Interim Report of Public Trust

For six months from 1 July to 31 December 2010

with you for generations to come

Public Trust

He aha te mea nui o tenei ao?

He Tangata!
He Tangata!
He Tangata!

What is the most important
thing in this world?

It is People!
It is People!
It is People!

Purpose

This report has been prepared to meet the requirements of:

- The Statement of Intent of Public Trust

The report covers the activities for the six months ended 31 December 2010.

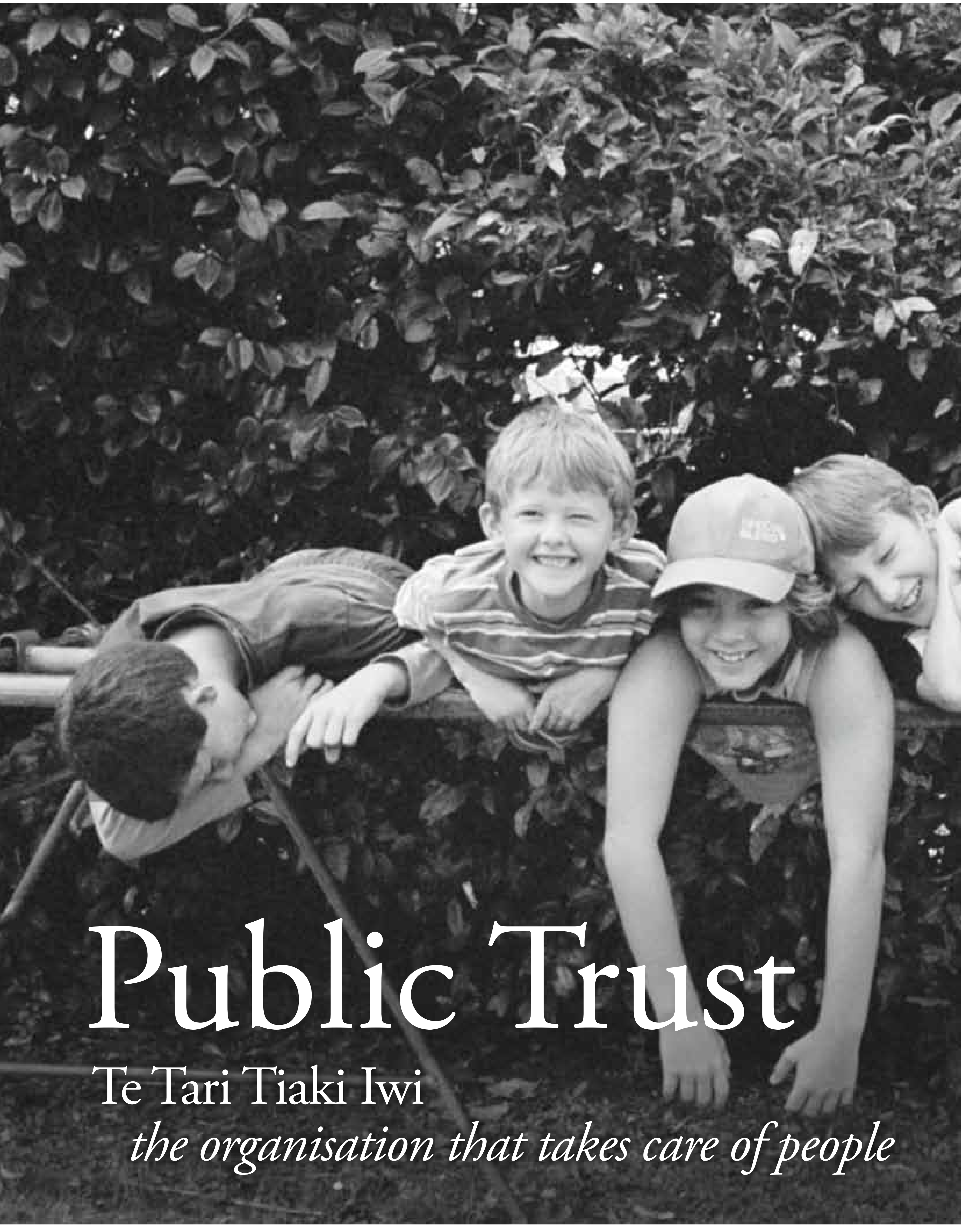
Contents

Foreword

On behalf of the Board, we have the pleasure of presenting the interim report of Public Trust for the six months from 1 July 2010 to 31 December 2010.

Trevor D Janes
Chair
28 January 2011

Robin Hill
Deputy Chair



Public Trust

Te Tari Tiaki Iwi

the organisation that takes care of people

With you for *generations to come...*

Public Trust is New Zealand's most enduring trustee organisation, providing independent and reliable trustee services since 1873. As a Crown Entity its independence is guaranteed under the Public Trust Act 2001.

Public Trust's strong investment grade credit rating and deposit rating, combined with the Crown guarantee on Common Fund deposits, provides customers with confidence as to their investment with Public Trust.

Best known as New Zealand's largest provider of Wills and Estate Administration services, Public Trust also provides a range of products and services to help all New Zealanders grow and protect the important things in their lives. With 28 customer centres and 18 part-time offices nationwide, Public Trust looks after the interests of more than 251,000 New Zealanders.

Wherever people are at in their lives, whether they're starting a family, buying a home, building and managing assets or planning for retirement, Public Trust has the experience and expertise to help them protect what's important.

