

Revenue from the Crown

The Crown contracts with Public Trust to deliver certain estate administration services. Fees arising from the performance of these services are recognised on completion of the relevant services.

Presentation of cash flows

Cash flows from operating activities are cash flows from the principal revenue producing activities of the Group. Operating activities also include net proceeds from investment securities and derivative financial instruments acquired specifically for resale. For the purpose of the Statement of Cash Flows these are referred to as trading investments.

Cash flows from investment activities and receipts from clients are presented net. This is because the scale of gross cash flows would give a misleading view of the scale of business activities of the Group.

Commitments

Commitments for goods yet to be received are not recognised and are disclosed in the Statement of Commitments where material.

Application of accounting standards

The following new standards have been issued but not yet effective for the year ended 30 June 2013, and have not been applied in preparing these financial statements:

Amendment to NZ IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities: effective for annual periods beginning on or after 1 January 2013. The amendment will initially be applied in the financial statements for the year ending 30 June 2014. This is an amendment to the disclosure requirements to require information about all recognised financial instruments that are set off in accordance with NZ IAS 32 Financial Instruments: Presentation. It also requires disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under NZ IAS 32.

Amendment to NZ IFRS 7 Financial Instruments: Disclosures – Transition Disclosures: effective for annual periods beginning on or after 1 January 2013. The amendment will initially be applied in the financial statements for the year ending 30 June 2014. This amendment removes the requirement for the restatement of comparative period financial statements upon initial application of the classification and measurement requirements of NZ IFRS 9 but introduces additional disclosures on transition from the classification and measurement requirements of NZ IAS 39 *Financial Instruments: Recognition and Measurement* to those of NZ IFRS 9.

NZ IFRS 9 (2009) *Financial Instruments:* effective for annual periods beginning on or after 1 January 2015. This standard will initially be applied in the financial statements for the year ending 30 June 2016. The standard includes requirements for the classification and measurement of financial assets which improve and simplify the approach for classification and measurement of financial assets compared with the requirements of NZ IAS 39.

NZ IFRS 9 (2010) *Financial Instruments:* effective for annual periods beginning on or after 1 January 2015. This standard will initially be applied in the financial statements for the year ending 30 June 2016. The requirements for classifying and measuring financial liabilities were added to the standard as issued in 2009. The existing NZ IAS 39 requirements for the classification of financial liabilities and the ability to use the fair value option have been retained.

3 Accounting policies *(continued)*

NZ IFRS 10 *Consolidated Financial Statements:* effective for annual periods beginning on or after 1 January 2013. This standard will initially be applied in the financial statements for the year ending 30 June 2014. This standard establishes a new control model. The new control model broadens the situations when an entity is considered to control another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control.

NZ IFRS 12 *Disclosure of Interests in Other Entities:* effective for annual periods beginning on or after 1 January 2013. This standard will initially be applied in the financial statements for the year ending 30 June 2014. This standard includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.

NZ IFRS 13 *Fair Value Measurement:* effective for annual periods beginning on or after 1 January 2013. This standard will initially be applied in the financial statements for the year ending 30 June 2014. This standard establishes a single source of guidance under NZ IFRS for determining the fair value of assets and liabilities. It does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under NZ IFRS when fair value is required or permitted by NZ IFRS. Application of this guidance may result in different fair values being determined for the relevant assets. The standard also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.

NZ IAS 27 *Separate Financial Statements:* effective for annual periods beginning on or after 1 January 2013. This standard will initially be applied in the financial statements for the year ending 30 June 2014. This standard removes the accounting and disclosure requirements for consolidated financial statements, as a result of the issue of NZ IFRS 10 and NZ IFRS 12, which establish new consolidation and disclosure standards. This standard also contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.

Amendments to NZ IFRS 10 Consolidated Financial Statements, NZ IFRS 12 Disclosure of Interests in Other Entities and NZ IAS 27 Separate Financial Statements – Investment Entities: effective for annual periods beginning on or after 1 January 2014. The amendment will initially be applied in the financial statements for the year ending 30 June 2015. The amendments set out new requirements where an entity qualifies as an investment entity. The investment entity does not consolidate its subsidiaries but measures its investments at fair value.

Amendments to NZ IAS 32: Offsetting Financial Assets and Financial Liabilities: The amendment is effective for annual periods beginning on or after 1 January 2014. The amendment will initially be applied in the financial statements for the year ending 30 June 2015.

The amendment clarifies certain aspects of diversity in the application of requirements on offsetting and focus on four main areas:

- the meaning of "currently has a legally enforceable right of set-off";
- the application of simultaneous realisation and settlement;
- the offsetting of collateral amounts;
- the unit of account for applying the offsetting requirements.

The adoption of the above standards in future periods is likely to impact recognition, measurement and disclosures. Public Trust will be undertaking work to quantify the financial impact of these new standards.

4 Supplementary information

Crown guarantee

The capital and interest on client deposits (liabilities to clients) in Public Trust's Common Fund is Government guaranteed.

The guarantee on capital for those deposits is provided by Section 52 of the Public Trust Act 2001 (the Act) and is not time-limited. The interest on client deposits is covered by a Government guarantee provided under Section 65ZD of the Public Finance Act 1989 and is effective until the date the Act is amended to remove any doubt that the guarantee in Section 52 of the Act applies to both capital and accrued interest.

The probability of a call being made on either guarantee to ensure clients' deposits are repaid is considered extremely remote. In the event of this occurring Public Trust would be required to record a liability to the Crown for the amount so called.

5 Cash and cash equivalents

	GROUP 2013 $000	GROUP 2012 $000	PARENT 2013 $000	PARENT 2012 $000
Cash and bank	12,936	47,159	12,587	47,149
Money market deposits at call	59,761	8,148	59,761	8,148
	72,697	**55,307**	**72,348**	**55,297**

6 Investment securities

	GROUP 2013 $000	GROUP 2012 $000	PARENT 2013 $000	PARENT 2012 $000
Designated at fair value through profit or loss				
Interest bearing securities				
Local authorities	-	31,064	-	31,064
Banks	26,268	48,246	26,268	48,246
Mortgage backed securities	33,925	38,448	33,925	38,448
Corporates	51,072	96,340	51,072	96,340
	111,265	214,098	111,265	214,098
Loans and receivables				
Term deposits				
Banks	289,167	350,791	289,167	350,791
Corporates	20,150	-	20,150	-
	309,317	350,791	309,317	350,791
	420,582	**564,889**	**420,582**	**564,889**

7 Derivative financial instruments

	GROUP 2013 $000	GROUP 2012 $000	PARENT 2013 $000	PARENT 2012 $000
Assets				
Interest rate swaps				
Held for trading	2	114	2	114
Cash flow hedge accounted	354	128	354	128
Fair value hedge accounted	20	1,754	20	1,754
Forward rate agreements – held for trading	2	-	2	-
	378	**1,996**	**378**	**1,996**
Liabilities				
Interest rate swaps				
Held for trading	339	1,963	339	1,963
Cash flow hedge accounted	4,849	2,328	4,849	2,328
Forward rate agreements – held for trading	4	24	4	24
	5,192	**4,315**	**5,192**	**4,315**

8 Trade receivables & Work in progress

	GROUP 2013 $000	GROUP 2012 $000	PARENT 2013 $000	PARENT 2012 $000
Accrued interest	56	45	56	45
Crown	666	317	666	317
Receivables of uncertain timing	2,416	2,569	2,416	2,569
Less: Collective impairment allowance	(268)	(79)	(268)	(79)
Fees receivable	1,035	708	959	654
Less: Collective impairment allowance	(68)	-	(68)	-
Work in Progress	2,937	2,408	2,545	2,010
Other	276	277	276	277
	7,050	**6,245**	**6,582**	**5,793**
Collective impairment allowance – Receivables of uncertain timing				
Opening balance	(79)	(157)	(79)	(157)
Charge for year	(189)	78	(189)	78
	(268)	**(79)**	**(268)**	**(79)**
Collective impairment allowance – Fees receivable				
Opening balance	-	-	-	-
Charge for year	(68)	-	(68)	-
	(68)	**-**	**(68)**	**-**

For significant judgements, estimates and assumptions applied refer to Note 26 Credit risk.

9 Advances secured by mortgage

	GROUP 2013 $000	GROUP 2012 $000	PARENT 2013 $000	PARENT 2012 $000
Gross value	123,941	181,822	123,941	181,822
Less: Individual impairment allowance	(3,744)	(7,816)	(3,744)	(7,816)
Less: Collective impairment allowance	(1,043)	(2,407)	(1,043)	(2,407)
	119,154	**171,599**	**119,154**	**171,599**
Individual impairment allowance				
Opening balance	(7,816)	(6,848)	(7,816)	(6,848)
Charge for the period	(2,167)	(1,724)	(2,167)	(1,724)
Bad debts written off	5,518	552	5,518	552
Unused allowance reversed	721	204	721	204
Closing balance	**(3,744)**	**(7,816)**	**(3,744)**	**(7,816)**
Collective impairment allowance				
Opening balance	(2,407)	(3,080)	(2,407)	(3,080)
Unused allowance reversed	1,364	673	1,364	673
Closing balance	**(1,043)**	**(2,407)**	**(1,043)**	**(2,407)**

For significant judgements, estimates and assumptions applied refer to Note 24 Interest rate risk and Note 26 Credit risk.

10 Sundry receivables

	GROUP 2013 $000	GROUP 2012 $000	PARENT 2013 $000	PARENT 2012 $000
Resident withholding tax	6	4	6	4
Other	66	79	66	79
	72	**83**	**72**	**83**

11 Current tax

	GROUP 2013 $000	GROUP 2012 $000	PARENT 2013 $000	PARENT 2012 $000
Opening balance	230	227	230	227
Cash received (paid)	11	3	11	3
	241	**230**	**241**	**230**

Refer to Note 31 for the tax expense (benefit) reconciliation.

12 Property, plant & equipment

Group & Parent	PLANT, FURNITURE AND FITTINGS 2013 $000	IT EQUIPMENT AND OPERATING SOFTWARE 2013 $000	CAPITAL WORK IN PROGRESS 2013 $000	TOTAL 2013 $000
Cost				
Opening balance	14,130	5,928	2,966	23,024
Additions	298	50	2,848	3,196
Capital work in progress capitalised	94	613	(707)	-
Transfer from (to) intangible assets	37	(51)	(2,293)	(2,307)
Disposals	(227)	(166)	(210)	(603)
Closing balance	14,332	6,374	2,604	23,310
Depreciation				
Opening balance	(9,292)	(4,521)	-	(13,813)
Depreciation for the year	(1,100)	(800)	-	(1,900)
Disposals	190	118	-	308
Closing balance	(10,202)	(5,203)	-	(15,405)
Carrying value of property, plant & equipment	**4,130**	**1,171**	**2,604**	**7,905**

Group & Parent	PLANT, FURNITURE AND FITTINGS 2012 $000	IT EQUIPMENT AND OPERATING SOFTWARE 2012 $000	CAPITAL WORK IN PROGRESS 2012 $000	TOTAL 2012 $000
Cost				
Opening balance	13,084	5,668	2,278	21,030
Additions	3	185	2,580	2,768
Capital work in progress capitalised	1,524	44	(1,568)	-
Transfer from (to) intangible assets	(9)	31	(324)	(302)
Disposals	(472)	-	-	(472)
Closing balance	14,130	5,928	2,966	23,024
Depreciation				
Opening balance	(8,621)	(3,752)	-	(12,373)
Depreciation for the year	(1,064)	(769)	-	(1,833)
Disposals	393	-	-	393
Closing balance	(9,292)	(4,521)	-	(13,813)
Carrying value of property, plant & equipment	**4,838**	**1,407**	**2,966**	**9,211**

13 Intangibles

	GROUP 2013 $000	GROUP 2012 $000	PARENT 2013 $000	PARENT 2012 $000
Intangible IT assets				
Cost				
Opening cost	9,492	8,868	9,492	8,868
Additions	107	322	107	322
Transfers from Capital Work in Progress	2,307	302	2,307	302
Closing balance	11,906	9,492	11,906	9,492
Amortisation				
Opening balance	(8,563)	(8,291)	(8,563)	(8,291)
Amortisation for the year	(574)	(272)	(574)	(272)
Closing balance	(9,137)	(8,563)	(9,137)	(8,563)
Impairment				
Opening balance	-	-	-	-
Impairment for the year	(1,187)	-	(1,187)	-
Closing balance	(1,187)	-	(1,187)	-
Goodwill arising on acquisition				
Cost				
Opening and closing balance	2,505	2,505		
Impairment balance				
Opening and closing balance	-	-		
Carrying value of intangibles	4,087	3,434	1,582	929

Goodwill has been allocated to the Corporate Trustee Services cash generating unit (CGU), being the lowest level of asset group for which there are separately identifiable cash inflows. The amount of goodwill allocated to Corporate Trustee Services equates to 100% of the Group's total carrying amount of goodwill.

