YOUR WORD IS LAW publicTRUST

ANNUAL REPORT OF PUBLIC TRUST
FOR THE YEAR ENDED 30 JUNE 2008

B9

Purpose

This Report has been prepared to meet the requirements of:

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

The report covers the activities for the year ended 30 June 2008.

Registered Office

Level 10, Mid City Tower
141 Willis Street
Wellington, New Zealand

Contents

FOREWORD

4 About Public Trust
5 Summary
6 Chair's Report
8 Chief Executive's Report
11 Governance
12 Performance Targets and Other Measures

FINANCIAL STATEMENTS

14 Report on the Statement of Intent
15 Statement of Responsibility
16 Statement of Financial Position
17 Statement of Changes in Equity
18 Statement of Financial Performance
19 Statement of Cash Flows
20 Statement of Commitments
21 Statement of Accounting Policies
30 Notes to the Financial Statements
82 Statement of Service Performance
86 Good Employer Report
88 Audit Report

Foreword

On behalf of the Board, we have the pleasure of presenting the annual report of Public Trust for the year 1 July 2007 to 30 June 2008.

Donal Curtin
Chair
15 October 2008

Robin Hill
Board Member

About Public Trust

Public Trust is a Crown Entity whose independence is guaranteed under the Public Trust Act 2001. Our Maori name, Te Tari Tiaki Iwi, translates as 'the organisation that takes care of people'.

Established in 1873 to provide independent and reliable trustee services, today Public Trust has 500 staff operating from 35 customer centres looking after the interests of 320,000 New Zealanders.

We provide services that have far-reaching benefits for New Zealanders:

Personal Customers

- Public Trust's advisors and lawyers help more New Zealanders write their Wills every year than anyone else. We're responsible for writing between 20,000 and 25,000 Wills annually.
- Public Trust looks after more estates than any other organisation – around 5,000 each year.
- We manage more than 4,000 family trusts.
- Our total mortgage lending is in excess of $317 million. We also administer portfolios totalling more than $240 million for other organisations.
- In addition, Public Trust administers or manages approximately $3 billion in assets, including around $1.3 billion in investment funds.
- We manage the financial affairs of more than 1,400 customers as their attorney, including 700 people who are incapacitated and unable to manage their own affairs.

Business Customers

- We manage approximately 400 charitable trusts, comprising approximately $400 million in assets. These charitable trusts generate funding for interests as diverse as art, education, medicine, disability and agriculture scholarships.
- Thirty New Zealand farms covering 23,000 hectares are actively managed by Public Trust. One of these farms is Smedley Station – New Zealand's largest training farm.
- Over 360 private training establishments have signed up to Public Trust's Fee Protect service. Since its launch, Fee Protect has safeguarded over $780 million of fees for more than 166,000 students.

Corporate Customers

- Corporate Trustee Services is a division of Public Trust serving the corporate and business market. It has approximately $18 billion under supervision on behalf of investors.
- Public Trust's Corporate Trustee Services offers some of Australasia's best known institutions a full range of trustee services across a diverse range of products, covering some 200 appointments in the securities and financial markets.

Summary

Financial

The overall financial result for the year was a $32.1 million loss.

Underlying operating performance was ahead of target. However, planned change costs, losses in the investment portfolio, predominantly unrealised, and mortgage losses and impairments resulted in a significant overall loss for the year.

The unrealised investment losses are largely the result of revaluing interest bearing securities. Investment losses of $20.1 million should reverse to profit in coming years. Mortgage losses and impairments reflect the impact of the rapid deterioration in certain sectors of the property market.

The underlying operating performance improvement was the result of strong business growth in key areas:

- Family Trust revenue was up 12% for the year.
- Personal Trusts revenue was up 11% for the year.
- Increased volumes of appointment as Property Manager resulted in a 28% increase in revenue.
- Strong Common Fund deposit growth of 25%.
- Charitable Trust revenue was up 12% for the year.
- Fee Protect funds under management continue to grow, up 20%.
- Corporate funds under supervision increased 22%.

People and change

- An employee engagement survey rating of 48% is well above the industry benchmark.
- Our transformation programme is progressing well, with significant employee support.
- We have achieved secondary accreditation for Health & Safety, under the ACC Workplace Safety Management Practices programme and are on target to achieve tertiary status.

Customers

- More New Zealanders are choosing to have their Wills with Public Trust: new Wills increased by 10% and redrafts by 5%.
- Customer satisfaction rating continues to be high at 8.2 out of 10.

Chair's Report

The 2007 / 08 year has been a challenging one even for an organisation as conservative as Public Trust. While we achieved growth in our core business, Public Trust's overall performance was severely impacted by the international credit crunch, with the overall result being a $32.1 million loss for the year.

In this, my first report as Chair, I look back on a year where we made important progress as a business, with continued improvement in underlying operating performance. This was also a period in which the credit crisis and difficult investment climate have affected financial entities across the world and significantly impacted our own year-end result.

Clearly a loss of the magnitude incurred by Public Trust tests the resolve of any board. We continue to focus on ensuring that the trust New Zealanders have in Public Trust remains strong and that the strategic change programme is implemented to deliver sustainable long-term financial performance.

Financial performance

Our core result improved again this year. Underlying operating performance was ahead of target and last year, a sign that we continue to make progress towards long-term financial sustainability and that the changes begun last year are having a positive effect. However, the improvement achieved was overshadowed by fallout from the global credit crisis which led to losses, predominantly unrealised, in the investment portfolio and impacted on property values in some segments of the market, which in turn resulted in significant mortgage impairments.

Notwithstanding the underlying operating performance, the overall financial performance for the year was most unsatisfactory. When planned change costs were combined with investment losses, and mortgage losses and impairments, Public Trust declared an overall deficit of $32.1 million for the year, a further deterioration on the $8.9 million deficit for the half year to 31 December 2007.

The investment portfolio recorded a predominantly unrealised loss of $21.6 million for the year to 30 June 2008. The loss is largely the result of re-valuing interest bearing securities following the credit crunch and represents 3.3% of the investment securities portfolio of $649.3 million.

In assessing overall performance the Board noted that the unrealised loss had been incurred on a high quality portfolio invested with a conservative weighted average credit rating of AA-, a large portion of which is highly liquid. The level of unrealised loss, whilst comparatively modest in percentage terms, nonetheless highlights the extent of the impact of the credit crisis on security valuations given the portfolio composition. As investments are expected to be held until they mature, $20.1 million of the revaluation losses should reverse to profit in coming years.

The scale of the impact of the rapid deterioration in some sectors of the property market has also been of concern. All of Public Trust's loans are first mortgages with a deliberately low lending to value ratio averaging 41% across the portfolio. Despite the overall portfolio composition, we have seen a significant drop in the value of properties in some sectors particularly the residential/investment and commercial areas and an increase in non-performing and impaired mortgages which has resulted in losses and impairments totalling $12.4 million.

Of course no Board can be comfortable with this year's overall result, and we have taken steps to adjust investment and lending policies in a rapidly changing market environment to ensure future risks are minimised. The continued impetus of the strategic change programme means Public Trust is improving its future positioning. It is important the organisation continues to progress the implementation of its strategic plan and we will appropriately monitor the organisation's performance in these challenging times to ensure future profitability and stability.

While most of the investment losses will reverse in time, the coupling of these with the mortgage losses and impairments and balance sheet growth prompted the Board to seek additional capital from the Crown. A capital injection of $20 million was approved subsequent to balance date. Trust is an integral part of our business and we are confident that, while there are challenges to be faced in the current market environment, the additional capital will ensure the utmost confidence in Public Trust is maintained. Repatriation of capital through dividend payments will commence as capital levels improve.

Non-commercial services

While Public Trust competes for many of its services on a commercial basis against a wide range of organisations and individuals, we differ from other providers in that we are contracted by the Government to provide protective fiduciary services. The purpose of these non-commercial services is to ensure people have access to professional trustee and administration services in situations where they need them but might not otherwise be able to afford them, or where their personal circumstances mean they are not well placed to make their own arrangements. Our involvement in this work helps ensure access for all New Zealanders to skilled and independent experts to handle such matters with professionalism, fairness and impartiality.

This year we have obtained the support of the Minister Responsible for Public Trust and the Minister of Finance for a process to be established to adjust Crown funding for the non-commercial services we provide. We are working with officials to ensure that the funding we receive more accurately reflects the costs of providing these services.