Personal *Customers*

prepare more than

24,000

Wills annually

administer or manage over

$3.9 billion

in assets, including $1.2 billion
in investment funds

Business *Customers*

manage 440 charitable trusts comprising approximately

$370 million

in assets

Corporate *Customers*

supervise approximately

$35 billion

on behalf of corporate and business investors
through our Corporate Trustee Services

look after approximately
6,000
estates each year

manage in excess of
4,000
family trusts

provide mortgage lending in excess of
$215 million

manage the financial matters for more than
2,000
customers as their attorney

assist over
700 people
who are incapacitated and unable to manage their own affairs

distribute approximately
$10 million
of funding to charitable causes each year

actively manage
29 farms
across 19,600 hectares including Smedley Station, New Zealand's largest training farm

safeguard over $245 million of fees for at least
47,000
students across more than 240 private training establishments

offer a full range of trustee services to some of Australasia's best known institutions covering over

200 appointments in the securities and financial markets

Report
For the six months ended 31 December 2010

Financial Performance

Public Trust has reported a $0.4 million profit after tax for the six month period to 31 December 2010 which was $0.9 million ahead of plan. The result reflects an increase in operating surplus before change costs against budget but is lower than the same period last year. This is primarily due to the expected reduction in Common Fund income down 11.0% as a result of the change in investment risk position and increased competition for retail deposits.

In line with our strategy, fee and commission revenue continues to grow as a percentage of total revenue, increasing to 63.9% compared to 61.1% in the same period last year.

Operating expenses were below plan for the first six months but 1.6% ahead of the same period last year. The increase reflects an annual salary review after a nil review in the previous year and higher regulatory costs offset by procurement savings in other areas.

Previous unrealised investment losses have reversed in line with expectation, with $2.5 million recognised for the period. The lower level of investment loss reversals, compared to the same period in 2009, had a significant impact on the overall profit after tax for the period. The reversal of investment losses is forecast to continue over a number of years. The timing of these reversals is dependent on market conditions and performance of underlying assets.

Substantial progress continues to be made to reshape the mortgage portfolio, by reducing our commercial and residential investment lending and focusing our efforts on quality residential lending to Public Trust customers. We maintain a prudent approach to mortgage provisioning and impairments for the first six months are $1.0 million, $0.2 million lower than the same period last year.

Public Trust's overall equity position improved over the period increasing by $1.0 million to $21.1 million.

Operational Performance

We are seeing encouraging trends with an increase in market share in key market segments and are maintaining high customer satisfaction levels. The Corporate Trustee business performed particularly strongly during the period with total funds under supervision increasing by 20.1% to $34.8 billion.

Productivity levels have improved with a 3.9% increase in revenue per frontline and support full-time equivalent (FTE) employee over the equivalent period last year.

The transition of the mortgage portfolio to a lower risk position has seen a reduction in total outstandings from $241.4 million to $215.7 million at the end of the period. To offset the current reduction, our focus is to progress the recently implemented broker channel and further develop internal capability.

Public Trust continues to work closely with the Crown and the Ministry of Justice to ensure the non-commercial fiduciary protective services we provide support Government policy objectives.

We operate in an environment that continues to be impacted by the global financial crisis. Notwithstanding this, ongoing improvements in operational and service performance confirm that the changes are building a stronger business that engages with New Zealanders to meet their trustee needs.

Regulatory Change

The high level of regulatory change continues. Over the last six months, substantial work has been undertaken to respond to regulatory changes in a way that ensures compliance and improves Public Trust's competitive positioning.

We fully support the introduction of the Financial Advisers Act 2008 and its steps to improve the quality of advice available to New Zealanders. We are now focused on training employees to ensure full compliance by 1 July 2011.

We also have a programme of work in place to meet the requirements of the Anti-Money Laundering and Counter Financing of Terrorism Act 2009 ahead of its implementation in 2012. The Securities Trustees and Statutory Supervisors Bill, passed at the end of 2010, will have a significant impact on our Corporate Trustee business. We are monitoring the progression of the Financial Markets (Regulators and KiwiSaver) Bill, the Securities Law Review and the Law Commission review of trusts and their potential impact on Public Trust.

Public Trust is compliant with the risk management and credit rating requirements for non-bank deposit takers under the Reserve Bank of New Zealand Act 1989 (RBNZ Act). The strong investment grade credit rating assigned in August 2010 and subsequent deposit rating of Aaa, combined with the Crown guarantee on Common Fund deposits, provide customers with confidence in their investments with Public Trust.

The Reserve Bank granted Public Trust an exemption, effective 1 December 2010, from the related party exposure and liquidity requirements in the RBNZ Act. Public Trust was also granted a three-year period to progressively meet the capital ratio requirements. The Board remains committed to continuing to build capital to ensure Public Trust maintains an appropriate capital structure.

Improving the Customer Experience

Public Trust has recognised that a transformation is required to ensure financial sustainability and ongoing relevance to New Zealanders and is implementing an extensive programme that is affecting all parts of the organisation.

The change programme has continued to deliver results during the first half of this financial year through the development of our people capability, system enhancements and introducing new products and services to meet customer life stage needs.

We are on target to deliver a new customer investment product range designed to cater to investors' needs via tailored service levels. The new service will provide an enhanced level of advice coupled with more transparent options and improved reporting.

We are implementing an enhanced customer feedback channel to provide comprehensive insights directly from our customers following their interaction with Public Trust. This will help respond to the changing needs of our customers and ensure we continue to adapt our service offerings to better meet their individual needs.

In the first half of this financial year we have focused on improving our overall service quality and efficiency through an ongoing programme of process redesign. We have enhanced our estate and family trust processes.

Our People

The implementation of a Customer Centricity Programme in the 2009/10 financial year has resulted in a clearer focus on customer segments and a relationship management model to meet customers' needs. This major initiative resulted in significant changes to front-line employee responsibilities. In the first half of this year we have continued to lift the overall capability of our people by investing in learning and development including leadership, change management, product and service programmes and refining our approach to interacting with customers.