Goodwill for Corporate Trustee Services was tested for impairment during the year with key judgements and assumptions as follows:

- The recoverable amount of the CGU was calculated on the basis of value in use, using a discounted cash flows model and the resultant gross value allocated to the various physical and intangible assets.
- Future cash flows were projected out five years, based on the approved business plans for the year ending 30 June 2014, with key assumptions being funds under supervision, and operating costs.
- Fee revenue was assumed to remain consistent with the 2013 fee revenue adjusted for changes in funds under supervision over the projected period. Management determined budgeted contribution margin based on past performance and its expectations of market development.
- Growth assumptions taking into account the competitive nature of the market have been applied.
- A pre-tax discount rate of 16.65% (2012: 17.2%) was applied to compute present value.

The key judgements and assumptions described above may change as economic and market conditions change. The Group estimates that reasonably possible changes in these judgements and assumptions are not expected to cause the recoverable amount of the CGU to decline below the carrying value.

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2013

14 Investments in subsidiaries

	COUNTRY OF INCORPORATION	PERCENTAGE HELD 2013	PERCENTAGE HELD 2012
New Zealand Permanent Trustees Limited	New Zealand	100%	100%
Plan for Life Limited[1]	New Zealand	100%	100%
Public Trust Charitable Holdings Nominee Limited[1]	New Zealand	100%	100%
Public Trust Limited[1]	New Zealand	100%	100%
Accordia Nominees Limited[3]	New Zealand	100%	100%
Capital Nominees Limited[3]	New Zealand	100%	100%
FXNL Nominees Limited[3]	New Zealand	100%	100%
Integral Nominees Limited[3]	New Zealand	100%	100%
Public Trust RIF Nominees Limited (formerly IIS Nominees Limited)[3]	New Zealand	100%	100%
Masterportfolio Nominees Limited[3]	New Zealand	100%	100%
Mint Nominees Limited[2]	New Zealand	100%	100%
Moorhouse Central Limited[3]	New Zealand	100%	100%
Newburg Nominees Limited[3]	New Zealand	100%	100%
New Zealand Rural Property Trust Nominees Limited[3]	New Zealand	100%	100%
NZPT Custodians (Grosvenor) Limited[2]	New Zealand	100%	100%
NZPT Custodians Limited[2]	New Zealand	100%	100%
NZPT (Queenstown) Asset Trust Security Trustee Limited[2]	New Zealand	100%	100%
NZPT Heartland ABCP Security Trustee Limited (formerly NZPT Marac ABCP Security Trustee Limited)[2]	New Zealand	100%	100%
NZPT(Queenstown) Security Trustee Limited[2]	New Zealand	100%	100%
Pathfinder Nominees Limited[3]	New Zealand	100%	100%
Permanent Nominees Limited[3]	New Zealand	100%	100%
Perpetual Asset Management Nominees Limited[3]	New Zealand	100%	100%
Plato Nominees Limited[3]	New Zealand	100%	100%
PM Capital NZ Nominees Limited[3]	New Zealand	100%	100%
Portfolio Nominees Limited[3]	New Zealand	100%	100%
Proteus Limited[3]	New Zealand	100%	100%
Public Nominees Limited[3]	New Zealand	100%	100%
Public Trust NZCS Nominees Limited[3]	New Zealand	100%	100%
SRF Nominees Limited[3]	New Zealand	100%	100%
Windley Nominees Limited[3]	New Zealand	100%	100%
King Tide Nominees Limited[3]	New Zealand	100%	100%
Public Trust Class 10 Nominees Limited[3]	New Zealand	100%	100%
Public Trust Class 20 Nominees Limited[3]	New Zealand	100%	100%
Public Trust Class 30 Nominees Limited[3]	New Zealand	100%	-
Public Trust Class 50 Nominees Limited[3]	New Zealand	100%	-
AON KiwiSaver Nominees Limited[3]	New Zealand	100%	-
Generate KiwiSaver Public Trust Nominees Limited[3]	New Zealand	100%	-
MT Nominees Limited[3]	New Zealand	100%	-
Public Trust SRIM Nominee Limited[3]	New Zealand	100%	-
Staples Rodway KiwiSaver Scheme Nominees Limited[3]	New Zealand	100%	-
Superlife Nominees Limited[3]	New Zealand	100%	-

[1] These entities are non-trading and have no assets and liabilities.

[2] These entities are subsidiaries held by New Zealand Permanent Trustees Limited (NZPT).

[2 & 3] These entities are nominee companies established to undertake business on behalf of Corporate Trustee clients. They are consolidated in the Group's financial statements. As the assets and liabilities are held under trust there is no impact on the Group's financial position.

15 Deferred tax

Deferred tax assets and liabilities are attributable to the following:

Group	STATEMENT OF FINANCIAL POSITION 2013 $000	STATEMENT OF FINANCIAL POSITION 2012 $000	PROFIT OR LOSS 2013 $000	PROFIT OR LOSS 2012 $000
Deferred tax asset				
Receivables of uncertain timing	366	415	(49)	23
Trade receivables allowance for impairment loss	366	-	365	-
Individual impairment allowance for advances secured by mortgage	1,048	2,188	(1,140)	271
Collective impairment allowance for advances secured by mortgage	292	674	(382)	(188)
Other trade payables	34	44	(10)	1
Employee benefits	1,244	1,493	(249)	99
Remedial work and litigation provision	255	62	193	30
Vacant space provision	19	180	(161)	(76)
Property, plant & equipment and intangibles	795	459	336	11
Prepaid estate administration	33	37	(3)	19
Recognised in profit or loss	4,452	5,552	**(1,100)**	**190**
Unrelieved losses	15,039	16,075		
Net deferred tax asset	**19,491**	**21,627**		
Net deferred tax asset not allowed for	**(19,491)**	**(21,627)**		
Net deferred tax asset recognised	-	-		
Net deferred tax asset not allowed for				
Opening balance	(21,628)	(23,575)		
Recognised in profit or loss	813	(221)		
Recognised in cash flow hedging reserve (other comprehensive income)	287	31		
Release of utilised loss	1,037	2,138		
Closing balance	**(19,491)**	**(21,627)**		

15 Deferred tax *(continued)*

Parent	STATEMENT OF FINANCIAL POSITION 2013 $000	STATEMENT OF FINANCIAL POSITION 2012 $000	PROFIT OR LOSS 2013 $000	PROFIT OR LOSS 2012 $000
Deferred tax asset				
Receivables of uncertain timing	366	415	(49)	23
Trade receivables allowance for impairment loss	366	-	365	-
Individual impairment allowance for advances secured by mortgage	1,048	2,188	(1,140)	271
Collective impairment allowance for advances secured by mortgage	292	674	(382)	(188)
Other trade payables	34	44	(10)	1
Employee benefits	1,244	1,493	(249)	99
Remedial work and litigation provision	255	62	193	30
Vacant space provision	19	180	(161)	(76)
Property, plant & equipment and intangibles	795	459	336	11
Prepaid estate administration	33	37	(3)	19
Recognised in profit or loss	4,452	5,552	**(1,100)**	**190**
Unrelieved losses	15,039	16,075		
Net deferred tax asset	**19,491**	**21,627**		
Net deferred tax asset not allowed for	**(19,491)**	**(21,627)**		
Net deferred tax asset recognised	-	-		
Net deferred tax asset not allowed for				
Opening balance	(21,628)	(23,575)		
Recognised in profit or loss	813	(221)		
Recognised in cash flow hedging reserve (other comprehensive income)	287	31		
Release of utilised loss	741	1,893		
Release of utilised loss – transferred to subsidiary	296	245		
Closing balance	**(19,491)**	**(21,627)**		

The deferred tax assets and liabilities will, when crystallised, be settled in the same jurisdiction and therefore settled net. It is appropriate therefore, to present these balances set off against one another.

The Group's planning horizon extends for a period of five years and is based on the Business Plan approved by the Board. "Probable future profits" is taken to mean the expected future profits that can be reasonably forecast within that planning horizon. The Group reassess unrecognised deferred tax assets annually. At the reporting date, the recent history of operating losses and the timing of future operating profits means there is insufficient certainty to justify carrying a deferred tax asset (2012: $nil).

16 Liabilities to clients – term deposits

	GROUP 2013 $000	GROUP 2012 $000	PARENT 2013 $000	PARENT 2012 $000
Term deposits	146,082	317,863	146,082	317,863
Term deposits subject to hedging	3,123	26,843	3,123	26,843
Fair value adjustment for term deposits subject to hedging	13	1,618	13	1,618
	149,218	**346,324**	**149,218**	**346,324**

17 Prepaid estate administration

The Group has contracted to provide an estate administration service following the death of the contracting party. The uncertainties inherent in this arrangement are: the timing of the death of the client, the value and complexity of the estate to be administered and the cost of service at that time. The Group has applied a life expectancy model to determine the likely dates of death.

The capital value of payments received from the contracting parties has been invested in the Common Fund and is included in Liabilities to clients.

The inflation rate used in the estimation of the liability, in excess of the amount included in the Common Fund, is consistent with the annual CPI inflation rate. This was 2.5% as at 30 June 2013 (2012: 2.5%). The estimated future cash flows are discounted at the 10 year rate of the New Zealand Government Bond yield curve of 3.8% at 30 June 2013 (2012: 3.5%). The discounted liability is included in Other payables.

18 Trade payables

	GROUP 2013 $000	GROUP 2012 $000	PARENT 2013 $000	PARENT 2012 $000
Trade creditors and accrued expenses	2,855	3,480	2,734	3,363
Capital creditors	5,275	326	5,275	326
Other	140	181	140	181
	8,270	**3,987**	**8,149**	**3,870**

19 Other payables

	NOTES	GROUP 2013 $000	GROUP 2012 $000	PARENT 2013 $000	PARENT 2012 $000
Withholding taxes payable		218	376	218	376
Fringe benefit tax		40	47	40	47
Goods and services tax		235	259	235	259
Lease incentives		21	46	21	46
Employees and employee related		1,287	1,368	1,287	1,368
Prepaid estate administration	17	119	133	119	133
Crown payable		662	-	662	-
Other		-	12	-	12
		2,582	**2,241**	**2,582**	**2,241**

20 Employee benefits

	GROUP 2013 $000	GROUP 2012 $000	PARENT 2013 $000	PARENT 2012 $000
Annual leave	1,386	1,487	1,386	1,487
Sick leave	50	49	50	49
Long-service leave	2,523	2,911	2,523	2,911
Performance incentive payments	370	790	370	790
	4,329	**5,237**	**4,329**	**5,237**

The calculation of long-service leave assumed a salary increase of 3.0% (2012: 3.0%). An additional 1% increase in salary would increase the provision by $183,000 (2012: $215,000).

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2013

21 Provisions

	GROUP 2013 $000	GROUP 2012 $000	PARENT 2013 $000	PARENT 2012 $000
Restructuring				
Opening balance	95	219	95	219
Additions	1,048	551	1,048	551
Amount applied	(776)	(595)	(776)	(595)
Reversal of provision not used	(253)	(80)	(253)	(80)
Closing balance	**114**	**95**	**114**	**95**
Remedial work and litigation				
Opening balance	222	121	220	113
Additions	737	120	737	120
Amount applied	(47)	(14)	(47)	(8)
Reversal of provision not used	(2)	(5)	-	(5)
Closing balance	**910**	**222**	**910**	**220**
Vacant space				
Opening balance	643	915	643	915
Additions	-	179	-	179
Amount applied	(83)	-	(83)	-
Movement in discount	25	27	25	27
Reversal of provision not used	(517)	(478)	(517)	(478)
Closing balance	**68**	**643**	**68**	**643**
Total	**1,092**	**960**	**1,092**	**958**

Restructuring

The restructuring provision relates primarily to the termination of employment. It is expected the sums provided will be paid within one year.

Remedial work and litigation

The remedial work and litigation provision relates to a number of matters where fault with the Group's service delivery has been identified or alleged or other contractual disputes have arisen. Final resolution may take a number of years.

No insurance reimbursements expected upon the final resolution of some of these matters have been recognised within sundry receivables (2012: $nil).

Vacant space

The vacant space provision recognises the cost of leases of surplus premises through to the conclusion of the leases. The future estimated cash flows are discounted at an appropriate point on the New Zealand Government stock yield curve of 1.9% at 30 June 2013 (2012: 2.6%)

The future minimum payments (undiscounted) until final maturity date are included within the analysis of non-cancellable lease commitments in the Statement of Commitments.