Strategic direction

Public Trust has recently embarked on a comprehensive change programme called PT*ON*. The Chief Executive will discuss this in more detail in his report, but the clear objective of the programme is to transform the service we provide our customers, to grow our market share and to significantly improve operating performance. Despite the impact of market changes, the programme continues to enjoy the full support of the Board and our confidence that PT*ON* will enable Public Trust to deliver sustainable long-term financial performance. Given the size of the investment required to deliver the change programme, the Board will continue to maintain an overview through independent regular reporting, both to ensure delivery to shareholder expectations and in recognition of the significance of the impact of this programme on the organisation.

Changes to the Board

It has certainly been a pleasure to chair the Board this year. The Board's strengths and capabilities have served Public Trust well, and I am pleased with the progress we have made and the way we have worked together. This year we welcomed Candis Craven as a Board Member. Candis' proven record in social services and the not-for-profit sector, and the diversity of experiences she has acquired as a Board Member and Chair are valued. Murray Weatherston, our longest serving Board Member was reappointed for a further term of eighteen months. Murray brings valuable experience and a tremendous commitment to Public Trust.

Thanks

To my fellow board members, my sincere thanks for your contribution. I would also like to acknowledge Peter Taylor who retired from the Chair in October 2007. Peter made a significant contribution to Public Trust being first Chair of the Modernisation Board and then of Public Trust. Peter can be proud of the role he played in establishing the current strategic direction for Public Trust.

Thanks also to Grenville Gaskell and his management team who have taken up the PT*ON* programme with enthusiasm and skill. Their commitment to Public Trust over the last year has been considerable. Also, to the hundreds of people who work within Public Trust every day to earn the continuing trust of New Zealanders, my thanks for your efforts and for the performance gains you have made this year. Finally, I want to take this opportunity to acknowledge the support and positive contributions of the Minister Responsible for Public Trust, Hon. Jim Anderton and of Government officials.

Outlook

Despite our declared result and a challenging market environment, the Board remains confident that Public Trust has a clear strategy to significantly enhance value. The changes needed to improve the customer experience and create a sustainable future are far reaching and cannot be underestimated. The Board also remains mindful of the potential for future volatility in financial markets and the impact this may have on Public Trust's ongoing performance. We are encouraged by the acceleration of the PT*ON* change programme implementation. We believe this organisation has every reason to be excited about the opportunities that exist for it to better serve the interests of all New Zealanders.

Donal Curtin
Chair

Chief Executive's Report

In the eighteen months that I have been at Public Trust, I have often reflected on the diverse and important role this organisation plays in New Zealand's social and commercial environment and the privilege it is to be its Chief Executive.

The loss for the year was substantial and the impact of the credit crunch and reducing property values on our investment and mortgage portfolios is one of the challenges we have faced. The change we are going through to deliver an improved experience for our customers is significant, and the opportunities for Public Trust are exciting. They've certainly motivated me, and the management team throughout the year, and helped us respond to the current market challenges whilst not distracting us from doing what's needed to implement the necessary changes for long-term business sustainability.

We have to improve our financial performance. That means balancing current business performance needs with the longer-term sustainability requirements of the organisation. People at Public Trust are very aware that we need to respond to the challenges of an increasingly competitive environment. But they also know that as consumer confidence levels in market performance drop, the opportunities to leverage Public Trust's heritage of more than 135 years as a trusted conservative organisation dedicated to helping New Zealanders have never been greater.

Our name is our promise. We constantly seek to increase the level of trust and confidence our customers have in us. It's a goal which everyone who works here owns and is at the essence of everything we do.

Current performance

That our underlying performance was above plan for the financial year shows promising signs of just what this organisation is capable of. We have had to address significant unrealised losses on the investment portfolio and losses and impairments in the mortgage portfolio. Appropriate action has been taken to revise policies and improve procedures for investments and lending in the light of changing market conditions. Independent external reviews have been completed and we remain mindful of the need to respond quickly to market trends.

The emotional connection we have with our customers was borne out in satisfaction survey results which were again very pleasing. We scored a very high 8.2 out of 10 for our Wills work in the last quarter and an even better 8.3 for the work we did for beneficiaries of estates.

There has been a noticeable increase in uptake of our products and services. The number of new Wills we've written, for example, has risen 10% in the last 12 months. Funds inflow has also been strong. In these uncertain times, we have seen more people trusting Public Trust with their investments. That flight to quality has seen our deposits grow to $977.7 million; a 25% increase. We've also seen a 28% increase in revenue for Property Manager appointments and a similar growth in Funds Under Supervision for our Corporate Trustee Services business.

However, whilst performance is improving, core parts of our business continue to lose ground in terms of market share as New Zealand's population grows and ages. For example, there's been a slow decline over recent years in our share of deceased estates, down to around 15%. Over the last few years, we've also witnessed a slight decline in our share of Wills, although we are seeing positive signs that this trend will reverse over the next few years.

Improving our customers' experiences

Public Trust has a trusted and credible place in New Zealand communities. However, if we are to realise our potential, we need to become a more customer-centric organisation and enhance our customers' experiences. We need to demonstrate to New Zealanders our relevance and offer them value throughout their lives so that they trust us with looking after their interests. This is why we've embarked on a comprehensive change programme, PT*ON*. The programme is progressing well and we are on track to deliver benefits in the medium term. These include projected after tax surpluses and improved return on equity to the level expected by the Crown.

The key insight driving the programme is that historically we have placed insufficient focus on the changing needs of our customers and on improving operating efficiency.

That realisation has prompted us to craft distinct strategies around three customer segments; personal, business, and corporate. We've also recognised that if we are to compete more successfully in our markets of choice then we need to focus intensely and specifically on our customers and their needs, our people, our operational capabilities and the sustainability of our business.

Progress to date has been encouraging. Our project delivery capabilities have increased dramatically and the implementation plan itself is on schedule. Notwithstanding the difficult market conditions, the initiatives needed to transform Public Trust into a sustainable commercial entity are now underway and we are pursuing our programme with appropriate vigour. The key aspects of the Strategic Plan are:

- It has defined Public Trust's purpose as to help all New Zealanders grow and protect the important things in their lives.
- Personal and business customer strategies have defined the customers we are going to proactively target.
- Our brand strategy and values refresh has articulated how we will position Public Trust in an increasingly competitive marketplace.
- Our Customer Centricity project has defined new sales, service and operations models and all the supporting requirements to deliver these, including a new organisational structure.
- An increased focus on building our people capability and deployment will achieve long-term sustainable advantage and ensure a responsible, enduring and vibrant organisation.
- Looking ahead, specific projects will consolidate improvements in our customer experience model through various initiatives throughout the business.

Values refresh

We recognised our values needed refreshing to deliver a new sense of belief, energy and engagement, and support future brand positioning. To do this, we sought extensive input from our people.

Public Trust is committed to growing the trust it has with customers, its own people and the Crown through living our values:

Understanding – Through understanding and empathy we put our customers' interests first.

Dependable – We will always be there, doing what we say we will do.

Proactive – We look for new ways to help.

Commercial – We act commercially with a heart.

United – We are one team supporting each other.

Our people

It is exciting to see the strong engagement that our people have with the change programme. Our employee engagement survey shows that Public Trust enjoys very high levels of employee engagement; 48% compared with the Australian benchmark of 40%. This result shows that we are indeed growing the trust from the inside out, which is the way we will deliver what is an ambitious transformation programme.

Developing our people is a key strategy and we continue to lift technical and developmental training across the business. This year, 16 of our senior leaders graduated from a leadership development programme delivered in partnership with The University of Auckland Business School.

A number of executive team appointments have been made as we have re-aligned our management team to respond to business opportunities and better group key functions. Changes include Alex Polaschek, appointed as General Manager Sales and Service and Simon Dixie, as General Manager Operations and Programme Delivery. We also established a General Manager Marketing role.

Health, Safety and Wellness has been a priority this year. As a result of a commitment to improvement we have seen a significant lift in awareness in all areas of the business. This focus has meant we achieved secondary accreditation with ACC this year, and are on target to achieve tertiary status as our business changes continue.

Regulatory changes

We continue to contribute to and be affected by the law reform process. This year in particular has seen the beginning of significant reform in the financial services sector. Our managed funds, estates and trusts were impacted by the introduction of the Portfolio Investment Entity regime and changes to the tax treatment of offshore investments. Other key changes impacting on us were the more rigorous investment adviser disclosure requirements that came into effect in February and changes to the Protection of Personal and Property Rights Act, which came into effect in September 2008. We support these measures and believe they are positive developments in providing more protection to New Zealanders.

Further reform proposed includes the review of financial products and providers, anti-money laundering and a new regulatory framework for non-bank deposit takers which will also bolster the supervisory role of trustees.