Following the previously reported decline in employee engagement levels, which reflected the extent of the structural changes, we are implementing a range of business unit action plans to develop and enhance engagement levels.

The Board acknowledges and appreciates the dedication and commitment shown by our people who continue to deliver on the changes required to make Public Trust a stronger, more sustainable business that delivers an enhanced customer experience.

Outlook

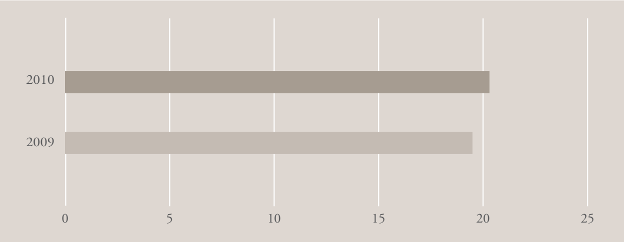
We are operating in a challenging environment, with general economic uncertainty and regulatory reform presenting risks and opportunities. However, we have a clear strategic plan in place and continue to make real progress.

The Board and Management remain confident Public Trust can improve its financial position and reinforce its role as Trustee for all New Zealanders as we deliver an enhanced customer experience.

We look forward to reporting back in six months on the progress we have made.

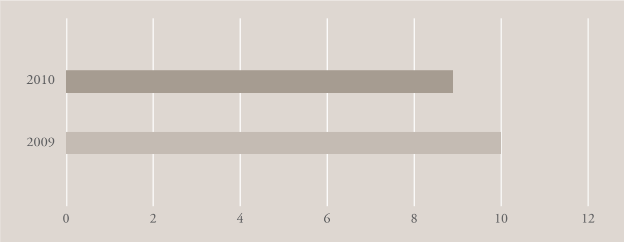
Key Trends
*For the six months ended 31 December 2010**

Core fee *revenue ($m)*



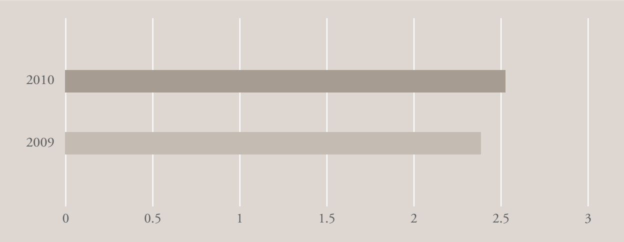
Core fee revenue was ahead of the same period last year with improved results for both personal and business and corporate fee revenue.

Common Fund *revenue ($m)*



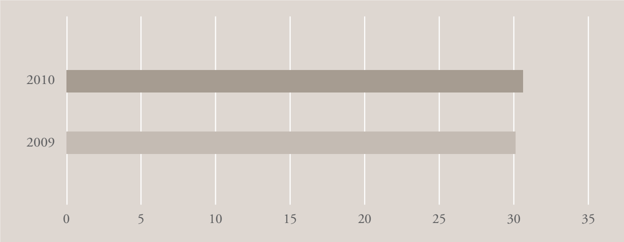
Common Fund revenue has reduced from the previous year due to the planned changes in the investment risk position and increased competition for retail deposits.

Investment services *revenue ($m)*



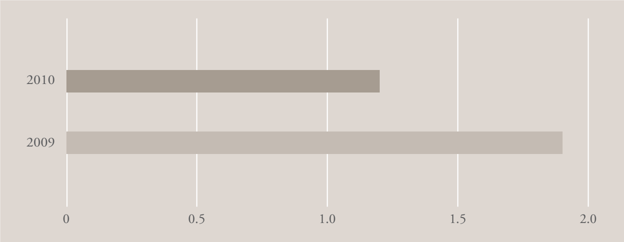
Investment services revenue was ahead of the same period last year due to the increase in funds under management.

Operating *costs ($m)*



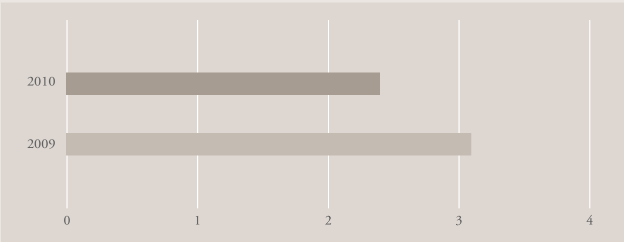
Cost management has limited the increase in operating costs to 1.6%.

Operating *surplus ($m)*



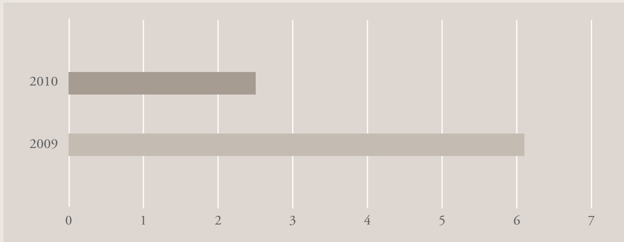
Operating surplus was $0.7 million down on last year reflecting the planned reduction in Common Fund revenue and higher operating costs which have been partly offset by improved fee revenue. Operating surplus excludes transformation costs, mortgage impairment and investment revaluations.

Transformation *costs ($m)*



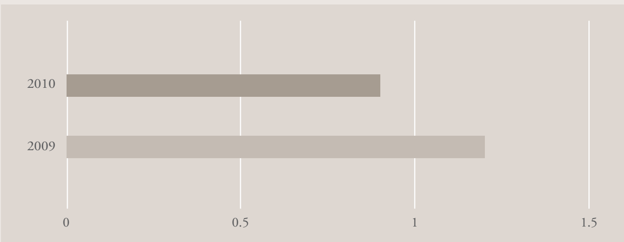
Lower transformation costs were incurred during the first half of 2010 due to the timing of spend on projects.