22 Equity

	GROUP 2013 $000	GROUP 2012 $000	PARENT 2013 $000	PARENT 2012 $000
Contributed Equity				
Opening and closing balance	**90,174**	**90,174**	**90,174**	**90,174**
Retained earnings				
Opening balance	(59,559)	(66,615)	(65,118)	(71,547)
Profit (loss) after tax	7,770	7,056	7,009	6,429
Closing balance	**(51,789)**	**(59,559)**	**(58,109)**	**(65,118)**
Cash flow hedging reserve				
Opening balance	(1,787)	(1,892)	(1,787)	(1,892)
Net (losses) gains from changes in fair value	942	(277)	942	(277)
Less: Tax effect of above movement	-	-	-	-
Transferred to profit or loss	83	382	83	382
Less: Tax effect of above movement	-	-	-	-
Closing balance	**(762)**	**(1,787)**	**(762)**	**(1,787)**
Equity at the end of the year	**37,623**	**28,828**	**31,303**	**23,269**

Capital management

The Group's core objectives when managing capital are to:

- protect the interests of depositors and creditors;
- protect the interests of the Crown;
- ensure the safety of the capital position; and
- ensure the capital base supports the strategic business objectives and the agreed risk appetite.

The objectives are to safeguard the Group's ability to continue as a going concern, while building a sustainable long-term financially viable business.

For capital management purposes, capital includes contributed equity, reserves and retained earnings, less the carrying value of intangibles, deferred tax asset and cash flow hedging reserve.

The Group operates within a risk management framework designed to ensure that the overall risk position is consistent with the Group's minimum capital adequacy requirements.

The Group, as a deposit taker, is subject to the requirements of the Non-Bank Deposit Taker (NBDT) regime. The prudential requirements with regard to capital have been developed and prescribe a minimum capital ratio of 8% for NBDT's with a credit rating from an approved credit rating agency. The Reserve Bank of New Zealand granted the Group a temporary exemption from capital ratio requirements, effective 1 December 2010. The exemption is subject to the condition that the Group must maintain a minimum capital ratio that is:

- not less than 2.5% until 1 December 2012;
- not less than 3.5% from 1 December 2012 to 1 December 2013; and
- not less than 8% from 1 December 2013.

22 Equity *(continued)*

The Group's capital ratio at 30 June 2013 is 8.0% (2012: 5.9%) placing it above its minimum capital requirement.

The actual position in terms of the proposed prudential capital requirements of the NBDT regime (and the Group's specific exemption) is reviewed monthly by management and the Board.

The Group's working capital is invested in accordance with the investment policy of the Common Fund.

There has been no material change in the Group's management of capital from the prior year.

Cash flow hedging reserve

The cash flow hedging reserve comprises the effective portion of the cumulative fair value of the interest rate swaps related to the on call client liabilities and floating rate mortgages, together with the related tax.

The transfer to profit or loss is included within interest from interest bearing securities.

The ineffective portion of cash flow hedges recognised in net gains (losses) on financial instruments within profit or loss is $59,845 loss (2012: $23,273 loss).

23 Maturity analysis of assets and liabilities

The following tables show assets and liabilities analysed according to when they are expected to be recovered, settled or the maturity dates as applicable. For discussions on the management of liquidity of financial assets and financial liabilities, refer to Note 27 Liquidity risk.

Group	STATEMENT OF FINANCIAL POSITION 2013 $000	LESS THAN 12 MONTHS 2013 $000	GREATER THAN 12 MONTHS 2013 $000	STATEMENT OF FINANCIAL POSITION 2012 $000	LESS THAN 12 MONTHS 2012 $000	GREATER THAN 12 MONTHS 2012 $000
Assets						
Cash and cash equivalents	72,697	72,697	-	55,307	55,307	-
Investment securities	420,582	266,360	154,222	564,889	339,583	225,306
Derivative financial instruments	378	53	325	1,996	277	1,719
Advances to clients	4,521	3,794	727	6,647	5,764	883
Trade receivables	7,050	4,902	2,148	6,245	3,424	2,821
Advances secured by mortgage	119,154	21,293	97,861	171,599	48,413	123,186
Total financial assets	**624,382**	**369,099**	**255,283**	**806,683**	**452,768**	**353,915**
Sundry receivables	72	61	11	83	68	15
Prepayments	643	643	-	729	729	-
Current tax	241	241	-	230	230	-
Property, plant & equipment	7,905	-	7,905	9,211	-	9,211
Intangibles	4,087	-	4,087	3,434	-	3,434
Total assets	**637,330**	**370,044**	**267,286**	**820,370**	**453,795**	**366,575**
Liabilities						
Liabilities to clients – at call or short term	428,489	428,489	-	427,804	427,804	-
Liabilities to clients – term deposits	149,218	133,858	15,360	346,324	294,430	51,894
Prepaid estate administration	403	-	403	462	-	462
Total liabilities to clients	**578,110**	**562,347**	**15,763**	**774,590**	**722,234**	**52,356**
Trade payables	8,270	8,270	-	3,987	3,987	-
Other payables	2,582	2,463	119	2,241	2,107	134
Derivative financial instruments	5,192	4,854	338	4,315	3,099	1,216
Prepaid income	132	132	-	212	212	-
Employee benefits	4,329	2,151	2,178	5,237	2,610	2,627
Provisions	1,092	1,092	-	960	199	761
Total liabilities	**599,707**	**581,309**	**18,398**	**791,542**	**734,448**	**57,094**

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2013

23 Maturity analysis of assets and liabilities *(continued)*

Parent	STATEMENT OF FINANCIAL POSITION 2013 $000	LESS THAN 12 MONTHS 2013 $000	GREATER THAN 12 MONTHS 2013 $000	STATEMENT OF FINANCIAL POSITION 2012 $000	LESS THAN 12 MONTHS 2012 $000	GREATER THAN 12 MONTHS 2012 $000
Assets						
Cash and cash equivalents	72,348	72,348	-	55,297	55,297	-
Investment securities	420,582	266,360	154,222	564,889	339,583	225,306
Derivative financial instruments	378	53	325	1,996	277	1,719
Advances to clients	4,521	3,794	727	6,647	5,764	883
Trade receivables	6,582	4,434	2,148	5,793	2,972	2,821
Due from subsidiary	287	287	-	20	20	-
Advances secured by mortgage	119,154	21,293	97,861	171,599	48,413	123,186
Total financial assets	**623,852**	**368,569**	**255,283**	**806,241**	**452,326**	**353,915**
Sundry receivables	72	61	11	83	68	15
Prepayments	644	644	-	729	729	-
Current tax	241	241	-	230	230	-
Property, plant & equipment	7,905	-	7,905	9,211	-	9,211
Intangibles	1,582	-	1,582	929	929	-
Investments in subsidiaries	4,654	4,654	-	4,654	4,654	-
Total assets	**638,950**	**374,169**	**264,781**	**822,077**	**458,936**	**363,141**
Liabilities						
Liabilities to clients – at call or short term	428,489	428,489	-	427,804	427,804	-
Liabilities to clients – term deposits	149,218	133,858	15,360	346,324	294,430	51,894
Prepaid estate administration	403	-	403	462	-	462
Total liabilities to clients	**578,110**	**562,347**	**15,763**	**774,590**	**722,234**	**52,356**
Trade payables	8,149	8,149	-	3,870	3,870	-
Other payables	2,582	2,463	119	2,241	2,107	134
Derivative financial instruments	5,192	4,854	338	4,315	3,099	1,216
Employee benefits	4,329	2,151	2,178	5,237	2,610	2,627
Provisions	1,092	1,092	-	958	199	759
Loan from subsidiary	8,193	8,193	-	7,597	7,597	-
Total liabilities	**607,647**	**589,249**	**18,398**	**798,808**	**741,716**	**57,092**

Public Trust administers trusts and estates on behalf of fiduciary beneficiaries. As part of its trustee functions Public Trust invests the assets of the trusts and estates on behalf of its clients. This is the principal source of Public Trust's liability deposits, which are invested in low risk assets such as at call, short and medium term deposits. Since Public Trust is the trustee of these assets, the risk of a run on funds is deemed remote. Historically, settlement of assets arising from trusts and estates being wound up are being replaced by the assets of new trusts and estates. In addition, the capital and interest on client deposits (liabilities to clients) in Public Trust's Common Fund is government guaranteed under section 52 of the Public Trust Act 2001.

24 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The objective of the interest rate risk management policy is to mitigate adverse changes in the fair value of financial liabilities versus financial assets due to changes in applicable interest rates. This is done by investing in assets with similar interest rate resetting terms to those of the financial liabilities. Where no natural match can be established, interest rate swaps and forward rate agreements may be entered into to create a hedge.

The Group's policy requires the mismatch between the weighted average interest rate reset term of liabilities and assets to be less than six months. Exposures to interest rate risk are monitored by management on a daily basis and reported to the Investment Committee quarterly.

Cash flow hedging

Changes in the 90-day bank bill rate will, all other things being equal, lead to changes in interest rates on on-call liabilities to clients rates as well as floating rate mortgage interest rates. Changes in the base interest rate will therefore lead to a change in the associated interest expense and associated interest income cash flows. Interest rate swaps have been entered into to mitigate this risk and these interest rate swaps are treated as cash flow hedges for accounting purposes.

The periods in which the cash flows are expected to occur and in which they are expected to affect profit or loss is shown in Note 27 Liquidity risk.

Fair value hedging

The Group has long-dated term deposit liabilities. Changes in the applicable interest rates will lead to changes in the fair value of these long-dated term deposit liabilities. Interest rate swaps have been entered into to mitigate this risk and these interest rate swaps are treated as fair value hedges for accounting purposes.

Group & Parent	2013 $000	2012 $000
Gains (losses) on interest rate swaps	(1,656)	(414)
Gains (losses) on long-dated term deposits	1,606	596

Financial risk assessment

The interest rate risk exposure, including all derivative financial instruments, is assessed using the value-at-risk (VaR) method.

This method measures the range within which the value of assets or liabilities may fluctuate with a certain probability over a certain period of time (the holding period), given the actual interest rates observed each business day during the prior 12 months.

The Group uses a 95% confidence interval (i.e. there is a 5% probability that the impact from market fluctuations exceeds the level calculated) and assumes a 1-year holding period. This is applied to the full range of interest bearing financial assets and liabilities, irrespective of whether those instruments are calculated at fair value or otherwise. The resultant measure is the true economic loss rather than that which would be immediately recognised.

Group & Parent	2013 $000	2012 $000
1 year Value-at-Risk at 95% confidence level	395	970

24 Interest rate risk *(continued)*

The values stated are on a pre-tax basis.

The assumptions on which VaR is based do have some limitations, including the following:

- A 1-year holding period assumes that it is possible to hedge or dispose of positions within that period. This may not be the case for certain highly illiquid assets or in situations in which there is severe general market illiquidity.
- A 95% confidence level does not reflect losses that may occur beyond this level. Even within the VaR model used there is a 5% probability that losses could exceed the VaR.
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the day.
- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all scenarios, especially those of an exceptional nature.
- The VaR measure is dependent upon the Group's position and the volatility of market prices. The VaR of an unchanged position reduces if market price volatility declines and vice versa.
- VaR does not include the impact of changes in the weighted average life of Mortgage Backed Securities (MBS), nor certain MBS, with a carrying value of $24.9 million (2012: $27.9 million), for which sufficiently frequent pricing is not available. It reflects potential VaR arising from interest rate and credit spread movements.

The fair value of the Group's investments in interest bearing securities is a function of underlying risk free interest rates plus a credit margin. A possible change in the underlying interest rates is 200 basis points. The following table presents the effect on profit or loss and therefore equity if there was an increase in underlying interest rates of 200 basis points.