Thanks

I thank the Chair and Board for the guidance and advice they have provided throughout the year. I also thank the senior management team for their tireless efforts in leading the implementation of the PT*ON* programme this year, and my sincere thanks and acknowledgement go to all employees who make Public Trust the trusted national organisation that it is. Your faith in what Public Trust stands for and the enthusiasm you have shown for the PT*ON* programme support my belief that we have every reason to be confident about the future.

Outlook

Trading and market conditions are expected to continue to be challenging for some time. Public Trust has a clear strategy to ensure its future success and we are making solid progress with the implementation of the PT*ON* change programme. We believe that the improved customer experience resulting from the change programme will provide the key to growing the trust with customers. Growing the trust our customers have in us combined with a focus on operating efficiency will enable Public Trust to achieve a level of performance that meets shareholder requirements.

The future outlook is positive. The challenges of the environment and the scale of the change programme mean success will require strong resolve and commitment. They are challenges we are all embracing.

Grenville Gaskell
Chief Executive

Governance

Public Trust was established as a statutory corporation under the Public Trust Act 2001. Public Trust is a Crown Entity for the purposes of the Crown Entities Act 2004 and the Public Finance Act 1989.

The Board of Public Trust, which comprises not fewer than five nor more than nine members, is appointed by the Minister Responsible for Public Trust acting with the agreement of the Minister of Finance, together with the Stakeholding Ministers. The Board currently has eight members.

Role of the Board

The Board and its members are responsible in terms of the Public Trust Act 2001 and the Crown Entities Act 2004 to the Stakeholding Ministers for supervising or directing the management of the affairs of Public Trust. The Board appoints the Chief Executive, delegates to the Chief Executive appropriate authority for the day-to-day management of Public Trust and monitors 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.

Formal reporting by the Board to the Minister is on a quarterly basis.

The Board is committed to the highest standards of behaviour and accountability and has adopted the following policies and procedures.

Board committees

There are currently three standing committees of the Board: the Audit, Finance and Risk Management Committee, the Investment Committee, and the Due Diligence Committee. The Chair is an ex officio member of all the Board committees.

Audit, Finance and Risk Management Committee (AFRM)

Robin Hill (Chair)
Murray Weatherston
David Edwards (from May 2008)
Peter Taylor (to October 2007)

AFRM meets a minimum of four times a year. The Chief Executive and Chief Financial Officer and other members of management attend by invitation, as do the external and internal auditors.

The Committee's responsibilities are to ensure that adequate internal and risk management controls are in place, to advise the Board regarding accounting policies, practices and disclosures, to review the scope and outcome of the external audit, to review the annual and half-yearly financial statements for Public Trust and the Group Investment Funds prior to approval by the Board and to report the proceedings of each meeting to the Board.

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 AFRM approval.

Investment Committee

Murray Weatherston (Chair from November 2007)
Candis Craven (from January 2008)
Donal Curtin (Chair to October 2007)
Peter Taylor (to October 2007)

The Investment Committee meets a minimum of six times a year. The Committee reviews the investment policies, procedures, practices and investment performance relating to the Common Fund and the several Group Investment Funds established and managed by Public Trust.

Due Diligence Committee

Murray Weatherston (Chair)
Sarah Roberts
Hon. Matthew Robson

The Due Diligence Committee meets on an "as required" basis. The Committee oversees compliance activities relating to documents required to be executed, completed, registered or otherwise dealt with, by or on behalf of Public Trust in terms of the Securities Act 1978, the Securities Regulations 1983, the Financial Reporting Act 1993 and other relevant legislation.

Performance Targets and Other Measures

Public Trust operates within the legislative framework governing non-company Crown entities, under the Crown Entities Act 2004. Reporting is in three parts:

Part A – Crown Stewardship Interest. This is the ownership interest of the Crown for which a number of performance targets and measures as detailed in the Statement of Intent are reported on page 14.

Part B – Statement of Output Objectives. This relates to the purchase of non-commercial activities by the Crown, which is reported in the statement of service performance on page 82.

Part C – Good Employer Reporting. Public Trust is required by the Crown Entities Act 2004 to report on its obligation to be a good employer. The report is on page 86.

Financial Statements

14 Report on the Statement of Intent
15 Statement of Responsibility
16 Statement of Financial Position
17 Statement of Changes in Equity
18 Statement of Financial Performance
19 Statement of Cash Flows
20 Statement of Commitments
21 Statement of Accounting Policies
30 Notes to the Financial Statements
82 Statement of Service Performance
86 Good Employer Report
88 Audit Report

Report on the Statement of Intent

For the year ended 30 June 2008

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

	2006/07 ACTUAL	2007/08 ACTUAL	2007/08 TARGET[1]	2008/09 TARGET[2]
Ownership Perspective				
Profit (Loss) Post-Tax ($'000)[3]	4,084	(32,148)	(600)	4,500
Cost/Revenue[4]	94.1%	117.1%	101.0%	100.9%
Return on equity	8.76%	(99.72%)	(1.27%)	14.30%
Distributions to Crown	Nil	Nil	Nil	Nil
Capability Perspective				
Staff satisfaction[5]	2.75	2.84	2.8	-
Employee engagement[6]	-	-	-	45%
Customer Perspective				
Customer satisfaction[7]				
– Wills	8.1	8.2	8.0	8.0
– Estates	8.2	8.1	8.0	8.0

1 Source: 2008/10 Statement of Intent.
2 Source: 2009/11 Statement of Intent.
3 Not a measure until 2008/09 but has been disclosed for comparability with the 2008/09 target.
4 Percentage of total whole of year operating expenditure (excluding investment gains or losses) to total whole of year revenues. 2006/07 actual has been restated under NZ IFRS and for comparability with this year's target.
5 Independent survey of staff satisfaction. (Range: 1 = excellent; 6 = poor). No longer a measure in 2008/2009.
6 Independent survey of employee engagement (Australasian benchmark=40%).
7 Independently conducted survey of customer satisfaction (Range: 1 = poor; 10 = excellent).

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

	ACTUAL 2006 $m	ACTUAL 2007 $m	ACTUAL 2008 $m
Fiduciary Assets			
Funds under management			
Common Fund	765	785	978
Managed Funds	445	455	400
Assets under management	1,695	2,000	2,262
Funds under supervision	13,163	14,805	18,097

Statement of Responsibility

For the year ended 30 June 2008

The Board and management of Public Trust accept 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 statement of accounting policies and the notes to the financial statements.

The Board and management of Public Trust accept responsibility for establishing, and have established and maintain 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 and management of Public Trust, the financial statements and statement of service performance for the year ended 30 June 2008 fairly reflect the financial position, results of operations and cash flows of Public Trust.

Donal Curtin
Chair

Robin Hill
Board Member

Grenville Gaskell
Chief Executive

15 October 2008

Statement of Financial Position

As at 30 June 2008

		GROUP			PARENT	
	NOTES	ACTUAL 2008 $000	BUDGET 2008 $000	ACTUAL 2007 $000	ACTUAL 2008 $000	ACTUAL 2007 $000
Assets						
Cash and cash equivalents	1	30,600	15,000	23,692	30,576	23,685
Investment securities	2	649,769	564,467	557,874	649,769	557,874
Derivative financial instruments	3	1,990	1,200	5,063	1,990	5,063
Advances to clients		5,811	7,000	8,274	5,811	8,274
Trade receivables	4	4,120	9,078	3,684	3,553	3,245
Due from subsidiary	29	-	-	-	1,695	-
Advances secured by mortgage	5	317,124	271,295	236,657	317,124	236,657
TOTAL FINANCIAL ASSETS		1,009,414	868,040	835,244	1,010,518	834,798
Sundry receivables	6	175	2,000	51	175	51
Prepayments		944	1,500	673	944	673
Property, plant & equipment	7	7,577	9,657	7,329	7,577	7,329
Intangibles	8	2,966	1,168	2,770	461	265
Investment in subsidiary	9	-	-	-	4,654	4,654
Current tax	10	846	-	371	846	357
Deferred tax asset	11	-	500	-	-	-
TOTAL ASSETS		**1,021,922**	**882,865**	**846,438**	**1,025,175**	**848,127**
Liabilities						
Liabilities to clients – at call or short term		431,718	404,156	402,198	431,718	402,198
Liabilities to clients – term deposits	12	545,195	421,766	381,735	545,195	381,735
Prepaid estate administration	13	762	800	847	762	847
TOTAL LIABILITIES TO CLIENTS		977,675	826,722	784,780	977,675	784,780
Overdraft	1	15,063	-	1,792	15,063	1,792
Trade payables	14	3,778	1,200	2,093	3,746	2,088
Other payables	15	1,720	2,200	2,180	1,720	2,180
Derivative financial instruments	3	2,421	-	706	2,421	706
Prepaid income		411	500	497	-	-
Employee benefits	16	4,578	4,000	4,114	4,578	4,114
Provisions	17	1,043	1,000	1,031	1,043	1,031
Loan from subsidiary	29	-	-	-	6,795	5,281
TOTAL LIABILITIES		1,006,689	835,622	797,193	1,013,041	801,972
Equity						
Contributed equity	18	40,174	39,674	40,174	40,174	40,174
Cash flow hedging reserve	18	(377)	-	1,487	(377)	1,487
Retained earnings	18	(24,564)	7,569	7,584	(27,663)	4,494
TOTAL EQUITY	32	15,233	47,243	49,245	12,134	46,155
TOTAL LIABILITIES PLUS EQUITY		**1,021,922**	**882,865**	**846,438**	**1,025,175**	**848,127**

For and on behalf of the Board, who authorised the issue of the financial statements on the 15 October 2008.