Investment *gains ($m)*



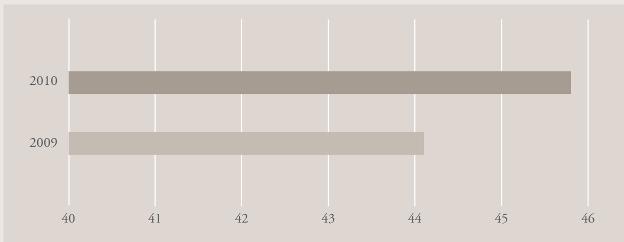
Previously unrealised investment losses have reversed in line with expectation but at a significantly lower level than last year.

Mortgage *losses ($m)*



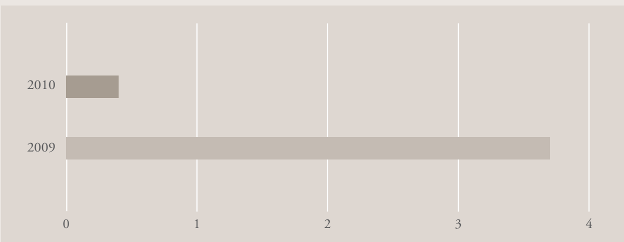
Mortgage losses were down from last year and in line with expectations. This reflected a decline in the level of the collective impairment allowance and progress in improving the quality of the portfolio.

Productivity *($ revenue per fee-earning FTE)*



Revenue per fee-earning full-time equivalent (FTE) employee has increased 3.9% from $44,100 last year to $45,800 in 2010/11 as the transformation programme has improved processes and operational efficiency.

Profit after *tax ($m)*



Profit after tax in the first half of 2010/11 is lower than the previous year and $0.9 million ahead of budget.

* The key performance trends information is based on management accounting definitions used for internal reporting of revenue and cost. This information is presented for performance reporting purposes and may not directly correspond to the financial statements within the interim report which are prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP).

Report on the *Statement of Intent*

For the six months ended 31 December 2010

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

	DEC 2010/11 SIX MONTHS ACTUAL	DEC 2009/10 SIX MONTHS ACTUAL	JUN 2009/10 YEAR ACTUAL	JUN 2010/11 YEAR TARGET[1]	JUN 2011/12 YEAR TARGET[1]
Ownership Perspective					
Profit (Loss) Post-Tax ($000)	385	3,716	4,818	400	1,300
Return on equity[2]	1.9%	n/a	n/a	1.8%	5.4%
Distributions to Crown	Nil	Nil	Nil	Nil	Nil
Efficiency and effectiveness perspective					
Cost/Revenue[3]	96.2%	107.7%	108.6%	96.6%	95.9%
Capability Perspective					
Employee engagement[4]	-	-	41%	56%	57%
Customer and Market Perspective					
Market shares[5]					
– Wills	16.0%	15.0%	15.0%	15.0%	15.0%
– Estates (probates)	14.0%	14.1%	13.9%	14.5%	15.0%
Customer satisfaction[6]	7.5	8.1	7.0	8.2	8.3
Net promoter score[7]	5	n/a	n/a	18	20

1 Source: 2011/13 Statement of Intent.

2 Return on equity not calculated for 2009/10 due to negative equity at 2008/09. Return on equity is profit (loss) post tax divided by the average opening and closing equity. Profit (loss) does not include the movement in the cash flow hedging reserve.

3 Total expenses as a percentage of total revenues (excluding investment gains/losses). In 2010/11 the measure is total expenses (excluding change, restructuring and mortgage losses) as a percentage of revenue (excluding investment gains/losses). In prior periods, the measure was total expenses including change, restructuring and mortgage losses.

4 Independent survey of employee engagement (2009 Global benchmark = 34%, 2009 New Zealand benchmark = 42%). Public Trust's survey only conducted in the second half of the financial year. 2010 benchmark results not yet available.

5 Independently conducted survey of market share. There was a change in research provider and methodology for 2009/10.

6 Independently conducted survey of customer satisfaction (Range: 1 = poor, 10 = excellent).

7 The net promoter score is derived from asking our customers the question "Would you recommend Public Trust to family and friends?" The score is the number of people who gave us a 9 or 10 (10 being extremely positive), minus those who gave us a score of 5 or less (being unlikely or negative). The net promoter score was measured in September 2010.

Funds under *Management*

As at 31 December 2010

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.

	DEC 2010 ACTUAL $M	DEC 2009 ACTUAL $M	JUN 2010 ACTUAL $M
Fiduciary assets			
Funds under management			
Common Fund	837	934	883
Managed Funds	394	380	376
Assets under management	2,713	2,597	2,649
Funds under supervision	34,796	25,256	28,975