Group & Parent	2013 $000	2012 $000
200 point increase in interest rates	(10)	679

24 Interest rate risk *(continued)*

The following analysis has been prepared on the basis of the notional value of the underlying financial assets and financial liabilities and shows the periods to contractual repricing or maturity dates (whichever date is earlier) as at balance date:

Group 2013	STATEMENT OF FINANCIAL POSITION $000	TOTAL $000	1 YEAR OR LESS $000	1 TO 2 YEARS $000	2 TO 3 YEARS $000	3 TO 5 YEARS $000	OVER 5 YEARS $000
Assets							
Cash and cash equivalents	72,697	72,697	72,697	-	-	-	-
Investment securities	420,582	414,572	329,572	60,000	25,000	-	-
Advances to clients	4,521	4,521	4,521	-	-	-	-
Other financial assets	7,050	7,050	7,050	-	-	-	-
Advances secured by mortgage	119,154	112,852	92,855	14,136	2,844	3,017	-
	624,004	611,692	506,695	74,136	27,844	3,017	-
Liabilities							
Liabilities to clients – at call or short term	(428,489)	(428,489)	(428,489)	-	-	-	-
Liabilities to clients – term deposits	(149,218)	(147,456)	(132,425)	(7,747)	(3,979)	(3,305)	-
	(577,707)	(575,945)	(560,914)	(7,747)	(3,979)	(3,305)	-
Derivatives							
Forward rate agreements	(2)	-	-	-	-	-	-
Interest rate swaps	(4,812)	-	108,900	(86,000)	(24,500)	1,600	-
	(4,814)	-	108,900	(86,000)	(24,500)	1,600	-
Repricing gap		**35,747**	**54,681**	**(19,611)**	**(635)**	**1,312**	**-**

Group 2012	STATEMENT OF FINANCIAL POSITION $000	TOTAL $000	1 YEAR OR LESS $000	1 TO 2 YEARS $000	2 TO 3 YEARS $000	3 TO 5 YEARS $000	OVER 5 YEARS $000
Assets							
Cash and cash equivalents	55,307	55,307	55,307	-	-	-	-
Investment securities	564,889	577,933	447,933	50,000	80,000	-	-
Advances to clients	6,647	6,647	6,647	-	-	-	-
Other financial assets	6,245	6,245	6,245	-	-	-	-
Advances secured by mortgage	171,599	165,338	134,742	23,450	5,094	2,052	-
	804,687	811,470	650,874	73,450	85,094	2,052	-
Liabilities							
Liabilities to clients – at call or short term	(427,804)	(427,804)	(427,804)	-	-	-	-
Liabilities to clients – term deposits	(346,324)	(340,870)	(291,180)	(28,403)	(7,014)	(10,273)	(4,000)
	(774,128)	(768,674)	(718,984)	(28,403)	(7,014)	(10,273)	(4,000)
Derivatives							
Forward rate agreements	(24)	-	-	-	-	-	-
Interest rate swaps	(2,295)	-	110,640	(44,940)	(78,000)	8,300	4,000
	(2,319)	-	110,640	(44,940)	(78,000)	8,300	4,000
Repricing gap		**42,796**	**42,530**	**107**	**80**	**79**	**-**

24 Interest rate risk *(continued)*

Parent 2013	STATEMENT OF FINANCIAL POSITION $000	TOTAL $000	1 YEAR OR LESS $000	1 TO 2 YEARS $000	2 TO 3 YEARS $000	3 TO 5 YEARS $000	OVER 5 YEARS $000
Assets							
Cash and cash equivalents	72,348	72,348	72,348	-	-	-	-
Investment securities	420,582	414,572	329,572	60,000	25,000	-	-
Advances to clients	4,521	4,521	4,521	-	-	-	-
Other financial assets	6,869	6,869	6,869	-	-	-	-
Advances secured by mortgage	119,154	112,852	92,855	14,136	2,844	3,017	-
	623,474	611,162	506,165	74,136	27,844	3,017	-
Liabilities							
Liabilities to clients – at call or short term	(428,489)	(428,489)	(428,489)	-	-	-	-
Liabilities to clients – term deposits	(149,218)	(147,456)	(132,425)	(7,747)	(3,979)	(3,305)	-
Loan from subsidiary	(8,193)	(8,193)	(8,193)	-	-	-	-
	(585,900)	(584,138)	(569,107)	(7,747)	(3,979)	(3,305)	-
Derivatives							
Forward rate agreements	(2)	-	-	-	-	-	-
Interest rate swaps	(4,812)	-	108,900	(86,000)	(24,500)	1,600	-
	(4,814)	-	108,900	(86,000)	(24,500)	1,600	-
Repricing gap		**27,024**	**45,958**	**(19,611)**	**(635)**	**1,312**	**-**

Parent 2012	STATEMENT OF FINANCIAL POSITION $000	TOTAL $000	1 YEAR OR LESS $000	1 TO 2 YEARS $000	2 TO 3 YEARS $000	3 TO 5 YEARS $000	OVER 5 YEARS $000
Assets							
Cash and cash equivalents	55,297	55,297	55,297	-	-	-	-
Investment securities	564,889	577,933	447,933	50,000	80,000	-	-
Advances to clients	6,647	6,647	6,647	-	-	-	-
Other financial assets	5,813	5,793	5,793	-	-	-	-
Advances secured by mortgage	171,599	165,338	134,742	23,450	5,094	2,052	-
	804,245	811,008	650,412	73,450	85,094	2,052	-
Liabilities							
Liabilities to clients – at call or short term	(427,804)	(427,804)	(427,804)	-	-	-	-
Liabilities to clients – term deposits	(346,324)	(340,870)	(291,180)	(28,403)	(7,014)	(10,273)	(4,000)
Loan from subsidiary	(7,597)	(7,597)	(7,597)	-	-	-	-
	(781,725)	(776,271)	(726,581)	(28,403)	(7,014)	(10,273)	(4,000)
Derivatives							
Forward rate agreements	(24)	-	-	-	-	-	-
Interest rate swaps	(2,295)	-	110,640	(44,940)	(78,000)	8,300	4,000
	(2,319)	-	110,640	(44,940)	(78,000)	8,300	4,000
Repricing gap		**34,737**	**34,471**	**107**	**80**	**79**	**-**

25 Currency risk

Currency risk is the risk that the value of a financial instrument denominated in a foreign currency will fluctuate due to changes in foreign exchange rates.

Some supplier contracts, generally in relation to software licence agreements, are denominated in foreign currencies.

26 Credit risk

Credit risk is the risk that a counterparty to a financial asset will fail to meet its obligation to pay.

The following carrying amounts of financial assets represent the maximum credit exposure.

	GROUP 2013 $000	GROUP 2012 $000	PARENT 2013 $000	PARENT 2012 $000
Mortgage backed securities	33,925	38,448	33,925	38,448
Banks	388,510	456,340	388,161	456,330
Corporates	71,222	96,340	71,222	96,340
Local authorities	-	31,064	-	31,064
Client overdrafts	3,666	5,646	3,666	5,646
Advances to client beneficiaries	855	1,001	855	1,001
Real estate mortgages secured by underwriting agreement	2,053	2,756	2,053	2,756
Real estate mortgages	117,101	168,843	117,101	168,843
Receivables of uncertain timing	2,148	3,438	2,148	3,438
Other	4,902	2,807	4,721	2,375
Total financial assets subject to credit risk	**624,382**	**806,683**	**623,852**	**806,241**

The following table shows information about the credit quality of loans and receivables.

Group	ADVANCES TO CLIENTS 2013 $000	TRADE RECEIVABLES AND WORK IN PROGRESS 2013 $000	ADVANCES SECURED BY MORTGAGE 2013 $000	ADVANCES TO CLIENTS 2012 $000	TRADE RECEIVABLES AND WORK IN PROGRESS 2012 $000	ADVANCES SECURED BY MORTGAGE 2012 $000
Work in progress	-	2,937	-	-	2,408	-
Neither past due nor impaired	4,521	3,538	105,545	6,647	3,593	158,387
Past due but not impaired	-	575	7,486	-	244	6,986
Impaired	-	336	10,910	-	79	16,449
Gross	4,521	7,386	123,941	6,647	6,324	181,822
Less: Allowance for impairment	-	(336)	(4,787)	-	(79)	(10,223)
Net	**4,521**	**7,050**	**119,154**	**6,647**	**6,245**	**171,599**

26 Credit risk *(continued)*

Parent	ADVANCES TO CLIENTS 2013 $000	TRADE RECEIVABLES AND WORK IN PROGRESS 2013 $000	ADVANCES SECURED BY MORTGAGE 2013 $000	ADVANCES TO CLIENTS 2012 $000	TRADE RECEIVABLES AND WORK IN PROGRESS 2012 $000	ADVANCES SECURED BY MORTGAGE 2012 $000
Work in Progress	-	2,545	-	-	2,010	-
Neither past due nor impaired	4,521	3,462	105,545	6,647	3,541	158,387
Past due but not impaired	-	575	7,486	-	242	6,986
Impaired	-	336	10,910	-	79	16,449
Gross	4,521	6,918	123,941	6,647	5,872	181,822
Less: Allowance for impairment	-	(336)	(4,787)	-	(79)	(10,223)
Net	**4,521**	**6,582**	**119,154**	**6,647**	**5,793**	**171,599**

Advances to clients

The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for its clients. Advances are provided for specific purposes and when it is not possible to obtain funds from the assets held in the client's trust.

The credit quality of advances to clients that are neither past due nor impaired is considered to be high as Public Trust is trustee and administrator of the debtor clients and generally has first call over the funds of that debtor. There has been no renegotiation of amounts that would be past due or impaired in 2013 (2012: nil).

Client overdrafts

Client overdrafts are subject to formal approval and are reviewed on a regular basis. Further approval from delegated authority is required if the overdraft facility is to be extended.

Advances to client beneficiaries

Advances to client beneficiaries are repayable on demand and secured by statutory charge supplemented by an assignment of their interest in the relevant estate. Advances to client estates are secured by statutory charge which may, where estate assets are not vested in the Group, be supplemented by registered charge.

To mitigate the risk:

- restrictions exist on when advances can be made;
- advances are limited to half the value of the beneficiary's share in the estate;
- the Group administers the estate of these clients and has title or security to their assets; and
- approval and review of the advance or overdraft requires delegated authority.

26 Credit risk *(continued)*

Trade receivables and Work in progress

During the financial year Public Trust implemented a new system which included trade receivables. This implementation involved transition of data from existing memorandum accounts associated with customer trust accounts and changed business processes for invoicing customers. This has resulted in trade receivables being split into two categories:

- Trade receivables; and
- Work in progress

Trade receivables mainly comprise amounts owed by the Crown, personal clients, estates and corporate trustee clients. There are certain corporate trustee clients where the Group holds security. The credit quality of receivables that are neither past due nor impaired is considered high as Public Trust is trustee or administrator of the debtor client and generally has first call over the funds of that debtor.

The following table provides an analysis of trade receivables that are past due but not impaired.

	GROUP 2013 $000	GROUP 2012 $000	PARENT 2013 $000	PARENT 2012 $000
Past due 1-30 days	173	109	173	106
Past due 31-60 days	108	36	108	37
Past due 61-90 days	72	26	72	26
Past due more than 90 days	222	73	222	73
Total	**575**	**244**	**575**	**242**

Work in progress represents the time incurred in providing trustee and estate administration services that has not yet been invoiced to the clients. There are certain trust and estate clients where the Group holds security. The credit quality of work in progress relating to these clients is considered high as Public Trust, through its fiduciary relationship, generally has first call over clients' assets. However, as is common with time charging services, a certain amount of time incurred is deemed irrecoverable due to the nature of the services provided and the time taken to invoice the clients. Work in progress is reviewed periodically by management to ascertain its recoverability. Time incurred but deemed to be irrecoverable is discounted and recognised in profit or loss with a corresponding reduction in the carrying value of the work in progress.

The following table provides an analysis of work in progress:

	GROUP 2013 $000	GROUP 2012 $000	PARENT 2013 $000	PARENT 2012 $000
Work in Progress	4,174	2,945	3,782	2,547
Provision for discounting	(1,237)	(537)	(1,237)	(537)
	2,937	**2,408**	**2,545**	**2,010**

26 Credit risk *(continued)*

Receivables of uncertain timing

Receivables of uncertain timing represent certain claims for estate administration services where payment is not due until an uncertain point in the future. Where the receivable originates from an estate with a life tenant, payment will be received upon the death of that life tenant. The Group administers the estates to which these receivables relate and has title to the assets of these estates. The credit quality of these receivables is rated as high. All payments are received when assets in the estate are sold. The carrying value of the receivables is minor relative to the value of the estates.

Every month, the collectability of all amounts greater than a specified level is individually reviewed. For the remainder of the balance, a sample is taken and their collectability is assessed. This review determines the requirement for any impairment allowance, either individually or collectively.

The future cash flows have been discounted using the prevailing New Zealand Government Bond yield rates at the reporting date. Future cash flows beyond 10 years have been discounted using the 10 year rate. Where collection is expected within 12 months of the reporting date, no discounting is applied.

Advances secured by mortgage

The Group has policies and procedures to manage the credit risk of advances secured by mortgage. The primary objective is for the portfolio to be well diversified, both geographically and amongst borrowers.

All advances are subject to risk grading assessments. Security for advances secured by mortgage comprises a registered first mortgage over freehold property. Standard policy is that mortgage advances should not exceed 80% of the value of the property as at the time of making the loan.

Residential loans may exceed 80% of the valuation in exceptional circumstances. In such cases the mortgage security will be supplemented by Mortgage Lenders Insurance.

The lending portfolio is subject to ongoing monitoring in relation to composition and compliance with a policy of arrears reporting and management. Portfolio reporting is regularly reviewed by management with oversight from the Investment Committee. The administration of advances is tightly managed to ensure arrears and defaults are identified as they occur, and appropriate follow up actions are implemented.

Impairment allowances are raised to ensure that the mortgage loan portfolio is reflected in the Statement of Financial Position at the recoverable amount.

An advance secured by mortgage is considered impaired and an impairment allowance raised if, and only if, there is objective evidence of impairment as a result of one or more loss event that occurred subsequent to the initial recognition of the advance and prior to the reporting date, and the loss event has an impact on the estimated future cash flows of the individual loan and can be reliably estimated. Loss events that give rise to impairment include bankruptcy of the borrower, loan default or delinquency, and other such incidents that give rise to doubt about the collectability of the full amount of the advance.

Advances secured by mortgage are reviewed weekly for impairment. An individual impairment allowance is raised for each advance secured by mortgage that is considered impaired to the value of the amount of expected loss arising from the impairment.