Donald Curtin
Chair

Robin Hill
Board Member

The Statement of Accounting Policies and Notes to the Financial Statements form part of this financial statement

Statement of Changes in Equity

For the year ended 30 June 2008

	NOTES	GROUP ACTUAL 2008 $000	GROUP BUDGET 2008 $000	GROUP ACTUAL 2007 $000	PARENT ACTUAL 2008 $000	PARENT ACTUAL 2007 $000
Equity at the beginning of the year	32	49,245	47,843	43,945	46,155	41,440
Net change in cash flow hedges	18	(1,864)	-	1,216	(1,864)	1,216
Revenue and expenses recognised directly in equity		(1,864)	-	1,216	(1,864)	1,216
Profit (loss) after tax	18	(32,148)	(600)	4,084	(32,157)	3,499
TOTAL RECOGNISED REVENUES AND EXPENSES FOR THE YEAR		(34,012)	(600)	5,300	(34,021)	4,715
EQUITY AT THE END OF THE YEAR	18, 32	**15,233**	**47,243**	**49,245**	**12,134**	**46,155**

Statement of Financial Performance

For the year ended 30 June 2008

	NOTES	GROUP ACTUAL 2008 $000	GROUP BUDGET 2008 $000	GROUP ACTUAL 2007 $000	PARENT ACTUAL 2008 $000	PARENT ACTUAL 2007 $000
Revenue						
Revenue from financial instruments						
Interest from interest bearing securities		58,313	47,594	43,908	58,313	43,908
Interest from advances secured by mortgage		26,884	24,475	21,272	26,884	21,272
Distributions from equity investments		-	100	718	-	718
		85,197	72,169	65,898	85,197	65,898
Less: Interest expense		60,328	51,165	44,637	60,722	44,960
		24,869	21,004	21,261	24,475	20,938
Fees and commission revenue		35,251	-	34,287	33,086	32,405
Less: Fees and commission expense		1,212	-	1,295	1,212	1,295
Other revenue		393	34,075	309	1,815	1,476
Revenue from the Crown		4,500	4,625	4,500	4,500	4,500
REVENUE BEFORE EXPENSES	26	63,801	59,704	59,062	62,664	58,024
Expenses						
Employee benefits	26	37,795	36,227	33,672	37,795	33,672
Operating lease costs		4,297	3,400	4,200	4,297	4,200
Depreciation	7	1,923	1,875	1,821	1,923	1,821
Amortisation of intangibles	8	101	237	110	101	110
Net losses (gains) on disposals of property, plant & equipment and intangibles		23	-	57	23	57
Impairment losses on advances secured by mortgage	5	12,361	-	-	12,361	-
Other costs	26	18,225	18,565	15,746	17,961	15,581
TOTAL EXPENSES		**74,725**	**60,304**	**55,606**	**74,461**	**55,441**
Net realised gains (losses) on investments		2,914	-	1,930	2,914	1,930
Net unrealised gains (losses) on investments		(24,547)	-	1,191	(24,547)	1,191
Net gains (losses) on investments	26	(21,633)	-	3,121	(21,633)	3,121
PROFIT (LOSS) BEFORE TAX FOR THE YEAR		(32,557)	(600)	6,577	(33,430)	5,704
Tax expense (benefit)	27	(409)	-	2,493	(1,273)	2,205
PROFIT (LOSS) AFTER TAX FOR THE YEAR	32	**(32,148)**	**(600)**	**4,084**	**(32,157)**	**3,499**

The Statement of Accounting Policies and Notes to the Financial Statements form part of this financial statement

Statement of Cash Flows

For the year ended 30 June 2008

	NOTES	GROUP ACTUAL 2008 $000	GROUP BUDGET 2008 $000	GROUP ACTUAL 2007 $000	PARENT ACTUAL 2008 $000	PARENT ACTUAL 2007 $000
Cash flows from operating activities						
Trading receipts						
Fees and other income		39,787	38,700	39,062	37,554	38,455
Dividends		-	100	770	-	770
Interest		80,925	72,069	65,079	80,925	65,079
Taxation		14	-	-	-	-
Trading payments						
Expenses		60,079	55,372	53,176	59,841	52,747
Interest		57,455	51,165	43,514	57,849	44,079
Taxation		-	297	1,549	-	1,262
GST		936	795	880	927	880
CASH FLOWS FROM OPERATING ACTIVITIES BEFORE CHANGES IN TRADING INVESTMENTS		**2,256**	**3,240**	**5,792**	**(138)**	**5,336**
Net flows from trading investments		15,245	-	7,210	15,245	7,210
NET CASH FLOWS FROM OPERATING ACTIVITIES	28	**17,501**	**3,240**	**13,002**	**15,107**	**12,546**
Cash flows from investing activities						
Net flows from non-trading investments		(211,871)	(43,671)	(18,013)	(211,871)	(18,013)
Sale of property, plant & equipment		-	-	24	-	24
Purchase of property, plant & equipment		(1,369)	(4,344)	(1,385)	(1,369)	(1,385)
Purchase of intangibles		(297)	-	(88)	(297)	(88)
NET CASH FLOWS FROM INVESTING ACTIVITIES		**(213,537)**	**(48,015)**	**(19,462)**	**(213,537)**	**(19,462)**
Cash flows from financing activities						
Net receipts from clients		189,674	44,775	19,026	192,051	19,484
NET CASH FLOWS FROM FINANCING ACTIVITIES		**189,674**	**44,775**	**19,026**	**192,051**	**19,484**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(6,362)**	**-**	**12,566**	**(6,379)**	**12,568**
Cash and cash equivalents at beginning of the year		21,900	15,000	9,335	21,893	9,326
Net exchange gains/(losses) on foreign currency cash and cash equivalent		(1)	-	(1)	(1)	(1)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	1	**15,537**	**15,000**	**21,900**	**15,513**	**21,893**

Statement of Commitments

For the year ended 30 June 2008

Commitments to be met by Public Trust are as follows:

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Payable within 1 year	3,300	3,873	3,300	3,873
Payable after 1 year and within 5 years	4,413	4,692	4,413	4,692
Payable after 5 years	658	-	658	-
	8,371	**8,565**	**8,371**	**8,565**

Operating leases

The Group has sublet two properties (2007: three). The total minimum sublease payments expected to be received off the subleases is $671,000 (2007: $831,000). The income received during the year from sublet properties was $122,000 (2007: $178,000).

The Group's significant operating leases are for premises and motor vehicles.

The majority of the premise leases have renewal terms with the rental reviewed on their review dates or on a two or three year cycle. 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 every year.

Other commitments

The Group has no commitments to purchase property, plant & equipment (2007: nil).

The Group has no commitments to purchase intangible IT assets (2007: nil).

The Group, in connection with its mortgage lending activities, has commitments to a value of $15.6 million to provide funding under undrawn revolving credit facilities and approved but undrawn applications (2007: $7.6 million).

Statement of Accounting Policies

For the year ended 30 June 2008

Reporting entity and statutory basis for reporting

Public Trust, the parent entity in the Public Trust Group, 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 comprises Public Trust and its subsidiaries (the Group).

Public Trust is a Crown Entity for the purposes of the Crown Entities Act 2004 and an issuer for the purpose of the Financial Reporting Act 1993. In accordance with the requirements of these statutes, Public Trust prepares separate financial statements for the Parent entity and consolidated financial statements for the Group that comply with generally accepted accounting practice as defined by the Financial Reporting Act 1993.