Statement of *Financial Position*

As at 31 December 2010

	GROUP ACTUAL DEC 2010 $000	GROUP BUDGET DEC 2010 $000	GROUP ACTUAL DEC 2009 $000	GROUP ACTUAL JUN 2010 $000
Assets				
Cash and cash equivalents	11,850	19,722	9,962	26,526
Investment securities	618,561	608,837	676,336	625,692
Derivative financial instruments	2,238	2,500	2,276	2,385
Advances to clients	6,245	3,800	6,478	8,694
Trade receivables	6,678	4,750	4,676	5,051
Advances secured by mortgage	215,733	241,602	260,046	241,448
Total financial assets	861,305	881,211	959,774	909,796
Sundry receivables	90	100	152	109
Prepayments	1,528	1,000	1,454	836
Current tax	726	726	726	726
Property, plant & equipment	6,146	8,975	7,201	6,666
Intangibles	3,122	2,991	3,104	3,015
Total assets	**872,917**	**895,003**	**972,411**	**921,148**
Liabilities				
Liabilities to clients - at call or short term	415,283	384,408	430,344	436,231
Liabilities to clients - term deposits	421,119	469,831	502,690	445,807
Prepaid estate administration	606	725	729	675
Total liabilities to clients	837,008	854,964	933,763	882,713
Trade payables	2,399	2,100	1,959	2,528
Other payables	1,415	2,300	2,289	1,819
Derivative financial instruments	5,975	9,000	9,515	8,647
Prepaid income	272	350	326	288
Employee benefits	4,515	4,601	4,350	4,671
Provisions	252	575	1,611	387
Total liabilities	**851,836**	**873,890**	**953,813**	**901,053**
Equity				
Contributed equity	90,174	90,174	90,174	90,174
Cash flow hedging reserve	(2,281)	(1,935)	(3,277)	(2,882)
Retained earnings	(66,812)	(67,126)	(68,299)	(67,197)
Total equity	**21,081**	**21,113**	**18,598**	**20,095**
Total liabilities plus equity	872,917	895,003	972,411	921,148

For and on behalf of the Board, who authorised the issue of the financial statements on 28 January 2011.

Trevor D Janes
Chair

Robin Hill
Deputy Chair

The Notes to the Financial Statements form part of this financial statement.

Statement of *Changes in Equity*

For the six months ended 31 December 2010

	GROUP ACTUAL DEC 2010 $000	GROUP BUDGET DEC 2010 $000	GROUP ACTUAL DEC 2009 $000	GROUP ACTUAL JUN 2010 $000
Contributed equity				
Opening balance	90,174	90,174	60,174	60,174
Contribution by the Crown	-	-	30,000	30,000
Closing balance	90,174	90,174	90,174	90,174
Cash flow hedging reserve				
Opening balance	(2,882)	(2,597)	(5,157)	(5,157)
Other comprehensive income	601	662	1,880	2,275
Closing balance	(2,281)	(1,935)	(3,277)	(2,882)
Retained earnings				
Opening balance	(67,197)	(66,597)	(72,015)	(72,015)
Profit (loss) after tax	385	(529)	3,716	4,818
Closing balance	(66,812)	(67,126)	(68,299)	(67,197)
Equity at the end of the period	**21,081**	**21,113**	**18,598**	**20,095**

The Notes to the Financial Statements form part of this financial statement.

Statement of *Comprehensive Income*

For the six months ended 31 December 2010

	GROUP ACTUAL DEC 2010 $000	GROUP BUDGET DEC 2010 $000	GROUP ACTUAL DEC 2009 $000	GROUP ACTUAL JUN 2010 $000
Revenue				
Revenue from financial instruments				
Interest from interest bearing securities	13,762	15,296	14,274	26,564
Interest from advances secured by mortgage	8,242	7,406	10,539	19,805
	22,004	22,702	24,813	46,369
Less: Interest expense	13,070	14,211	14,736	27,209
	8,934	8,491	10,077	19,160
Fees and commission revenue	20,483	21,205	19,783	39,881
Less: Fees and commission expense	825	675	648	1,576
Other revenue	89	105	139	178
Revenue from the Crown	2,810	2,119	2,275	4,254
Revenue before expenses	**31,491**	**31,245**	**31,626**	**61,897**
Expenses				
Employee benefits	20,820	20,543	21,545	40,857
Operating lease costs	2,164	2,300	2,328	4,668
Depreciation	963	1,173	985	1,984
Amortisation of intangibles	94	50	105	196
Net losses (gains) on disposals of property, plant & equipment and intangibles	36	27	-	26
Impairment losses on advances secured by mortgage	951	820	1,220	3,557
Other expenses	8,576	9,627	7,875	15,842
Total expenses	**33,604**	**34,540**	**34,058**	**67,130**
Net realised gains (losses) on financial instruments	(586)	-	(561)	(634)
Net unrealised gains (losses) on financial instruments	3,084	2,766	6,709	10,685
Net gains (losses) on financial instruments	2,498	2,766	6,148	10,051
Profit (loss) before tax for the period	**385**	**(529)**	**3,716**	**4,818**
Tax expense (benefit)	-	-	-	-
Profit (loss) after tax for the period	**385**	**(529)**	**3,716**	**4,818**
Other comprehensive income				
Movement in cash flow hedging reserve	601	662	1,880	2,275
Total comprehensive income for the period	**986**	**133**	**5,596**	**7,093**

The Notes to the Financial Statements form part of this financial statement.

Statement of *Cash Flows*

For the six months ended 31 December 2010

	GROUP ACTUAL DEC 2010 $000	GROUP BUDGET DEC 2010 $000	GROUP ACTUAL DEC 2009 $000	GROUP ACTUAL JUN 2010 $000
Cash flows from operating activities				
Fees and other revenue	23,237	23,180	21,957	43,595
Interest revenue	19,834	22,695	26,190	47,254
Payments to suppliers and employees	(33,817)	(32,566)	(32,662)	(62,746)
Interest expense	(12,466)	(14,341)	(17,708)	(30,656)
Net GST expense	(147)	(400)	(316)	(634)
Cash flows from operating activities before changes in trading investments	(3,359)	(1,432)	(2,539)	(3,187)
Net flows from trading investments	(805)	-	(209)	(158)
Net cash flows from operating activities	**(4,164)**	**(1,432)**	**(2,748)**	**(3,345)**
Cash flows from investing activities				
Net flows from non-trading investments	36,249	69,062	120,145	188,970
Sale of property, plant & equipment	3	-	-	1
Purchase of property, plant & equipment	(521)	(2,122)	(456)	(1,175)
Purchase of intangibles	-	-	(68)	(70)
Net cash flows from investing activities	**35,731**	**66,940**	**119,621**	**187,726**
Cash flows from financing activities				
Net receipts (payments) from clients	(46,243)	(55,786)	(148,503)	(199,447)
Contribution from the Crown	-	-	30,000	30,000
Net cash flows from financing activities	**(46,243)**	**(55,786)**	**(118,503)**	**(169,447)**
Net increase (decrease) in cash and cash equivalents	(14,676)	9,722	(1,630)	14,934
Cash and cash equivalents at beginning of the period	26,526	10,000	11,592	11,592
Cash and cash equivalents at the end of the period	**11,850**	**19,722**	**9,962**	**26,526**