In addition a collective impairment allowance is raised for impairment losses inherent in the loan portfolio. Exposures are grouped in pools of similar advances with similar risk characteristics. The collective impairment allowance is estimated on the basis of historical loss experience for advances with risk characteristics similar to those in the pool, adjusted for current observable data and economic conditions. Subjective judgements are made in this process including the credit risk assessment and categorisation of individual advances, appropriateness of loss history and the impact of economic conditions on the relevant pool.

26 Credit risk *(continued)*

The credit quality of advances secured by mortgage is assessed using an internal risk grading ranging from A to C; A being nil to low risk and C being an elevated risk on the watch list.

Group & Parent	2013 $000	2012 $000
A	74,443	91,349
B	20,228	46,643
C	18,360	27,381
	113,031	**165,373**

The carrying amount of advances secured by mortgage that would otherwise be past due or impaired whose terms have been renegotiated is nil (2012: nil).

The following table provides an analysis of advances secured by mortgage that are individually impaired. The gross values exclude accrued interest and other fees and costs relating to the advances secured by mortgage.

Group & Parent	GROSS VALUE 2013 $000	IMPAIRMENT 2013 $000	NET VALUE 2013 $000	GROSS VALUE 2012 $000	IMPAIRMENT 2012 $000	NET VALUE 2012 $000
Residential & Residential Investment	5,153	(2,288)	2,865	8,240	(3,621)	4,619
Commercial & Development	5,757	(1,456)	4,301	8,209	(4,195)	4,014
	10,910	**(3,744)**	**7,166**	**16,449**	**(7,816)**	**8,633**

The following table provides an analysis of advances secured by mortgage where a collective impairment allowance has been provided.

Group & Parent	GROSS VALUE 2013 $000	IMPAIRMENT 2013 $000	NET VALUE 2013 $000	GROSS VALUE 2012 $000	IMPAIRMENT 2012 $000	NET VALUE 2012 $000
Residential & Residential Investment	93,844	(182)	93,662	119,837	(314)	119,523
Commercial & Development	18,104	(861)	17,243	43,887	(2,093)	41,794
Other	1,083	-	1,083	1,649	-	1,649
	113,031	**(1,043)**	**111,988**	**165,373**	**(2,407)**	**162,966**

The following table provides a geographical analysis of gross advances secured by mortgage.

Group & Parent	PERCENTAGE OF LOAN BOOK 2013	PERCENTAGE OF LOAN BOOK 2012
Auckland	29.15%	29.80%
Wellington	22.60%	21.94%
Christchurch	9.56%	9.25%
Other North Island	28.58%	29.34%
Other South Island	10.11%	9.67%
	100.00%	**100.00%**

26 Credit risk *(continued)*

Investment securities and derivatives

The credit risk of investment securities is controlled by a series of policy limits, including minimum credit ratings and total exposure limits to individual ratings categories, industries and types of securities.

The overall credit risk of the investment portfolio is measured using the Weighted Average Rating Factor method. This, together with any changes in security ratings, is monitored daily by management and reported to the Investment Committee on a quarterly basis.

Interest rate derivative counterparty credit risk is managed by:

- undertaking derivative transactions only with banks with a minimum long term credit rating of AA- (Standard & Poors or equivalent);
- including the market value of derivative exposure in the calculations of the credit exposure to that particular bank, which in turn is governed by credit limits; and
- acquiring derivatives with several different banks, thereby diversifying the counterparty exposure.

In any event, the valuation of interest rate swaps will consider where necessary any impairment due to risk of counterparty default.

Credit ratings

The following table shows an analysis of credit exposure of financial assets using credit ratings reflected in the valuation of the securities (where applicable).

	GROUP 2013 $000	GROUP 2012 $000	PARENT 2013 $000	PARENT 2012 $000
Long-term credit rating				
AAA	3,817	5,653	3,817	5,653
AA+	-	-	-	-
AA	5,116	-	5,116	-
AA-	99,401	160,598	99,401	160,598
A+	21,418	26,728	21,418	26,728
A	4,900	18,454	4,900	18,454
A-	5,621	15,587	5,621	15,587
BBB+	-	16,729	-	16,729
BBB	5,848	3,965	5,848	3,965
B	-	7,765	-	7,765
B-	8,945	6,766	8,945	6,766
CCC	5,299	-	5,299	-
Unrated local authority	-	10,015	-	10,015
	160,365	272,260	160,365	272,260
Short-term credit rating				
A1+	291,452	349,933	291,103	349,923
A1	41,840	-	41,840	-
	333,292	349,933	332,943	349,923
Unrated – other financial assets	130,725	184,490	130,544	184,058
Total financial assets	**624,382**	**806,683**	**623,852**	**806,241**

26 Credit risk *(continued)*

Counterparty risk

The following table shows the number of individual counterparties to which the Group has a credit exposure, net of allowances for impairment, which equals or exceeds 10% of equity.

Percentage of equity band	2013 COUNTERPARTIES	2012 COUNTERPARTIES
10-20%	2	8
21-30%	1	2
31-40%	-	3
41-50%	1	1
51-60%	3	1
61-70%	1	-
71-80%	1	-
81-90%	-	1
91-100%	-	1
101-110%	-	2
111-120%	-	-
121-130%	-	-
151-160%	2	-
181-190%	1	-
221-230%	-	1
271-280%	-	-
281-290%	1	-
341-350%	-	1
371-380%	-	1
381-390%	-	1
	13	**23**

The exposures reported above reflect the investment activities of the Common Fund. Those exposures that are greater than 200% of equity are all senior obligations of bank counterparties with a very low risk of default as measured by the counterparty's credit rating.

27 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its obligations associated with financial liabilities as they fall due.

The Group mitigates this risk by managing the maturity schedule of both its assets and its liabilities. On a daily basis, sufficient cash or maturing assets are held to meet all anticipated requirements. In addition, a significant part of the investment portfolio consists of highly marketable securities that can be readily liquidated.

The liquidity position of the Group is monitored daily by management and reported to the Investment Committee on a quarterly basis.

The following table sets out the undiscounted contractual cash flows for all financial liabilities (that are settled on a net cash flows basis). Groupings are based on the period remaining at the balance sheet date to the contractual maturity date.

The profiles have been stated exclusive of the unilateral right of repayment of assets held by certain issuers and mortgagors.

All advances to clients are repayable on demand. There is a portion where collection is expected to be received after one year.

Trade receivables include receivables of uncertain timing. Where collection is expected beyond 12 months, it is assumed they will be collected more than five years from the reporting date.

The undiscounted cash flows of interest rate swaps and forward rate agreements are the net cash flows of the fixed rate and the interpolated floating rate, whereas the carrying value is the net present value of the fixed rate cash flows at the current market rate.

Liabilities to clients at call are all classified as to be repaid within one year. There is the possibility that existing deposits may still be held after more than one year. Further, it is expected that client liabilities which are settled will be replaced by new deposits.

27 Liquidity risk *(continued)*

Group 2013	STATEMENT OF FINANCIAL POSITION $000	CONTRACTUAL CASH FLOWS $000	1 YEAR OR LESS $000	1 TO 2 YEARS $000	2 TO 3 YEARS $000	3 TO 5 YEARS $000	OVER 5 YEARS $000
Cash and cash equivalents	72,697	72,697	72,697	-	-	-	-
Investment securities	420,582	438,040	270,308	95,806	34,250	19,059	18,617
Advances to clients	4,521	4,862	3,856	63	63	532	348
Trade receivables	7,050	8,087	4,902	-	-	-	3,185
Advances secured by mortgage	119,154	170,862	24,191	11,970	11,588	24,317	98,796
Total non-derivative financial assets	624,004	694,548	375,954	107,839	45,901	43,908	120,946
Interest rate swaps							
Held for trading	2	2	2	-	-	-	-
Cash flow hedge accounted	354	(1,117)	600	1,002	(2,726)	7	-
Fair value hedge accounted	20	20	20	-	-	-	-
Forward rate agreements – held for trading	2	-	-	-	-	-	-
Total derivative financial assets	378	(1,095)	622	1,002	(2,726)	7	-
Total financial assets	624,382	693,453	376,576	108,841	43,175	43,915	120,946
Liabilities to clients – at call or short term	428,489	428,489	428,489	-	-	-	-
Liabilities to clients – term deposits	149,218	151,516	135,285	8,410	4,289	3,532	-
Trade payables	8,270	8,270	8,270	-	-	-	-
Total non-derivative financial liabilities	585,977	588,275	572,044	8,410	4,289	3,532	-
Interest rate swaps							
Held for trading	339	477	135	342	-	-	-
Cash flow hedge accounted	4,849	4,427	(1,663)	6,099	(6)	(3)	-
Forward rate agreements – held for trading	4	4	4	-	-	-	-
Total derivative financial liabilities	5,192	4,908	(1,524)	6,441	(6)	(3)	-
Total financial liabilities	591,169	593,183	570,520	14,851	4,283	3,529	-
Total contractual maturities		**100,270**	**(193,944)**	**93,990**	**38,892**	**40,386**	**120,946**

27 Liquidity risk *(continued)*

Group 2012	STATEMENT OF FINANCIAL POSITION $000	CONTRACTUAL CASH FLOWS $000	1 YEAR OR LESS $000	1 TO 2 YEARS $000	2 TO 3 YEARS $000	3 TO 5 YEARS $000	OVER 5 YEARS $000
Cash and cash equivalents	55,307	55,307	55,307	-	-	-	-
Investment securities	564,889	631,301	343,044	89,676	104,331	29,182	65,068
Advances to clients	6,647	7,162	5,840	76	76	159	1,011
Trade receivables	6,245	7,110	3,878	-	-	-	3,232
Advances secured by mortgage	171,599	245,111	50,878	20,172	13,109	26,749	134,203
Total non-derivative financial assets	804,687	945,991	458,947	109,924	117,516	56,090	203,514
Interest rate swaps							
Held for trading	114	108	108	-	-	-	-
Cash flow hedge accounted	128	186	80	45	34	27	-
Fair value hedge accounted	1,754	2,006	668	446	400	443	49
Total derivative financial assets	1,996	2,300	856	491	434	470	49
Total financial assets	806,683	948,291	459,803	110,415	117,950	56,560	203,563
Liabilities to clients - at call or short term	427,804	427,804	427,804	-	-	-	-
Liabilities to clients – term deposits	346,324	353,748	299,334	30,736	8,274	11,059	4,345
Trade payables	3,987	3,987	3,987	-	-	-	-
Total non-derivative financial liabilities	778,115	785,539	731,125	30,736	8,274	11,059	4,345
Interest rate swaps							
Held for trading	1,963	2,079	1,604	133	342	-	-
Cash flow hedge accounted	2,328	2,766	(1,554)	(1,807)	6,130	(3)	-
Forward rate agreements – held for trading	24	25	25	-	-	-	-
Total derivative financial liabilities	4,315	4,870	75	(1,674)	6,472	(3)	-
Total financial liabilities	782,430	790,409	731,200	29,062	14,746	11,056	4,345
Total contractual maturities		**157,882**	**(271,397)**	**81,353**	**103,204**	**45,504**	**199,218**

27 Liquidity risk *(continued)*

Parent 2013	STATEMENT OF FINANCIAL POSITION $000	CONTRACTUAL CASH FLOWS $000	1 YEAR OR LESS $000	1 TO 2 YEARS $000	2 TO 3 YEARS $000	3 TO 5 YEARS $000	OVER 5 YEARS $000
Cash and cash equivalents	72,348	72,348	72,348	-	-	-	-
Investment securities	420,582	438,040	270,308	95,806	34,250	19,059	18,617
Advances to clients	4,521	4,862	3,856	63	63	532	348
Trade receivables	6,582	7,619	4,434	-	-	-	3,185
Due from subsidiary	287	287	287	-	-	-	-
Advances secured by mortgage	119,154	170,862	24,191	11,970	11,588	24,317	98,796
Total non-derivative financial assets	623,474	694,018	375,424	107,839	45,901	43,908	120,946
Interest rate swaps							
Held for trading	2	2	2	-	-	-	-
Cash flow hedge accounted	354	(1,117)	600	1,002	(2,726)	7	-
Fair value hedge accounted	20	20	20	-	-	-	-
Forward rate agreements – held for trading	2	-	-	-	-	-	-
Total derivative financial assets	378	(1,095)	622	1,002	(2,726)	7	-
Total financial assets	623,852	692,923	376,046	108,841	43,175	43,195	120,946
Liabilities to clients – at call or short term	428,489	428,489	428,489	-	-	-	-
Liabilities to clients – term deposits	149,218	151,516	135,285	8,410	4,289	3,532	-
Trade payables	8,149	8,149	8,149	-	-	-	-
Loan from subsidiary	8,193	8,193	8,193	-	-	-	-
Total non-derivative financial liabilities	594,049	596,347	580,116	8,410	4,289	3,532	-
Interest rate swaps							
Held for trading	339	477	135	342	-	-	-
Cash flow hedge accounted	4,849	4,427	(1,663)	6,099	(6)	(3)	-
Forward rate agreements – held for trading	4	4	4	-	-	-	-
Total derivative financial liabilities	5,192	4,908	(1,524)	6,441	(6)	(3)	-
Total financial liabilities	599,241	600,659	577,996	14,851	4,283	3,529	-
Total contractual maturities		**91,668**	**(202,546)**	**93,990**	**38,892**	**40,386**	**120,946**