The activities and assets of the Group Investment Funds and Public Trust Investment Funds managed by Public Trust are not included except for cash balances held in the Common Fund, and to the extent that Public Trust invests in 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 either within Public Trust's financial statements or those of the consolidated Group as neither Public Trust nor the Group controls these funds and trusts so as to obtain ownership benefits.

These financial statements, for the year ended 30 June 2008, 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.

These financial statements are the first NZ IFRS financial statements and NZ IFRS 1 *First Time Adoption of New Zealand Equivalents to International Financial Reporting Standards* (NZ IFRS 1) has been applied. Reconciliations and descriptions of the impact of the transition from previous NZ GAAP to NZ IFRS are set out in note 32.

Measurement basis

Historical cost and fair value accounting measurement bases are applied in the preparation of these financial statements.

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.

Accounting policies

Basis of consolidation

The consolidated financial statements include the parent entity together with its significant subsidiary, New Zealand Permanent Trustees Limited. Consolidation entails a line-by-line aggregation of the individual entity financial statements and the elimination of intra-group balances and transactions including unrealised gains and losses.

The financial statements of all subsidiaries are prepared for the same reporting year as those for Public Trust and the Group. Accounting policies used are consistent across all entities in the Group.

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies so as to obtain ownership benefits from their activities.

The purchase method of accounting is used by the Group to account for the acquisition of subsidiaries in a business combination.

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 the statement of financial performance.

Financial instruments

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

- Financial assets at fair value through profit and loss

- Financial assets comprising loans and receivables
- Financial liabilities at fair value through profit and loss
- 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 of financial instruments

All financial instrument purchases and disposals are accounted for on a trade date basis.

Financial instruments 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.

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 through the expected life of the financial instrument.

Financial assets at fair value through profit and loss

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

- held for trading, having been acquired principally for the purpose of re-sale 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 and loss comprise:

- Investment in interest bearing securities
- Investments in equities
- Derivatives.

Financial assets at fair value through profit and 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.

After initial recognition, financial assets at fair value through profit and loss are carried at their fair values. 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.

For financial assets not trading in an active market, valuation techniques are used to establish an arm's length fair value estimate that reflects prevailing market conditions.

Gains and losses on these financial instruments arise where their fair value at 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 the statement of financial performance, except for those in relation to derivatives that qualify for hedge accounting, which are recognised in an equity reserve.

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 an unrealised gain or loss.

Dividends are recognised when the counterparty declares that a dividend is payable and specifies the amount of that dividend.

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 including interest rate swaps, forward rate agreements, options, and combinations of these instruments are entered into by the Group for risk management purposes or for trading purposes.

Those derivative financial instruments entered into for risk management purposes are where the instruments are used to hedge exposures to interest rate risk, currency risk, price risk, credit risk and other exposures related to non-trading positions. Some of these hedged exposures qualify for hedge accounting.

Derivative financial instruments entered into for trading purposes are acquired and managed in accordance with a defined investment mandate.

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

Where derivatives form part of an effective hedge relationship, these derivatives are valued on the basis of the mid-range value from the range of relevant interest rates. Any related revaluation of a hedged item is similarly valued.

After initial recognition, gains and losses from subsequent remeasurement to fair value are recognised in the statement of financial performance except, where the derivatives are designated and effective as hedge accounting instruments. Hedge accounting instruments are accounted for as set out below.

Where the instrument is recognised in the statement of financial performance, 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 other revenue.

Derivatives designated as hedging instruments – Cash flow hedges

Derivatives, whose purpose is to match the cash outflows arising from liabilities to clients at call as interest rates change, 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 the derivatives are recognised in the cash flow hedging reserve. Any ineffective portion is recognised in the statement of financial performance.

When the hedging derivative expires or is sold, the hedge no longer meets the criteria for hedge accounting, or the Group elects to revoke the hedge designation, the cumulative gain or loss on the hedging derivative remaining in the cash flow hedging reserve is transferred to the statement of financial performance.

Derivatives designated as hedging instruments – Fair value hedges

Derivatives, whose purpose is to match the changes in fair value of long dated term deposits 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 derivatives, together with any changes in fair value of the relevant (hedged) risk of the term deposits are recognised in the statement of financial performance.

When the hedging derivative expires or is sold, the hedge no longer meets the criteria for hedge accounting, or the Group elects to revoke the hedge designation, the resulting adjustment to the carrying amount of the hedged item is amortised to the statement of financial performance.

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
- Advances to clients
- Trade receivables
- Advances secured by mortgage.

Loans and receivables are initially recognised at their fair value. After initial acquisition, loans and receivables are carried at their amortised cost in accordance with the effective interest rate method. Impairment losses are taken into account in determining the estimated future cash flows.

Gains and losses on these financial instruments arise on sale, derecognition or impairment and are recognised in the

Statement of Accounting Policies (continued)

For the year ended 30 June 2008

statement of financial performance. Any interest revenue arising on loans and receivables is recognised in the statement of financial performance in accordance with the associated effective interest rate.

Impairment

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

An impairment loss is recognised when there is objective evidence that future cash flows from the instrument will decline from the previous expected levels. The amount of any impairment is measured as the difference between the instrument'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 the statement of financial performance with a corresponding reduction in the carrying value of the financial instrument through an impairment allowance account.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash at bank (including any overdraft) and money market deposits on call with an original maturity of three months or less. Cash and cash equivalents are recognised at their cash settlement value.

Trade receivables

The receivable from the Crown represents sums due, but not yet received, for services which the Crown pays the Group to deliver.

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.

All other trade receivables are short term in nature, do not carry any interest and are accordingly stated at their nominal value.

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. Origination fees and transaction costs are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by amortising fees and costs to the statement of financial performance 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 the statement of financial performance.

An impairment allowance is provided when there is objective evidence of impairment as 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 related impairment allowance. Subsequent recoveries of amounts previously written off are recognised in the statement of financial performance.

Financial liabilities at fair value through profit and loss

Liabilities at fair value through profit and loss are comprised solely of those derivatives in a loss position which cannot be offset against a countervailing balance which form parts 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.

Term deposits – subject to fair value hedges

Term deposits 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 the statement of financial performance.

Other financial liabilities

Other financial liabilities comprise all financial liabilities other than derivatives in a loss position.

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

After 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 the statement of financial performance 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 reporting date, foreign currency monetary assets and liabilities other than those reported at fair value through profit and loss, are translated into New Zealand dollars using the exchange rate prevailing at the reporting date. Exchange differences arising on the settlement or translation at balance date of foreign currency monetary items are recognised in the statement of financial performance.

Foreign currency investment assets

Investments in foreign currencies are carried at fair value. Changes in the fair value of these investments, including exchange differences, are recognised in the statement of financial performance.

Property, plant & equipment

Property, plant & equipment is 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 equipment and operating software	3-5 years

In cases of fixtures and fittings installed in leasehold properties, useful lives are 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 each financial year-end 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.

Impairment

Items of property, plant & equipment are subject to review for impairment at each financial year-end.

After 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 expensed in the statement of financial performance.

Intangible assets

Intangible assets are recognised where they are clearly identifiable, and have probable future economic benefits controlled by entities within the Group that can be reliably measured.

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

Goodwill

Goodwill arising from the purchase of an entity 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 amortised cost at the date of transition to NZ IFRS.

Statement of Accounting Policies (continued)

For the year ended 30 June 2008

Goodwill impairment

Goodwill is subject to an annual recoverable amount impairment test. Any impairment is expensed to the statement of financial performance as a permanent reduction in the carrying value.

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.

Both the estimated useful life and the amortisation method are reviewed annually at each balance sheet date to ensure these remain appropriate.

Intangible IT assets impairment

Intangible IT assets that are under development and have yet to achieve functionality are subject to an annual recoverable amount impairment test. Any excess of the asset's carrying amount over its recoverable amount is expensed to the statement of financial performance.

Intangible IT assets, other than those under development, are subject to review for impairment at each reporting date. Any impairment losses are expensed in the statement of financial performance.

Parent investment in subsidiary

In the Parent's financial statements, investment in subsidiary is 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.

After acquisition, investment in subsidiary is subject to review for impairment at each financial year-end.

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 balance sheet 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 and retirement 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 balance sheet 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 balance 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, less an estimate of value of the right to occupy, 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 for resolution.

Where the Group assesses 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 the statement of financial performance 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 the statement of financial performance 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 the statement of financial performance. 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 the statement of financial performance, 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 the statement of financial performance.

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.

Statement of Accounting Policies (continued)

For the year ended 30 June 2008

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.