The Notes to the Financial Statements form part of this financial statement.

Notes to the *Financial Statements*

For the six months ended 31 December 2010

General information

These interim financial statements are for Public Trust Group and are unaudited. Public Trust Group comprises Public Trust and its subsidiaries (the Group).

Basis of preparation

These interim financial statements are for the six months ended 31 December 2010. They have been prepared in accordance with NZ IAS 34 *Interim Financial Reporting.* The interim financial statements should be read in conjunction with the annual financial statements for the year ended 30 June 2010, which have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for profit-oriented entities. The annual financial statements also comply with International Financial Reporting Standards.

Comparatives

Comparatives are for the six months ended 31 December 2009 (unaudited) and year ended 30 June 2010 (audited except for the restatements noted below).

Derivative financial instruments
The proceeds from the realisation of interest rate swaps held for trading and economically hedged are split between capital value and accrued interest and recognised in realised gains/losses and interest revenue respectively. Previously all the proceeds were recognised in realised gains/losses. The comparatives in the statement of comprehensive income have been restated.

Advances secured by mortgage – interest
Origination fees and subsequent amortisation are recognised in interest from advances secured by mortgage. Previously this was recognised in fees and commission revenue. The comparatives in the statement of comprehensive income have been restated.

Changes in accounting policy

The accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2010.

Application of accounting standards

The following amendments to accounting standards have been issued since the annual financial statements but not yet effective for the six months ended 31 December 2010, and have not been applied in preparing these financial statements:

NZ IFRS 7 *Financial Instruments: Disclosures (amendments 2010):* effective for annual periods beginning on or after 1 January 2011. These amendments will initially be applied in the financial statements for the six months ending 31 December 2011. The amendments clarify the financial instrument disclosures. The adoption of the amendments is not expected to have a material impact on disclosures. The actual impact has not yet been determined.

NZ IFRS 9 *Financial Instruments (amendments 2010):* effective for annual periods beginning on or after 1 January 2013. This standard will initially be applied in the financial statements for the six months ending 31 December 2013. The classification and measurement of financial liabilities was added to the standard. The adoption of this standard is not expected to have a material impact on recognition and measurement. The actual impact has not yet been determined.

NZ IAS 34 *Interim Financial Reporting (amendments 2010):* effective for annual periods beginning on or after 1 January 2011. These amendments will initially be applied in the financial statements for the six months ending 31 December 2011. The amendments require significant events and transactions to be disclosed and mandatory disclosures. The amendments will result in an increase in disclosures. The actual impact has not yet been determined.

Use of judgements and estimates

The same judgements, estimates and assumptions as applied to the annual financial statements for the year ended 30 June 2010 have also been applied to these interim financial statements except for the following:

Advances secured by mortgage – impairment
For the purpose of the collective evaluation of impairment, 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. Previously the amount of the collective impairment allowance was based on the historical statistical incidence of impairment in the loan portfolio of Public Trust and the banking industry.

Long-service leave
Actuarial valuation is carried out on an annual basis unless there are significant changes in circumstance.

Notes to the *Financial Statements (continued)*

For the six months ended 31 December 2010

1 Investment securities

	DEC 2010 $000	DEC 2009 $000	JUN 2010 $000
Designated at fair value through profit or loss	312,156	507,271	437,572
Loans and receivables	306,405	169,065	188,120
	618,561	**676,336**	**625,692**

2 Advances secured by mortgage

	DEC 2010 $000	DEC 2009 $000	JUN 2010 $000
Gross value	226,420	277,846	256,595
Less: Individual impairment allowance	(7,082)	(13,216)	(11,183)
Less: Collective impairment allowance	(3,605)	(4,584)	(3,964)
	215,733	**260,046**	**241,448**
Individual impairment allowance			
Opening balance	(11,183)	(14,544)	(14,544)
Charge for the period	(1,577)	(2,297)	(5,366)
Bad debts written off	5,379	2,333	7,232
Unused allowance reversed	307	1,303	1,532
Interest accrued on impaired advances	(8)	(11)	(37)
Closing balance	**(7,082)**	**(13,216)**	**(11,183)**
Collective impairment allowance			
Opening balance	(3,964)	(4,418)	(4,418)
Charge for the period	-	(166)	-
Unused allowance reversed	359	-	454
Closing balance	**(3,605)**	**(4,584)**	**(3,964)**

3 Restructuring provision

	DEC 2010 $000	DEC 2009 $000	JUN 2010 $000
Opening balance	204	341	341
Additions during the period	202	1,341	1,400
Amount applied during the period	(216)	(450)	(1,537)
Reversal of provision not used	(135)	-	-
Closing balance	**55**	**1,232**	**204**

The restructuring provision relates primarily to the termination of employment. It is expected the sums provided will be paid by 30 June 2011.