27 Liquidity risk *(continued)*

Parent 2012	STATEMENT OF FINANCIAL POSITION $000	CONTRACTUAL CASH FLOWS $000	1 YEAR OR LESS $000	1 TO 2 YEARS $000	2 TO 3 YEARS $000	3 TO 5 YEARS $000	OVER 5 YEARS $000
Cash and cash equivalents	55,297	55,297	55,297	-	-	-	-
Investment securities	564,889	631,301	343,044	89,676	104,331	29,182	65,068
Advances to clients	6,647	7,162	5,840	76	76	159	1,011
Trade receivables	5,793	6,659	3,427	-	-	-	3,232
Due from subsidiary	20	13	13	-	-	-	-
Advances secured by mortgage	171,599	245,111	50,878	20,172	13,109	26,749	134,203
Total non-derivative financial assets	804,245	945,543	458,499	109,924	117,516	56,090	203,514
Interest rate swaps							
Held for trading	114	108	108	-	-	-	-
Cash flow hedge accounted	128	186	80	45	34	27	-
Fair value hedge accounted	1,754	2,006	668	446	400	443	49
Total derivative financial assets	1,996	2,300	856	491	434	470	49
Total financial assets	806,241	947,843	459,355	110,415	117,950	56,560	203,563
Liabilities to clients – at call or short term	427,804	427,804	427,804	-	-	-	-
Liabilities to clients – term deposits	346,324	353,748	299,334	30,736	8,274	11,059	4,345
Trade payables	3,870	3,845	3,845	-	-	-	-
Loan from subsidiary	7,597	7,597	7,597	-	-	-	-
Total non-derivative financial liabilities	785,595	792,994	738,580	30,736	8,274	11,059	4,345
Interest rate swaps							
Held for trading	1,963	2,079	1,604	133	342	-	-
Cash flow hedge accounted	2,328	2,766	(1,554)	(1,807)	6,130	(3)	-
Forward rate agreements – held for trading	24	25	25	-	-	-	-
Total derivative financial liabilities	4,315	4,870	75	(1,674)	6,472	(3)	-
Total financial liabilities	789,910	797,864	738,655	29,062	14,746	11,056	4,345
Total contractual maturities		**149,979**	**(279,300)**	**81,353**	**103,204**	**45,504**	**199,218**

27 Liquidity risk *(continued)*

Cash flow hedges

The following table indicates the periods when the cash flows are expected to occur and when they are expected to impact profit or loss.

	TOTAL $000	1 YEAR OR LESS $000	1 TO 2 YEARS $000	2 TO 3 YEARS $000	3 TO 5 YEARS $000	OVER 5 YEARS $000
Group & Parent 2013						
Cash inflows (assets)	(1,117)	600	1,002	(2,726)	7	-
Cash outflows (liabilities)	4,427	(1,663)	6,099	(6)	(3)	-
Profit or loss	**(5,544)**	**2,263**	**(5,097)**	**(2,720)**	**10**	**-**
Group & Parent 2012						
Cash inflows (assets)	186	80	45	34	27	-
Cash outflows (liabilities)	2,766	(1,554)	(1,807)	6,130	(3)	-
Profit or loss	**(2,580)**	**1,634**	**1,852**	**(6,096)**	**30**	**-**

Priority of creditors claims

Capital and interest on client deposits (liabilities to clients) in Public Trust's Common Fund is Government guaranteed.

In the event that the Public Trust Group is put into liquidation or ceases to trade, secured creditors and those creditors set out in the seventh schedule of the Companies Act 1993 would rank ahead of the claims of unsecured creditors.

The Crown has last priority on claims over the Group's assets.

28 Fair value

Bases to fair value

Cash and cash equivalents, Advances to clients, Trade receivables, Trade payables, Due from subsidiary (Parent), Loan from subsidiary (Parent)

All these financial instruments are at call or are able to be settled in the short term. Accordingly, they are carried at cash settlement value. Due to the short-term nature of the instruments, the fair value is assumed to equate to the carrying value.

Receivables of uncertain timing

These financial instruments have been discounted to present value and therefore are shown at fair value. The accounting policies describe how fair value is determined.

Investment securities

The fair value of investment securities is determined on a hierarchical basis that reflects the significance of the inputs used in making the measurements.

The fair value hierarchy is as follows:

Level 1 – Fair value is calculated using quoted prices in active markets for identical instruments. Quoted prices in an active market are actual and regularly occurring market transactions for identical instruments and the prices of those transactions are readily and regularly available.

Level 2 – Financial instruments under this hierarchy are fair valued using inputs other than quoted prices in active markets, that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices). Valuations are based on observable or quoted market data such as quoted market prices for a similar instrument, or quoted market prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data. This data is then adjusted to reflect the risk margin of the specific instrument.

Level 3 – Financial instruments under this hierarchy are fair valued using valuation techniques. Inputs are not based on observable market data and these inputs may have a significant impact on the determination of the valuation of individual securities.

Where appliable the judgement involved in the valuation of certain Level 3 securities will take into account a number of factors as discussed below. Assumptions for individual securities will differ based on their individual characteristics.

For a portion of the mortgage backed securities portfolio with a carrying value of $9.0 million (2012: $11.2 million), prices are obtained from third party agents. Assumptions made by the third party agents are relied on. The judgement involved in determining the market price is based on the following factors: an assessment of the prepayment speed, credit spread, arrears history, any actual/expected losses, credit rating, time to expected maturity, loan to value ratios, insurance status and credit rating of the insurer where applicable.

Mortgage backed securities with a carrying value of $4.9 million, were subject to a conditional offer, with settlement after balance date. The conditions of the offer were judged likely to be met and consequently the offer price was used for the year end valuation. The transaction subsequently settled as expected.

For the remainder of the mortgage backed securities portfolio with a carrying value of $20.0 million (2012: $27.3 million), there is no quoted market price or pricing available from a third party agent and a discounted cash flow valuation technique is used. The credit ratings of these mortgage backed securities range from A to B-.

28 Fair value *(continued)*

Inputs to the cash flow model include information obtained from third parties which include assumptions which are relied upon. The key inputs obtained from third parties are the expected loss and weighted average life of the mortgage backed security structure following an assessment of the rate of scheduled and voluntary capital repayments together with the rate of default and losses given foreclosure. Judgement is applied in determining the appropriate discount rate used in the calculations. This rate incorporates a margin above the risk free rate to reflect a potentially different market assessment of the performance of the securities plus illiquidity.

Whilst the Group is confident that the fair values included in these financial statements represent the best available information, a degree of uncertainty exists in the absence of an active market.

Subsequent to the reporting date, an offer was received to purchase mortgage backed securities valued at the discounted cash flow valuation price of $13.8 million. Following the offer, the securities were subsequently sold for $14.2 million, thereby recognising a profit on sale of $400,000.

Advances secured by mortgage

Advances secured by mortgage are valued on the following basis:

Mortgages subject to impairment are removed from consideration. The remaining mortgages are subject to the following processes:

- For those advances where the variable rate is able to be adjusted to take account of changed credit risk within the mortgage portfolio (mainly residential mortgages), the projected future cash flows are discounted at the current variable rate. These advances will, therefore, have a fair value equating to their nominal value except to the extent that the individual advances are subject to an unexpired fixed interest rate term.
- For those advances where the variable rate is not able to be adjusted to take account of changed credit risk, the projected future cash flows, reflecting the terms of the individual contracts, are discounted at the current quoted variable rate which reflects adjusted perception of credit risk. To the extent that the current rate reflects a credit margin greater than that which can be contractually imposed, a difference will arise between nominal value and fair value.
- Additional factors have been taken into account, including an increment to reflect transaction cost avoidance and decrements to reflect potential volatility and illiquidity.

Liabilities to clients – call or short term

The fair value of liabilities to clients at call is equivalent to the carrying value. Due to the short-term nature of the instruments, the fair value is assumed to equate to the carrying value.

Liabilities to clients – term deposits

The fair value of term deposits is determined in accordance with a two-stage process:

- Deposits are aggregated into convenient groupings by month.
- The cash flows of each group are determined and then discounted at the relevant benchmark interest rate prevailing at balance date.

Derivatives

The fair value of derivatives is based on quoted market interest rates and the associated discounted cash flows.

28 Fair value *(continued)*

Group 2013	FAIR VALUE THROUGH PROFIT OR LOSS (DESIGNATED ON INITIAL RECOGNITION)		FAIR VALUE THROUGH PROFIT OR LOSS (HELD FOR TRADING)	
	CARRYING VALUE $000	FAIR VALUE $000	CARRYING VALUE $000	FAIR VALUE $000
Financial assets				
Cash and cash equivalents	-	-	-	-
Investment securities	111,265	111,265	-	-
Derivative financial instruments	-	-	4	4
Advances to clients	-	-	-	-
Trade receivables	-	-	-	-
Advances secured by mortgage	-	-	-	-
Total financial assets	**111,265**	**111,265**	**4**	**4**
Financial liabilities				
Liabilities to clients – at call or short term	-	-	-	-
Liabilities to clients – term deposits	-	-	-	-
Trade payables	-	-	-	-
Derivative financial instruments	-	-	343	343
Total financial liabilities	**-**	**-**	**343**	**343**

Group 2012	FAIR VALUE THROUGH PROFIT OR LOSS (DESIGNATED ON INITIAL RECOGNITION)		FAIR VALUE THROUGH PROFIT OR LOSS (HELD FOR TRADING)	
	CARRYING VALUE $000	FAIR VALUE $000	CARRYING VALUE $000	FAIR VALUE $000
Financial assets				
Cash and cash equivalents	-	-	-	-
Investment securities	214,098	214,098	-	-
Derivative financial instruments	-	-	114	114
Advances to clients	-	-	-	-
Trade receivables	-	-	-	-
Advances secured by mortgage	-	-	-	-
Total financial assets	**214,098**	**214,098**	**114**	**114**
Financial liabilities				
Liabilities to clients – at call or short term	-	-	-	-
Liabilities to clients – term deposits	-	-	-	-
Trade payables	-	-	-	-
Derivative financial instruments	-	-	1,987	1,987
Total financial liabilities	**-**	**-**	**1,987**	**1,987**

HEDGE ACCOUNTING		LOANS AND RECEIVABLES		FINANCIAL LIABILITIES AT AMORTISED COST		TOTAL	
CARRYING VALUE $000	FAIR VALUE $000	CARRYING VALUE $000	FAIR VALUE $000	CARRYING VALUE $000	FAIR VALUE $000	CARRYING VALUE $000	FAIR VALUE $000
-	-	72,697	72,697	-	-	72,697	72,697
-	-	309,317	311,843	-	-	420,582	423,108
374	374	-	-	-	-	378	378
-	-	4,521	4,521	-	-	4,521	4,521
-	-	7,050	7,050	-	-	7,050	7,050
-	-	119,154	117,027	-	-	119,154	117,027
374	**374**	**512,739**	**513,138**	**-**	**-**	**624,382**	**624,781**
-	-	-	-	428,489	428,489	428,489	428,489
3,136	3,136	-	-	146,082	146,280	149,218	149,416
-	-	-	-	8,270	8,270	8,270	8,270
4,849	4,849	-	-	-	-	5,192	5,192
7,985	**7,985**	**-**	**-**	**582,841**	**583,039**	**591,169**	**591,367**

HEDGE ACCOUNTING		LOANS AND RECEIVABLES		FINANCIAL LIABILITIES AT AMORTISED COST		TOTAL	
CARRYING VALUE $000	FAIR VALUE $000	CARRYING VALUE $000	FAIR VALUE $000	CARRYING VALUE $000	FAIR VALUE $000	CARRYING VALUE $000	FAIR VALUE $000
-	-	55,307	55,307	-	-	55,307	55,307
-	-	350,791	354,958	-	-	564,889	569,056
1,882	1,882	-	-	-	-	1,996	1,996
-	-	6,647	6,647	-	-	6,647	6,647
-	-	6,245	6,245	-	-	6,245	6,245
-	-	171,599	180,402	-	-	171,599	180,402
1,882	**1,882**	**590,589**	**603,559**	**-**	**-**	**806,683**	**819,653**
-	-	-	-	427,804	427,804	427,804	427,804
28,461	28,461	-	-	317,863	321,403	346,324	349,864
-	-	-	-	3,987	3,987	3,987	3,987
2,328	2,328	-	-	-	-	4,315	4,315
30,789	**30,789**	**-**	**-**	**749,654**	**753,194**	**782,430**	**785,970**