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 the statement of financial performance 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 this is 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.

Comparatives

These financial statements are Public Trust's and the Group's first financial statements to comply with NZ IFRS and comparative financial information has been restated accordingly.

Changes in accounting policies

There have been no changes in accounting policies except as required by adoption of NZ IFRS. The accounting policies have been consistently applied throughout the periods in the financial statements.

Application of accounting standards

Public Trust has chosen to early adopt the amendments to NZ IFRS 1. This amendment was issued in June 2008 but will not be effective until the year ending 30 June 2010. This amendment allows the investment in subsidiary to be carried at the deemed cost of previous NZ GAAP at 1 July 2006.

The following new standards, amendments to standards or interpretations have been issued but not yet effective for the year ended 30 June 2008, and have not been applied in preparing these financial statements:

NZ IAS 1 *Presentation of Financial Statements (revised)*: effective for annual periods beginning on or after 1 January 2009.

NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors (amendments)*: effective for annual periods beginning on or after 1 January 2009.

NZ IAS 16 *Property, Plant and Equipment (amendments)*: effective for annual periods beginning on or after 1 January 2009.

NZ IAS 18 *Revenue (amendments)*: effective for annual periods beginning on or after 1 January 2009.

NZ IAS 23 *Borrowing Costs (revised)*: effective for annual periods beginning on or after 1 January 2009.

NZ IAS 27 *Consolidated and Separate Financial Statements (amended)*: effective for annual periods beginning on or after 1 July 2009.

NZ IAS 38 *Intangible Assets (amendments)*: effective for annual periods beginning on or after 1 January 2009.

NZ IAS 39 *Financial Instruments: Recognition and Measurement (amendments)*: effective for annual periods beginning on or after 1 July 2009.

NZ IFRS 3 *Business Combinations (revised)*: effective for annual periods beginning on or after 1 July 2009.

NZ IFRS 8 *Operating Segments*: effective for annual periods beginning on or after 1 January 2009.

The adoption of the above standards in future periods is not expected to have a material impact for recognition and measurement purposes. The impact on disclosures has not yet been determined. These standards will initially be applied in the financial statements for the year ending 30 June 2010.

Use of judgements and estimates

The presentation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Significant management judgements, estimates and assumptions are disclosed under the applicable notes to the financial statements.

Notes to the Financial Statements

For the year ended 30 June 2008

1 Cash and cash equivalents

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Cash and bank	22,470	13,025	22,446	13,018
Money market deposit at call	8,130	10,667	8,130	10,667
Cash and cash equivalents	30,600	23,692	30,576	23,685
Overdraft used for cash management purposes	(15,063)	(1,792)	(15,063)	(1,792)
CASH AND CASH EQUIVALENTS IN THE STATEMENT OF CASH FLOWS	**15,537**	**21,900**	**15,513**	**21,893**

2 Investment securities

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Designated at fair value through profit and loss				
Interest bearing securities				
Local authorities	58,692	59,444	58,692	59,444
Banks	268,780	192,274	268,780	192,274
New Zealand Government	3,080	2,993	3,080	2,993
Mortgage backed securities	171,433	208,739	171,433	208,739
Corporates	147,784	79,147	147,784	79,147
	649,769	542,597	649,769	542,597
Held for trading				
Equities	-	15,277	-	15,277
	649,769	**557,874**	**649,769**	**557,874**

For significant judgements, estimates and assumptions applied, refer to note 20 Interest rate risk, note 24 Fair value and note 25 Other price risk.

3 Derivative financial instruments

		GROUP		PARENT	
	NOTES	2008 $000	2007 $000	2008 $000	2007 $000
Assets					
Interest rate swaps					
Held for trading		175	-	175	-
Held for hedging		434	1,252	434	1,252
Cash flow hedge accounted	20	783	2,441	783	2,441
Fair value hedge accounted	20	320	-	320	-
Forward rate agreements		278	1,357	278	1,357
Options		-	12	-	12
Forward foreign exchange contracts	21	-	1	-	1
		1,990	**5,063**	**1,990**	**5,063**
Liabilities					
Interest rate swaps					
Held for trading		35	-	35	-
Held for hedging		1,422	-	1,422	-
Cash flow hedge accounted	20	403	5	403	5
Fair value hedge accounted	20	-	-	-	-
Forward rate agreements		561	701	561	701
		2,421	**706**	**2,421**	**706**

4 Trade receivables

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Accrued interest	2	3	2	3
Crown	355	303	355	303
Receivables of uncertain timing	2,111	1,759	2,111	1,759
Less: collective impairment allowance (see below)	(28)	(25)	(28)	(25)
Investment securities awaiting settlement	-	32	-	32
Fees receivable and accrued	1,680	1,612	1,113	1,173
	4,120	**3,684**	**3,553**	**3,245**
Collective impairment allowance				
Opening balance	(25)	(51)	(25)	(51)
Charge for the year	(3)	26	(3)	26
CLOSING BALANCE	**(28)**	**(25)**	**(28)**	**(25)**

Receivables of uncertain timing

Collection is dependent on the occurrence of a specified future event. Where the receivable originates from an estate with a life tenant, payment will be received upon the death of that life tenant.

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

5 Advances secured by mortgage

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Gross value	327,977	236,657	327,977	236,657
Less: Individual impairment allowance	(10,853)	-	(10,853)	-
	317,124	**236,657**	**317,124**	**236,657**
Individual impairment allowance				
Opening balance	-	-	-	-
Charge for the year	(12,409)	-	(12,409)	-
Bad debts written off	1,508	-	1,508	-
Unused allowance reversed	83	-	83	-
Interest accrued on impaired advances	(35)	-	(35)	-
CLOSING BALANCE	**(10,853)**	-	**(10,853)**	-

For significant judgements, estimates and assumptions applied, refer to note 20 Interest rate risk and note 22 Credit risk.

6 Sundry receivables

		GROUP		PARENT	
	NOTES	2008 $000	2007 $000	2008 $000	2007 $000
Expected reimbursements	17	129	44	129	44
Other		46	7	46	7
		175	**51**	**175**	**51**

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

7 Property, plant & equipment

GROUP AND PARENT	PLANT, FURNITURE & FITTINGS 2008 $000	IT EQUIPMENT & OPERATING SOFTWARE 2008 $000	CAPITAL WORK IN PROGRESS 2008 $000	TOTAL 2008 $000
Cost				
Opening balance	13,658	7,536	-	21,194
Additions	1,500	450	342	2,292
Transfer between classes	(6)	6	(95)	(95)
Transfer to expenses	-	-	-	-
Disposals	(593)	(1,378)	-	(1,971)
Closing balance	14,559	6,614	247	21,420
Depreciation				
Opening balance	(8,874)	(4,991)	-	(13,865)
Depreciation during the year	(1,093)	(830)	-	(1,923)
Disposals	584	1,361	-	1,945
Impairment loss	-	-	-	-
Reversal of impairment loss	-	-	-	-
Closing balance	(9,383)	(4,460)	-	(13,843)
CARRYING VALUE OF PROPERTY, PLANT & EQUIPMENT	**5,176**	**2,154**	**247**	**7,577**

GROUP AND PARENT	PLANT, FURNITURE & FITTINGS 2007 $000	IT EQUIPMENT & OPERATING SOFTWARE 2007 $000	CAPITAL WORK IN PROGRESS 2007 $000	TOTAL 2007 $000
Cost				
Opening balance	13,265	6,696	695	20,656
Additions	655	502	187	1,344
Transfer between classes	1	805	(806)	-
Transfer to expenses	-	-	(76)	(76)
Disposals	(263)	(467)	-	(730)
Closing balance	13,658	7,536	-	21,194
Depreciation				
Opening balance	(7,986)	(4,760)	-	(12,746)
Depreciation during the year	(1,115)	(706)	-	(1,821)
Disposals	227	475	-	702
Closing balance	(8,874)	(4,991)	-	(13,865)
CARRYING VALUE OF PROPERTY, PLANT & EQUIPMENT	**4,784**	**2,545**	**-**	**7,329**

Additions include irrecoverable GST of 22.60% (2007: 25.59%).

Compensation received from third parties for property, plant & equipment that was impaired was $1,000 (2007: $89,000).