Notes to the *Financial Statements (continued)*

For the six months ended 31 December 2010

4 Nature and extent of risks arising from financial instruments

Full quantitative disclosure of the nature and extent of each type of risk arising from financial instruments (interest rate, currency, credit, liquidity, fair value and other price risk) has been made in the notes to the annual financial statements for the year ended 30 June 2010. The objectives and policies are consistent (except for those disclosed in judgements and estimates) with those disclosed in the annual financial statements for the year ended 30 June 2010.

5 Fair value

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 applicable the judgement involved in the valuation of certain level 3 securities will take into account a number of factors including: an assessment of the prepayment speed, credit spread, arrears history, any actual or expected losses, credit rating of the issuers, expected time to maturity, loan to value ratios, insurance status and credit rating of the insurer where applicable. Assumptions for individual securities will differ based on their individual characteristics.

For an issue of the mortgage backed securities portfolio, there is no quoted market price or pricing available from a third party agent and a valuation technique is used. The fair value is determined by reference to a third party's current market price of a similar instrument not held in the portfolio, which has a substantively similar subordination and credit rating structure. The credit margin of this benchmark instrument is adjusted to reflect the unique nature of the mortgage backed security held. These adjustments relate principally to whether the underlying pool of mortgages is residential or commercial and takes account of the expected average life of each tranche which is calculated by assessing the prepayment history.

The expected cash flows of the investment are then discounted using quoted market discount rates and the adjusted credit margin. Key assumptions are applied in the valuation technique in relation to expected average life, credit margins and discount rates. The expected average life assumes the issuer does not exercise the call option at the first call date but on a date based on expected prepayment and cash flows in the pool.

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.

Notes to the *Financial Statements (continued)*

For the six months ended 31 December 2010

5 Fair value (continued)

	DEC 2010 $000	DEC 2009 $000	JUN 2010 $000
Level 1			
Assets			
Investment securities	117,525	168,376	152,048
Total for level 1	**117,525**	**168,376**	**152,048**
Level 2			
Assets			
Investment securities	73,506	151,532	133,399
Derivative financial instruments	2,238	2,276	2,385
Total for level 2 assets	**75,744**	**153,808**	**135,784**
Liabilities			
Derivative financial instruments	5,975	9,515	8,647
Total for level 2 liabilities	**5,975**	**9,515**	**8,647**
Level 3			
Assets			
Investment securities	121,125	187,363	152,125
Total for level 3	**121,125**	**187,363**	**152,125**
Level 3 reconciliation			
Opening balance	152,125	227,247	227,247
Total gains (losses) recognised in profit or loss	1,443	196	3,846
Movement in amortisation	(75)	(163)	(266)
Movement in accrued interest	(17)	(180)	(293)
Purchases	117,385	137,785	305,276
Sales	(19,250)	(36,413)	(64,368)
Maturities	(130,486)	(141,109)	(319,317)
Transfers into or out of level 3	-	-	-
Closing balance	**121,125**	**187,363**	**152,125**

Notes to the *Financial Statements (continued)*

For the six months ended 31 December 2010

6 Reconciliation of profit after tax to net cash flow from operating activities

	DEC 2010 $000	DEC 2009 $000	JUN 2010 $000
Profit after tax	**385**	**3,716**	**4,818**
Items relating to property, plant & equipment			
Depreciation	963	985	1,984
(Gains) losses on disposal of property, plant & equipment	30	-	25
GST on capital payables	-	10	(30)
Items relating to intangibles			
Amortisation	94	105	196
(Gains) losses on disposal of intangibles	6	-	-
Items relating to non-trading financial assets and financial liabilities			
Realised (gains) losses on disposal	(290)	330	407
Unrealised (gains) losses	(1,536)	(4,693)	(8,369)
Amortisation of premiums and discounts	67	2,851	3,394
Movement in accrued interest	(878)	(4,188)	(5,276)
Movement in impairment allowances	(4,454)	(1,159)	(3,771)
Write off of advances secured by mortgage	5,373	2,333	7,241
Movement in amortisation of origination fees and transaction costs	(15)	(35)	(50)
Other items			
(Increase) decrease in trading derivative assets	(104)	789	810
(Increase) decrease in trade receivables	(127)	(234)	(650)
(Increase) decrease in sundry receivables	19	41	59
(Increase) decrease in prepayments	(692)	(976)	(359)
(Increase) decrease in current tax	-	(56)	(56)
Increase (decrease) in trade payables	(287)	(1,000)	(158)
Increase (decrease) in other payables	(404)	450	(23)
Increase (decrease) in trading derivative liabilities	(2,007)	(2,529)	(3,108)
Increase (decrease) in prepaid income	(16)	(20)	(58)
Increase (decrease) in employee benefits	(156)	(51)	270
Increase (decrease) in provisions	(135)	583	(641)
Net cash flows from operating activities	**(4,164)**	**(2,748)**	**(3,345)**

Notes to the *Financial Statements (continued)*

For the six months ended 31 December 2010

7 Related parties

Crown-related parties

By virtue of ownership, the Crown is considered to have significant influence over Public Trust. Accordingly, the Crown and all of its related parties are related parties of Public Trust. All significant transactions with Crown-related entities are disclosed below.

Revenue from the Crown of $2.8 million (Dec 2009: $2.3 million; June 2010: $4.3 million) arises from an output agreement between Public Trust 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. Payment for these services is managed by the Ministry of Justice on behalf of the Crown. The amount of $2.8 million recognised up to 31 December 2010 is based on the services performed during this period. The total output appropriation is limited to $4.5 million for the 2010/11 financial year.