28 Fair value *(continued)*

Parent 2013	FAIR VALUE THROUGH PROFIT OR LOSS (DESIGNATED ON INITIAL RECOGNITION)		FAIR VALUE THROUGH PROFIT OR LOSS (HELD FOR TRADING)	
	CARRYING VALUE $000	FAIR VALUE $000	CARRYING VALUE $000	FAIR VALUE $000
Financial assets				
Cash and cash equivalents	-	-	-	-
Investment securities	111,265	111,265	-	-
Derivative financial instruments	-	-	4	4
Advances to clients	-	-	-	-
Trade receivables	-	-	-	-
Due from subsidiary	-	-	-	-
Advances secured by mortgage	-	-	-	-
Total financial assets	**111,265**	**111,265**	**4**	**4**
Financial liabilities				
Liabilities to clients – at call or short term	-	-	-	-
Liabilities to clients – term deposits	-	-	-	-
Trade payables	-	-	-	-
Derivative financial instruments	-	-	343	343
Loan from subsidiary	-	-	-	-
Total financial liabilities	**-**	**-**	**343**	**343**

Parent 2012	FAIR VALUE THROUGH PROFIT OR LOSS (DESIGNATED ON INITIAL RECOGNITION)		FAIR VALUE THROUGH PROFIT OR LOSS (HELD FOR TRADING)	
	CARRYING VALUE $000	FAIR VALUE $000	CARRYING VALUE $000	FAIR VALUE $000
Financial assets				
Cash and cash equivalents	-	-	-	-
Investment securities	214,098	214,098	-	-
Derivative financial instruments	-	-	114	114
Advances to clients	-	-	-	-
Trade receivables	-	-	-	-
Due from subsidiary	-	-	-	-
Advances secured by mortgage	-	-	-	-
Total financial assets	**214,098**	**214,098**	**114**	**114**
Financial liabilities				
Liabilities to clients - at call or short term	-	-	-	-
Liabilities to clients - term deposits	-	-	-	-
Trade payables	-	-	-	-
Derivative financial instruments	-	-	1,987	1,987
Loan from subsidiary	-	-	-	-
Total financial liabilities	**-**	**-**	**1,987**	**1,987**

HEDGE ACCOUNTING		LOANS AND RECEIVABLES		FINANCIAL LIABILITIES AT AMORTISED COST		TOTAL	
CARRYING VALUE $000	FAIR VALUE $000	CARRYING VALUE $000	FAIR VALUE $000	CARRYING VALUE $000	FAIR VALUE $000	CARRYING VALUE $000	FAIR VALUE $000
-	-	72,348	72,348	-	-	72,348	72,348
-	-	309,317	311,843	-	-	420,582	423,108
374	374	-	-	-	-	378	378
-	-	4,521	4,521	-	-	4,521	4,521
-	-	6,582	6,582	-	-	6,582	6,582
-	-	287	287	-	-	287	287
-	-	119,154	117,027	-	-	119,154	117,027
374	**374**	**512,209**	**512,608**	**-**	**-**	**623,852**	**624,251**
-	-	-	-	428,489	428,489	428,489	428,489
3,136	3,136	-	-	146,082	146,280	149,218	149,416
-	-	-	-	8,149	8,149	8,149	8,149
4,849	4,849	-	-	-	-	5,192	5,192
-	-	-	-	8,193	8,193	8,193	8,193
7,985	**7,985**	**-**	**-**	**590,913**	**591,111**	**599,241**	**599,439**

HEDGE ACCOUNTING		LOANS AND RECEIVABLES		FINANCIAL LIABILITIES AT AMORTISED COST		TOTAL	
CARRYING VALUE $000	FAIR VALUE $000	CARRYING VALUE $000	FAIR VALUE $000	CARRYING VALUE $000	FAIR VALUE $000	CARRYING VALUE $000	FAIR VALUE $000
-	-	55,297	55,297	-	-	55,297	55,297
-	-	350,791	354,958	-	-	564,889	569,056
1,882	1,882	-	-	-	-	1,996	1,996
-	-	6,647	6,647	-	-	6,647	6,647
-	-	5,793	5,793	-	-	5,793	5,793
-	-	20	20	-	-	20	20
-	-	171,599	180,402	-	-	171,599	180,402
1,882	**1,882**	**590,147**	**603,117**	**-**	**-**	**806,241**	**819,211**
-	-	-	-	427,804	427,804	427,804	427,804
28,461	28,461	-	-	317,863	321,403	346,324	349,864
-	-	-	-	3,870	3,870	3,870	3,870
2,328	2,328	-	-	-	-	4,315	4,315
-	-	-	-	7,597	7,597	7,597	7,597
30,789	**30,789**	**-**	**-**	**757,134**	**760,674**	**789,910**	**793,450**

28 Fair value *(continued)*

Group & Parent	2013 $000	2012 $000
Level 1		
Assets		
Investment securities		
Banks	5,621	27,720
Corporates	-	-
Total for level 1 assets	**5,621**	**27,720**
Level 2		
Assets		
Investment securities		
Local authorities	-	31,064
Banks	20,647	20,526
Corporates	9,578	51,579
Derivative financial instruments		
Interest rate swaps		
Held for trading	2	114
Cash flow hedge accounted	354	128
Fair value hedge accounted	20	1,754
Forward rate agreements – held for trading	2	-
Total for level 2 assets	**30,603**	**105,165**
Liabilities		
Derivative financial instruments		
Interest rate swaps		
Held for trading	339	1,963
Cash flow hedge accounted	4,849	2,328
Forward rate agreements – held for trading	4	24
Total for level 2 liabilities	**5,192**	**4,315**

Group & Parent	2013 $000	2012 $000
Level 3		
Assets		
Investment securities		
Mortgage backed securities	33,925	38,448
Corporates	41,494	44,761
Total for level 3 assets	**75,419**	**83,209**
Level 3 reconciliation		
Opening balance	83,209	97,512
Total gains (losses) recognised in profit or loss[1]	8,056	9,888
Movement in amortisation	389	(193)
Movement in accrued interest	24	58
Purchases	190,235	201,430
Sales	(59,589)	(40,388)
Maturities	(146,906)	(185,098)
Transfers into (out of) level 3	-	-
Closing balance	**75,418**	**83,209**
Total gains (losses) recognised in profit or loss relating to assets and liabilities held at end of year[1]	5,856	(685)

[1] Recognised within net gains (losses) on financial assets/liabilities at fair value through profit or loss designated upon initial recognition (Note 30).

The following table provides an analysis on the decrease in the carrying value and corresponding unrealised gains/losses on Level 3 securities if one of the key inputs (with all other variables remaining constant) changed to a reasonably possible alternative:

Group & Parent	2013 $000	2012 $000
100 point increase in credit margin	1,515	1,589
90 days increase in weighted average life (Mortgage Backed Securities)	116	334

29 Other price risk

Other price risk is the risk that changes in market prices (other than due to interest rate changes) affect fair values, irrespective of whether those changes are specific to an issuer of an instrument or of a more general nature. The Group was exposed to two different types of other price risk.

The Group has invested in interest bearing instruments where the value varies depending upon the assessment the market has of the credit risk of the issuer. This assessment is measured as an interest differential above the risk-free rate (the credit spread).

Credit spreads

The Group holds investments in interest bearing securities. The value of these instruments is a function of underlying risk free interest rates plus a credit margin. A possible change in credit margins is approximately 100 basis points. The following table presents by classes of investment securities, the effect on profit or loss and, therefore, equity if there was a change in the credit margin of 100 basis points.

Group & Parent	2013 $000	2012 $000
Local authorities	-	545
Banks	544	756
Mortgage backed securities	1,443	1,579
Corporates	431	1,277
	2,418	**4,157**

Capital repayment pattern

The Group holds a number of mortgage backed securities in which capital repayments (both scheduled and unscheduled) of the underlying mortgages may be passed through to the Group as holder of the securities. A factor in the valuation of such instruments is the expected pattern of these capital repayments. If the weighted average term of these repayments shortens there is an increase in valuation and if the term lengthens there is a reduction in valuation. For every 90 days that the actual repayment pattern differs from the anticipated pattern there will be a change in value of $115,730 (2012: $333,700).

All of the above values are stated on a pre-tax basis as there is no taxation payable in the current year. It is considered that the same basis apply for the comparative year to enable a proper comparison to be made.

30 Revenues arising and expenses incurred in arriving at profit or loss

In addition to the items reported in the Statement of Profit and Loss and Other Comprehensive Income, profit or loss is stated after charging or crediting the following:

	GROUP 2013 $000	GROUP 2012 $000	PARENT 2013 $000	PARENT 2012 $000
Fees and other revenue				
Fees from trust and other fiduciary activities	38,491	41,021	36,527	38,451
Fees from other services	5,285	6,008	6,275	7,367
Other revenue	1,126	1,499	1,126	1,499
Insurance recovery – Canterbury earthquakes	1,467	533	1,467	533
Financial assets and financial liabilities not at fair value through profit or loss				
Interest revenue	22,842	27,482	22,842	27,482
Interest expense	(15,785)	(23,152)	(15,986)	(23,366)
Fee revenue	1,432	648	1,432	648
Fee expense	(6)	(20)	(6)	(20)
Net gains (losses)				
Financial assets/liabilities at fair value through profit or loss				
Designated on initial recognition	9,837	8,097	9,837	8,097
Held for trading	324	1,633	324	1,633

For financial instruments, only the net gains or losses on disposals are included in the Statement of Comprehensive Income.

Expenses	GROUP 2013 $000	GROUP 2012 $000	PARENT 2013 $000	PARENT 2012 $000
Audit fees	269	272	264	272
Audit fees for non-consolidated managed funds	195	170	195	170
Other fees paid to auditors	41	30	41	30
Donations	7	12	7	12
Contribution to defined contribution plans	762	714	762	714
Fees on trust and other fiduciary activities	2,456	2,226	2,456	2,226

Other fees paid to auditors relates to assurance services for the non-consolidated managed funds' agreed upon procedures and prospectus.

30 Revenues arising and expenses incurred in arriving at profit or loss *(continued)*

Employee remuneration

The number of employees whose remuneration paid exceeds $100,000 is presented in the following bands.

Group & Parent	2013 NUMBER OF EMPLOYEES	2012 NUMBER OF EMPLOYEES
$100,000 to $109,999	22	26
$110,000 to $119,999	19	25
$120,000 to $129,999	4	12
$130,000 to $139,999	8	11
$140,000 to $149,999	4	11
$150,000 to $159,999	5	6
$160,000 to $169,999	6	11
$170,000 to $179,999	3	2
$180,000 to $189,999	2	2
$190,000 to $199,999	1	2
$200,000 to $209,999	-	-
$210,000 to $219,999	-	1
$220,000 to $229,999	2	1
$230,000 to $239,999	-	-
$240,000 to $249,999	1	1
$250,000 to $259,999	2	1
$260,000 to $269,999	-	1
$270,000 to $279,999	1	-
$280,000 to $289,999	-	2
$290,000 to $299,999	-	1
$330,000 to $339,999	-	-
$350,000 to $359,999	1	-
$380,000 to $389,999	-	-
$450,000 to $459,999	-	1

Remuneration is inclusive of payments for leave entitlements and, for those employees who left Public Trust's service during the year, exclusive of any compensation or other benefits paid in respect of employment cessation.

30 Revenues arising and expenses incurred in arriving at profit or loss *(continued)*

Key management personnel

Key management personnel comprises members of the Board, the Chief Executive, permanent members of the Executive Leadership Team (ELT) and seconded members of the ELT. From time to time, additional members are seconded to the ELT and where such secondment exceeds three months they are considered to be members of the ELT for the period of their secondment.

Group & Parent	2013 $000	2012 $000
Key management personnel compensation comprises:		
Short-term employee benefits	2,782	2,757
Post-employment benefits	36	37
Termination benefits	377	-
	3,195	**2,794**

Employment cessation payments

During the year, 33 employees received or will receive $1,161,000 (2012: 15 employees received a total of $694,200) relating to the cessation of their employment with Public Trust.

Board member remuneration

	BOARD 2013 $000	SUB-COMMITTEE 2013 $000	BOARD 2012 $000	SUB-COMMITTEE 2012 $000
Remuneration paid or payable to Board members:				
Trevor Janes (Retired in June 2013)	42	-	42	-
Robin Hill (Retired in April 2013)	22	4	26	5
Sarah Roberts	21	5	21	5
Rodger Finlay	21	4	21	4
Dinu Harry	21	2	21	1
Sue McCormack	21	2	21	1
Fiona Oliver	21	5	21	5
Hinerangi Raumati (Resigned in November 2012)	7	-	21	1
	176	**22**	**194**	**22**

Insurance and indemnities

Public Trust effects Board member and officers' liability, statutory liability and professional indemnity insurance cover in respect of liability for loss or costs incurred by a member of the Board or an employee of Public Trust (or any of its subsidiaries) in the course of their duties to Public Trust.

Public Trust indemnifies certain employees in accordance with the Crown Entities Act 2004.