8 Intangibles

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Intangible IT assets				
Cost				
Opening balance	7,948	8,331	7,948	8,331
Additions	202	98	202	98
Transfer from work in progress	95	-	95	-
Disposals	-	(481)	-	(481)
Closing balance	8,245	7,948	8,245	7,948
Amortisation				
Opening balance	(7,683)	(8,002)	(7,683)	(8,002)
Amortisation during the year	(101)	(110)	(101)	(110)
Disposals	-	429	-	429
Closing balance	**(7,784)**	**(7,683)**	**(7,784)**	**(7,683)**
Goodwill arising on acquisition				
Cost				
Opening balance	2,505	2,505		
Addition	-	-		
Closing balance	2,505	2,505		
Impairment losses				
Opening balance	-	-		
Impairment losses	-	-		
Closing balance	-	-		
CARRYING VALUE OF INTANGIBLES	**2,966**	**2,770**	**461**	**265**

Additions for intangible IT assets include irrecoverable GST of 22.60% (2007: 25.59%).

8 Intangibles (continued)

Goodwill has been allocated to the Corporate Trustee Services cash generating unit (CGU), being the lowest level of asset 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 during the year 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 previous years' actual results and approved business plans for the year ended 30 June 2008, with key assumptions being Funds under Supervision, and operating costs.

  Future cash flows include a terminal value. This comprises cash flows to perpetuity after the projection period.
- Fee revenue was assumed to remain consistent with the 2007 fee revenue adjusted for inflation over the projection 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 assumed. An inflation adjustment of 2% was applied.
- A pre-tax discount rate of 14.9% (2007: 14.9%) was applied to compute present value. A further reduction of 20% was then applied as prudential margin to reflect other risks such as liquidity risk.

9 Investment in subsidiary

	COUNTRY OF INCORPORATION	PERCENT HELD	
		2008	2007
New Zealand Permanent Trustees Limited	New Zealand	100%	100%

10 Current tax

		GROUP		PARENT	
	NOTES	2008 $000	2007 $000	2008 $000	2007 $000
Opening balance		371	1,410	357	1,395
Prior period adjustment		409	35	409	35
Use of money interest		80	-	80	-
Foreign dividend withholding payments		-	(11)	-	(11)
Tax expense through statement of financial performance		-	(2,013)	-	(1,725)
Tax expense through cash flow hedging reserve	18	-	(599)	-	(599)
Cash paid (received)		(14)	1,549	-	1,262
CLOSING BALANCE		**846**	**371**	**846**	**357**

Refer to note 27 for the tax expense (benefit) reconciliation.

11 Deferred tax asset

Recognised deferred tax assets and liabilities is attributable to the following:

	STATEMENT OF FINANCIAL POSITION		STATEMENT OF FINANCIAL PERFORMANCE	
GROUP	2008 $000	2007 $000	2008 $000	2007 $000
Deferred tax assets				
Receivables of uncertain timing	325	304	21	(87)
Individual impairment allowance for advances secured by mortgage	3,256	-	3,256	-
Other trade payables	42	33	9	4
Employee benefits	1,413	1,300	112	86
Remedial work and litigation provision	252	281	(29)	82
Vacant space provision	22	28	(6)	(7)
Property, plant & equipment	15	63	(48)	(22)
Unrealised gains (losses) on investment securities and derivatives	-	-	906	-
	5,325	2,009	4,221	56
Deferred tax liabilities				
Expected reimbursements	(39)	(13)	(26)	75
Prepaid estate administration	(7)	(27)	20	7
Unrealised gains (losses) on investment securities and derivatives	-	(905)	-	(259)
	(46)	(945)	(6)	(177)
RECOGNISED IN STATEMENT OF FINANCIAL PERFORMANCE			4,215	(121)
Unrelieved losses	6,051	-		
Net deferred tax asset (liability)	**11,330**	**1,064**		
Net deferred tax asset (liability) not allowed for	**(11,330)**	**(1,064)**		
NET DEFERRED TAX ASSET (LIABILITY) RECOGNISED	-	-		
Net deferred tax asset (liability)				
Opening balance	1,064	1,303		
Recognised in statement of financial performance	3,656	(121)		
Recognised in cash flow hedging reserve	559	-		
Adjustment for change in income tax rate	-	(118)		
Future income tax benefit	6,051	-		
CLOSING BALANCE	**11,330**	**1,064**		
Net deferred tax asset (liability) not allowed for				
Opening balance	(1,064)	(799)		
Recognised in statement of financial performance	(3,656)	121		
Recognised in cash flow hedging reserve	(559)	-		
Adjustment for change in income tax rate	-	118		
Future income tax benefit	(6,051)	-		
Deferred tax asset written off	-	(504)		
CLOSING BALANCE	**(11,330)**	**(1,064)**		

11 Deferred tax asset (continued)

	STATEMENT OF FINANCIAL POSITION		STATEMENT OF FINANCIAL PERFORMANCE	
PARENT	2008 $000	2007 $000	2008 $000	2007 $000
Deferred tax assets				
Receivables of uncertain timing	325	304	21	(87)
Individual impairment allowance for advances secured by mortgage	3,256	-	3,256	-
Other trade payables	42	33	9	4
Employee benefits	1,413	1,300	112	86
Remedial work and litigation provision	252	281	(29)	82
Vacant space provision	22	28	(6)	(7)
Property, plant & equipment	15	63	(48)	(22)
Unrealised gains (losses) on investment securities and derivatives	-	-	906	-
	5,325	2,009	4,221	56
Deferred tax liabilities				
Expected reimbursements	(39)	(13)	(26)	75
Prepaid estate administration	(7)	(27)	20	7
Unrealised gains (losses) on investment securities and derivatives	-	(905)	-	(259)
	(46)	(945)	(6)	(177)
RECOGNISED IN STATEMENT OF FINANCIAL PERFORMANCE			4,215	(121)
Unrelieved losses	6,051	-		
Net deferred tax asset (liability)	**11,330**	**1,064**		
Net deferred tax asset (liability) not allowed for	**(11,330)**	**(1,064)**		
NET DEFERRED TAX ASSET (LIABILITY) RECOGNISED	-	-		
Net deferred tax asset (liability)				
Opening balance	1,064	1,303		
Recognised in statement of financial performance	3,656	(121)		
Recognised in cash flow hedging reserve	559	-		
Adjustment for change in income tax rate	-	(118)		
Future income tax benefit	6,339	-		
Subsidiary's loss relief	(288)	-		
CLOSING BALANCE	11,330	1,064		
Net deferred tax asset (liability) not allowed for				
Opening balance	(1,064)	(799)		
Recognised in statement of financial performance	(3,656)	121		
Recognised in cash flow hedging reserve	(559)	-		
Adjustment for change in income tax rate	-	118		
Future income tax benefit	(6,339)	-		
Release of utilised loss	288	-		
Deferred tax asset written off	-	(504)		
CLOSING BALANCE	(11,330)	(1,064)		

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

11 Deferred tax asset (continued)

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 settled off against one another.

Probable future profits is taken to mean the expected future profits which can be reasonably forecast within Public Trust's planning horizons. The planning horizons extend for a period of five years and are based on the business plan approved by the Board. At balance date, there is insufficient certainty about the timing of the return to profitability to justify carrying a deferred tax asset (2007: nil).

12 Liabilities to clients – term deposits

		GROUP		PARENT	
	NOTES	2008 $000	2007 $000	2008 $000	2007 $000
Term deposits		518,740	381,735	518,740	381,735
Term deposits subject to hedging		26,106	-	26,106	-
Fair value adjustment for term deposits subject to hedging	20	349	-	349	-
		545,195	**381,735**	**545,195**	**381,735**

13 Prepaid estate administration

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Opening balance	847	911	847	911
Services provided	(147)	(119)	(147)	(119)
Increase in estimated cost of service	22	85	22	85
Unwinding of discount and impact of change in interest rates	40	(30)	40	(30)
CLOSING BALANCE	**762**	**847**	**762**	**847**

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 inflation rate used in the estimation of the liability is consistent with the annual CPI inflation rate. This was 2.20% as at 30 June 2008 (2007: 2.20%). The estimated future cash flows are discounted at the lowest point on the New Zealand Government Bond yield curve of 6.34% at 30 June 2008 (2007: 6.71%).

14 Trade payables

	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Trade creditors and accrued expenses	2,669	1,920	2,637	1,915
Capital creditors	939	11	939	11
Other	170	162	170	162
	3,778	**2,093**	**3,746**	**2,088**

15 Other payables

	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Withholding taxes payable	1,299	920	1,299	920
Fringe Benefit Tax	84	135	84	135
Goods and Services Tax	(185)	445	(185)	445
Lease incentives	79	117	79	117
Employees	384	563	384	563
Other	59	-	59	-
	1,720	**2,180**	**1,720**	**2,180**

16 Employee benefits

	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Annual leave	1,211	899	1,211	899
Sick leave	59	59	59	59
Long-service leave	2,732	2,587	2,732	2,587
Performance incentive payments	576	569	576	569
	4,578	**4,114**	**4,578**	**4,114**

The sick leave liability assumed a salary increase of 5% (2007: 5.70%).