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

Dec 2010	NET INTEREST REVENUE $000	PURCHASES $000	SALES/ MATURITIES $000
State owned enterprises	2,862	35,000	59,020
Crown entities	150	-	-
	3,012	**35,000**	**59,020**
Dec 2009			
New Zealand Government	71	4,929	5,000
State owned enterprises	1,871	143,000	30,000
Crown entities	60	4,151	-
	2,002	**152,080**	**35,000**
Jun 2010			
New Zealand Government	96	37,044	42,112
State owned enterprises	4,289	265,506	137,500
Crown entities	142	4,151	-
	4,527	**306,701**	**179,612**

Group Investment Funds

Public Trust manages Group Investment Funds and this management relationship confers significant influence on the funds. During the period, eight new funds were established. One of these funds, the Funeral Trust Cash Fund, invests solely in the Common Fund.

Notes to the *Financial Statements (continued)*

For the six months ended 31 December 2010

7 Related parties (continued)

The following significant transactions took place during the period in relation to the Group Investment Funds.

	DEC 2010 $000	DEC 2009 $000	JUN 2010 $000
Reimbursement of expenses	779	739	1,494
Management fee received	1,947	1,848	3,734
Interest paid to Funeral Trust Cash Fund	172	-	-
Balance of Funeral Trust Cash Fund with the Common Fund	33,438	-	-

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

Key management personnel

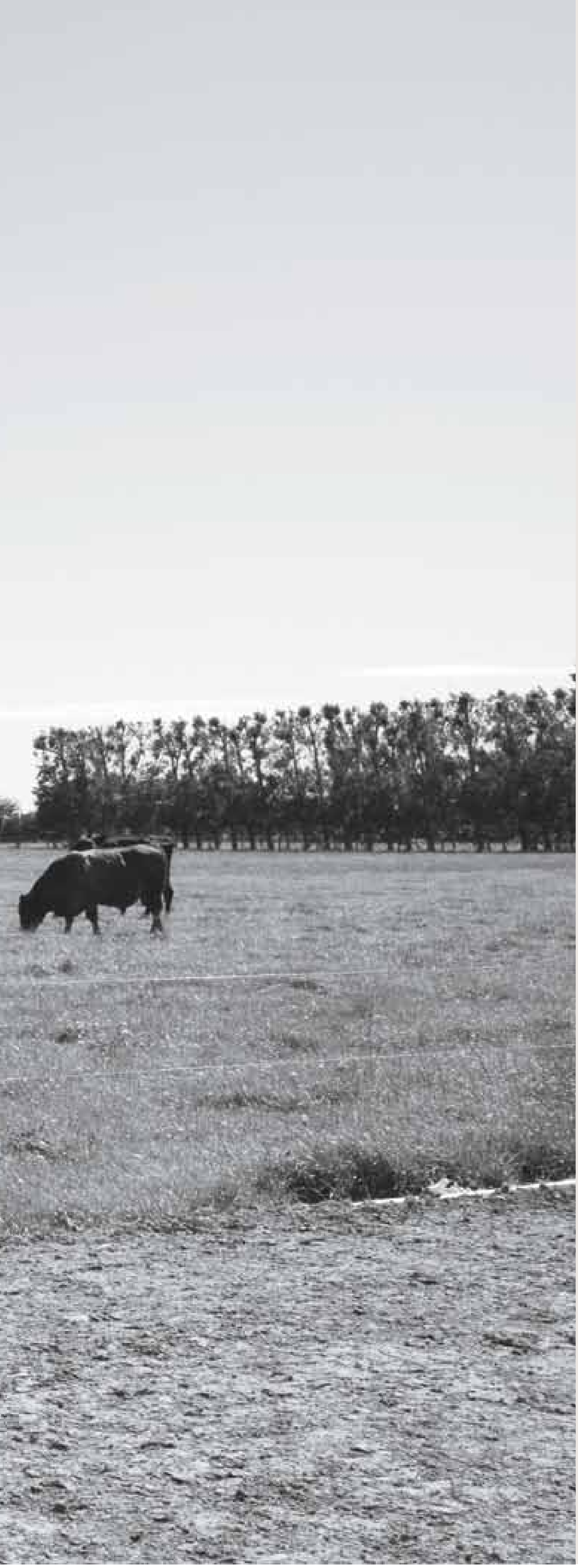
No key management personnel have disclosed that they or their immediate relative or professional associate has any dealing with the Group which has been either entered into on terms other than those which in the ordinary course of business would be given to any other person of like circumstances, or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

Some key management personnel have mortgages with the Group. The details are:

	DEC 2010 $000	DEC 2009 $000	JUN 2010 $000
Closing balance	219	616	595
Interest paid during the period	26	26	53

Other transactions that have occurred involve the provision of trustee services to the key management personnel and/or their immediate relative.

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



Directory

Shareholders

The Minister of Justice (Hon Simon Power)
and Minister of Finance (Hon Bill English)

Board

Trevor D Janes *(Chair)*
Robin Hill *(Deputy Chair)*
Candis Craven *(until 31 October 2010)*
Rodger Finlay
Sue McCormack
Fiona Oliver
Hinerangi Raumati
Sarah Roberts

Executive Leadership Team

Grenville Gaskell *(Chief Executive)*
Ann Brennan *(General Counsel)*
Ken Reilly *(Chief Financial Officer)*
Grant Brenton *(General Manager Marketing)*
Dennis Church *(General Manager Corporate Trustee Services)*
Dave Conning *(General Manager Human Resources)*
Simon Dixie *(General Manager Operations)*
Alex Polaschek *(General Manager Personal & Business)*

Registered office

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info@publictrust.co.nz **www.publictrust.co.nz**

Auditor

Ernst & Young on behalf of the Auditor-General

Solicitors

DLA Phillips Fox

Banker

Bank of New Zealand

Credit rating agency

Moody's Investors Service

www.publictrust.co.nz