31 Tax expense (benefit)

	GROUP 2013 $000	GROUP 2012 $000	PARENT 2013 $000	PARENT 2012 $000
Profit (loss) before tax	7,770	7,056	6,713	6,185
Cash flow hedging reserve movement	1,025	105	1,025	105
	8,795	7,161	7,738	6,290
Income tax at 28%	2,463	2,005	2,167	1,761
Add (deduct) tax effect of temporary differences				
Non-deductible expenses	(242)	12	(242)	12
Non-taxable income	(7)	(7)	(7)	(7)
Prior period adjustment	(122)	-	(122)	-
Deferred tax expense relating to temporary differences	(722)	181	(722)	181
Deferred tax arising from losses written off	(296)	(244)	-	-
Deferred tax arising from changes in tax rate from 30% to 28%	-	(45)	-	(45)
Utilisation of losses	(787)	(1,873)	(787)	(1,873)
Utilisation of losses by transfer to subsidiary	-	-	(296)	(244)
	287	29	(9)	(215)
Tax effect of movement in the cash flow hedging reserve	(287)	(29)	(287)	(29)
Tax expense (benefit)	**-**	**-**	**(296)**	**(244)**

32 Reconciliation of profit (loss) after tax to net cash flow from operating activities

	GROUP 2013 $000	GROUP 2012 $000	PARENT 2013 $000	PARENT 2012 $000
Profit (loss) after tax	**7,770**	**7,056**	**7,009**	**6,429**
Items relating to property, plant & equipment				
Depreciation	1,900	1,833	1,900	1,833
(Gains) losses on disposal of property, plant & equipment	75	76	75	76
Items relating to intangibles				
Amortisation	574	272	574	272
Impairment of intangibles	1,187	-	1,187	-
Items relating to investment in subsidiary				
Management fee accrual	-	-	29	91
Subsidiary's utilisation of tax losses of Parent	-	-	(296)	-
Items relating to non-trading financial assets and financial liabilities				
Realised (gains) losses on disposal	(3,110)	13,667	(3,110)	13,667
Unrealised (gains) losses	(8,139)	(22,138)	(8,139)	(22,138)
Amortisation of premiums and discounts	111	(606)	111	(606)
Movement in accrued interest	(951)	2,774	(951)	2,774
Movement in impairment allowances	(5,436)	295	(5,436)	295
Write off of advances secured by mortgage	5,518	(65)	5,518	(65)
Movement in amortisation of origination fees and transaction costs	(12)	(29)	(12)	(29)
Other items				
Decrease (increase) in trading derivative assets	111	(109)	111	(109)
(Increase) in trade receivables	(796)	(760)	(779)	(906)
(Increase) decrease in sundry receivables	(2)	1,122	(2)	1,122
Decrease (increase) in prepayments	90	(3)	90	(3)
(Increase) decrease in current tax	(11)	(2)	(11)	(2)
(Decrease) increase in trade payables	(666)	669	(670)	643
Increase in other payables	354	310	355	310
(Decrease) in trading derivative liabilities	(1,645)	(2,127)	(1,645)	(2,127)
(Decrease) in prepaid income	(79)	(43)	(1)	(9)
(Decrease) increase in employee benefits	(908)	477	(908)	477
Increase (decrease) in provisions	132	(295)	133	(289)
Net cash flows from operating activities	**(3,933)**	**2,374**	**(4,868)**	**1,706**

33 Related parties

Crown-related parties

By virtue of ownership the Crown is considered to have significant influence over the Group (refer to Governance section). Accordingly, the Crown and all of its related parties are related parties of the Group. All significant transactions with Crown-related entities are disclosed below.

Revenue from the Crown arises from an output agreement between the Parent and the Minister of Justice (with the agreement of the Minister of Finance). The agreement covers certain non-commercial services that are either paid for or subsidised by the Crown to ensure that, among other things, reasons of affordability do not prevent or preclude New Zealanders from obtaining key services relating to the management of their estates and personal affairs. The Statement of Service Performance reports against these outputs. Payment for these services is managed by the Ministry of Justice on behalf of the Crown.

Group & Parent	2013 $000	2012 $000
Revenue from Crown	3,802	4,500
Crown Receivable	666	317
Crown Payable	(662)	-

The following table shows the significant investment transactions with Crown-related entities.

Group & Parent 2013	NET INTEREST REVENUE $000	PURCHASES $000	SALES/ MATURITIES $000	HOLDINGS AT REPORTING DATE $000
State owned enterprises	2,853	50,000	100,000	63,258
	2,853	**50,000**	**100,000**	**63,258**

Group & Parent 2012				
State owned enterprises	5,133	151,000	148,000	113,289
	5,133	**151,000**	**148,000**	**113,289**

Group Investment Funds

Public Trust manages 40 (2012: 40) Group Investment Funds and this management relationship confers significant influence on the Funds.

The following specific transactions took place during the year in relation to the Group Investment Funds.

Group & Parent	2013 $000	2012 $000
Reimbursement of expenses	1,033	1,384
Management fee received	3,378	3,208
Advice and service fee	1,970	1,160
Interest received	1	1
Total overdrafts with the Common Fund at end of the year	(269)	(281)

The outstanding balances are unsecured, interest is paid at market rates and repayable on demand.

33 Related parties *(continued)*

Funeral Trust Cash Fund

In August 2010, the decision was made to move the clients of certain Pre-paid Funeral Trusts invested in the Common Fund to a Portfolio Investment Entity (PIE) managed fund structure, the Funeral Trust Cash Fund (the Fund). The Pre-paid Funeral Trusts invest through the Fund and remain protected by the Crown guarantee on capital and interest. All revenue earned and all investments and cash balances of the Fund are held in the Common Fund. Public Trust has significant influence over the Fund as it acts as the trustee, manager and administrator of the Fund.

The following specific transactions took place during the year in relation to the Fund.

Group & Parent	2013 $000	2012 $000
Interest paid	451	451
Total balances with the Common Fund at end of the year	33,306	33,297

New Zealand Permanent Trustees Limited

New Zealand Permanent Trustees Limited is a wholly owned subsidiary of the Parent. The amounts outstanding at balance date are shown in the Parent's Statement of Financial Position. The Parent receives a management fee from New Zealand Permanent Trustees Limited for services provided. For the year ended 30 June 2013, this was $990,364 (2012: $1,360,000). All transactions between the Parent and New Zealand Permanent Trustees Limited were on normal terms and conditions. They are fully eliminated on consolidation. No outstanding amounts have been written down or provided for, as they are considered fully collectible.

Key management personnel

No key management personnel have disclosed that they or their immediate relative or professional associate has any dealing with the Group which has been either entered into on terms other than those which in the ordinary course of business would be given to any other person of like circumstances, or by means which could otherwise be reasonably likely to influence materially the exercise of the key management personnel's duties in the Group.

All related party transactions are made at arm's length and on normal terms and conditions.

Notes to the Financial Statements *(continued)*

For the year ended 30 June 2013

34 Comparison of budget to actual

Assets and liabilities

Liabilities to clients decreased by $196.5 million compared with a budgeted decrease of $249.4 million. The Common Fund has continued to reduce in size as a result of the strategy to reduce risk along with strong competition for retail deposits.

Revenue

Total revenue was $7.1 million behind budget. Fee revenue was $8.1 million below budget due to lower-than-expected trustee fee and investment services revenue. Interest revenue was $0.5 million above budget, largely due to a restructure of securities which resulted in previously recognised unrealised losses reversing to interest instead of investment gains. Other revenue was $1.2 million ahead of budget reflecting the finalisation of insurance claims relating to damage caused by the Christchurch earthquakes.

Expenses

Expenses were $2.8 million below budget. Operating costs were $3.3 million lower than budget as a result of tight management of personnel and property costs and reduced spending on projects while the strategic direction was refined. Impairment losses on advances secured by mortgage were $0.7 million below budget with individual and collective impairment allowances continually being assessed and adjusted to reflect market conditions. This was partly offset by a $1.2 million software development write-off following impairment testing of the PACman system reflecting a change in future cash flow projections and useful life.

Investment gains

Investment gains were $9.2 million ahead of budget as unrealised investment losses recognised in previous years continued to reverse due to improvement in credit market conditions and the sale of some legacy assets.

Profit and equity

Profit before tax was $4.9 million ahead of budget as a result of lower expenses, higher insurance recoveries and higher investment gains, partly offset by lower-than-budget fee revenue. Public Trust has a capital surplus against the current applicable NBDT guidelines which include a temporary partial exemption. Reserves are being built through the reversal of previously recognised investment losses to achieve compliance with full NBDT requirements.

Cash flows

Cash flows from operating activities were $8.0 million below budget reflecting the operational result for the year which was lower than budget. Cash outflows from financing activities were $192.8 million compared to the budget outflows of $287.4 million. The actual outflows were lower than budget as the reduction in client term deposits was slower than expected following Public Trust's move to differentiate the benefit of the Government guarantee associated with client deposits.

35 Events after the reporting period

Subsequent to the reporting date, an offer was received to purchase Level 3 classified mortgage backed securities. Refer to Note 28 Fair Value for the relevant details.

The Minister responsible for Public Trust has initiated a review of our business operations by a suitably qualified independent consultant. This review will involve analysis by sector, entity and public policy. The requirement is for that review to be presented to Treasury by the end of October and Public Trust expects to work closely with Treasury on any recommendations arising.

Chartered Accountants

Audit Report

INDEPENDENT AUDITOR'S REPORT TO THE READERS OF PUBLIC TRUST AND GROUP'S FINANCIAL STATEMENTS AND NON-FINANCIAL PERFORMANCE INFORMATION

FOR THE YEAR ENDED 30 JUNE 2013

The Auditor-General is the auditor of Public Trust and group. The Auditor-General has appointed me, Stuart Mutch, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements and non-financial performance information of Public Trust and group on her behalf.

We have audited:

- the financial statements of Public Trust and group on pages 31 to 95, that comprise the statement of financial position as at 30 June 2013, the statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and notes to the financial statements that include accounting policies and other explanatory information; and
- the non-financial performance information of Public Trust and group that comprises the statement of service performance and the report on the statement of intent on pages 21 to 29.

Opinion

In our opinion:

- the financial statements of Public Trust and group on pages 31 to 95:
  - comply with generally accepted accounting practice in New Zealand;
  - comply with International Financial Reporting Standards; and
  - fairly reflect Public Trust and group's:
    - financial position as at 30 June 2013; and
    - financial performance and cash flows for the year ended on that date.
- Subject to exemptions provided by the Crown under Section 143 of the Crown Entities Act 2004, the non-financial performance information of Public Trust and group on pages 21 to 29:
  - complies with generally accepted accounting practice in New Zealand; and
  - fairly reflect Public Trust and group's service performance and outcomes for the year ended 30 June 2013, including for the class of output:
    - the service performance compared with forecasts in the statement of forecast service performance at the start of the financial year; and
    - the actual revenue and output expenses compared with the forecasts in the statement of forecast service performance at the start of the financial year.

Uncertainty about the value of unlisted mortgaged backed securities

Without modifying our opinion, we considered the adequacy of the disclosures in note 28 on pages 80 to 81 about the carrying value of unlisted mortgaged backed securities of $20 million, for which there is no quoted market price or pricing available from a third party agent.

Although the carrying value of the unlisted mortgaged backed securities is based on the best available information, in the absence of an active, liquid market and quoted market prices, a degree of uncertainty exists about the value, which could have a material effect on the statement of profit and loss and statement of financial position. We consider the disclosures to be adequate.

Our audit was completed on 27 September 2013. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and we explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and non-financial performance information are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements and non-financial performance information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and non-financial performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and non-financial performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of Public Trust and group's financial statements and non-financial performance information that fairly reflect the matters to which they relate. We consider internal control 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 Public Trust and group's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the appropriateness of the reported service performance within Public Trust and group's framework for reporting performance;
- the adequacy of all disclosures in the financial statements and non-financial performance information; and
- the overall presentation of the financial statements and non-financial performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and non-financial performance information. We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Directors

The Board of Directors is responsible for preparing financial statements and non-financial performance information that:

- comply with generally accepted accounting practice in New Zealand;
- fairly reflect Public Trust and group's financial position, financial performance and cash flows; and
- fairly reflect Public Trust and group's service performance and outcomes.

The Board of Directors is also responsible for such internal control as is determined necessary to enable the preparation of financial statements and non-financial performance information that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the final statements and non-financial performance information, whether in printed or electronic form.

The Board of Directors' responsibilities arise from the Crown Entities Act 2004, and the Public Trust Act 2001.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and non-financial performance information and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and the Crown Entities Act 2004.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

In addition to the audit we have carried out assignments in the areas of the audit of Public Trust's managed funds and the completion of agreed upon procedures in relation to the managed funds. Other than the audit and these assignments, we have no relationship with or interests in Public Trust or any of its subsidiaries.

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On behalf of the Auditor-General
Wellington, New Zealand

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