The long-service leave assumed a salary increase of 2.75% (2007: 2.75%). A 1% increase in salary would increase the provision by $194,000 (2007: $192,000).

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

17 Provisions

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Restructuring				
Opening balance	-	-	-	-
Additions during the year	131	-	131	-
Amount applied during the year (cash paid)	-	-	-	-
Reversal of provision not used	-	-	-	-
Closing balance	131	-	131	-
Remedial work & litigation				
Opening balance	937	663	937	663
Additions during the year	677	733	677	733
Amount applied during the year (cash paid)	(379)	(321)	(379)	(321)
Reversal of provision not used	(395)	(138)	(395)	(138)
Closing balance	840	937	840	937
Vacant space				
Opening balance	94	116	94	116
Additions during the year	-	-	-	-
Amount applied during the year (cash paid)	(28)	(28)	(28)	(28)
Reversal of provision not used	-	-	-	-
Discount	6	6	6	6
Closing balance	72	94	72	94
TOTAL	**1,043**	**1,031**	**1,043**	**1,031**

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.

Insurance reimbursements of $129,000 expected upon the final resolution of some of these matters have been recognised within sundry receivables (2007: $44,000).

Vacant space

The vacant space provision recognises the cost of leases of surplus premises through to the conclusion of the leases. The final lease expires in 2011.

The future estimated cash flows are discounted at an appropriate point on the New Zealand Government stock yield curve of 6.95% at 30 June 2008 (2007: 7.33%).

18 Equity

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Contributed equity				
Opening balance	40,174	40,174	40,174	40,174
Contribution by the Crown	-	-	-	-
Closing balance	40,174	40,174	40,174	40,174
Cash flow hedging reserve				
Opening balance	1,487	271	1,487	271
Net gains (losses) from changes in fair value	(1,661)	1,896	(1,661)	1,896
Less: Tax effect of above movement	-	(626)	-	(626)
Transferred to statement of financial performance	(203)	(81)	(203)	(81)
Less: Tax effect of above movement	-	27	-	27
Closing balance	(377)	1,487	(377)	1,487
Retained earnings				
Opening balance	7,584	3,500	4,494	995
Profit (loss) after tax	(32,148)	4,084	(32,157)	3,499
Closing balance	(24,564)	7,584	(27,663)	4,494
TOTAL	**15,233**	**49,245**	**12,134**	**46,155**

18 Equity (continued)

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, together with the related tax.

The transfer to the statement of financial performance is part of interest from interest bearing securities.

The ineffective portion in fair value of cash flow hedges recognised in net unrealised gains/losses on investments within the statement of financial performance is $15,000 (2007: $81,000).

Capital management

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

The Group seeks to maintain a prudent capital position through managing its assets and liabilities in order to sustain long term financial viability.

The Group is not bound by regulatory capital requirements. The Group monitors the level of capital held with reference to competitors, including reference to internationally recognised banking standards, taking into account risks arising from credit, market and operational factors. The capital adequacy is reported and reviewed monthly by management and the Board.

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

Subsequent to balance date, the Board has received approval from the Government for additional capital of $20 million on acceptance of certain conditions relating to operating and financing policy.

19 Maturity analysis of assets and liabilities

The following table shows 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 23 Liquidity risk.

	GROUP 2008			GROUP 2007		
	STATEMENT OF FINANCIAL POSITION $000	LESS THAN 12 MONTHS $000	GREATER THAN 12 MONTHS $000	STATEMENT OF FINANCIAL POSITION $000	LESS THAN 12 MONTHS $000	GREATER THAN 12 MONTHS $000
Assets						
Cash and cash equivalents	30,600	30,600	-	23,692	23,692	-
Investment securities	649,769	265,336	384,433	557,874	179,418	378,456
Derivative financial instruments	1,990	674	1,316	5,063	1,667	3,396
Advances to clients	5,811	5,119	692	8,274	7,662	612
Trade receivables	4,120	2,640	1,480	3,684	2,339	1,345
Advances secured by mortgage	317,124	49,613	267,511	236,657	34,031	202,626
TOTAL FINANCIAL ASSETS	**1,009,414**	**353,982**	**655,432**	**835,244**	**248,809**	**586,435**
Sundry receivables	175	175	-	51	51	-
Prepayments	944	944	-	673	673	-
Property, plant & equipment	7,577	-	7,577	7,329	-	7,329
Intangibles	2,966	-	2,966	2,770	-	2,770
Current tax	846	846	-	371	371	-
TOTAL ASSETS	**1,021,922**	**355,947**	**665,975**	**846,438**	**249,904**	**596,534**
Liabilities						
Liabilities to clients – at call or short term	431,718	431,718	-	402,198	402,198	-
Liabilities to clients – term deposits	545,195	495,025	50,170	381,735	368,468	13,267
Prepaid estate administration	762	-	762	847	-	847
TOTAL LIABILITIES TO CLIENTS	**977,675**	**926,743**	**50,932**	**784,780**	**770,666**	**14,114**
Overdraft	15,063	15,063	-	1,792	1,792	-
Trade payables	3,778	3,778	-	2,093	2,093	-
Other payables	1,720	1,720	-	2,180	2,180	-
Derivative financial instruments	2,421	597	1,824	706	701	5
Prepaid income	411	411	-	497	497	-
Employee benefits	4,578	1,846	2,732	4,114	1,527	2,587
Provisions	1,043	131	912	1,031	-	1,031
TOTAL LIABILITIES	**1,006,689**	**950,289**	**56,400**	**797,193**	**779,456**	**17,737**

19 Maturity analysis of assets and liabilities (continued)

	PARENT 2008			PARENT 2007		
	STATEMENT OF FINANCIAL POSITION $000	LESS THAN 12 MONTHS $000	GREATER THAN 12 MONTHS $000	STATEMENT OF FINANCIAL POSITION $000	LESS THAN 12 MONTHS $000	GREATER THAN 12 MONTHS $000
Assets						
Cash and cash equivalents	30,576	30,576	-	23,685	23,685	-
Investment securities	649,769	265,336	384,433	557,874	179,418	378,456
Derivative financial instruments	1,990	674	1,316	5,063	1,667	3,396
Advances to clients	5,811	5,119	692	8,274	7,662	612
Trade receivables	3,553	2,073	1,480	3,245	1,900	1,345
Due from subsidiary	1,695	1,695	-	-	-	-
Advances secured by mortgage	317,124	49,613	267,511	236,657	34,031	202,626
TOTAL FINANCIAL ASSETS	1,010,518	355,086	655,432	834,798	248,363	586,435
Sundry receivables	175	175	-	51	51	-
Prepayments	944	944	-	673	673	-
Property, plant & equipment	7,577	-	7,577	7,329	-	7,329
Intangibles	461	-	461	265	-	265
Investment in subsidiary	4,654	-	4,654	4,654	-	4,654
Current tax	846	846	-	357	357	-
TOTAL ASSETS	1,025,175	357,051	668,124	848,127	249,444	598,683
Liabilities						
Liabilities to clients – at call or short term	431,718	431,718	-	402,198	402,198	-
Liabilities to clients – term deposits	545,195	495,025	50,170	381,735	368,468	13,267
Prepaid estate administration	762	-	762	847	-	847
TOTAL LIABILITIES TO CLIENTS	977,675	926,743	50,932	784,780	770,666	14,114
Overdraft	15,063	15,063	-	1,792	1,792	-
Trade payables	3,746	3,746	-	2,088	2,088	-
Other payables	1,720	1,720	-	2,180	2,180	-
Derivative financial instruments	2,421	597	1,824	706	701	5
Employee benefits	4,578	1,846	2,732	4,114	1,527	2,587
Provisions	1,043	131	912	1,031	-	1,031
Loan from subsidiary	6,795	6,795	-	5,281	5,281	-
TOTAL LIABILITIES	1,013,041	956,641	56,400	801,972	784,235	17,737

20 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 valuation of the 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 policy requires the mismatch between the weighted average interest rate reset term of liabilities and assets to be less than six months.

Cash flow hedging

The Group's on call client liabilities carry an interest rate that may be varied on a daily basis. Thus interest rate swaps have been entered into to mitigate this risk.

Changes in the 90 day bank bill rate will, all other things being equal, lead to changes in on call liability interest rates. Changes in the base interest rates will therefore lead to a change in the associated interest expense cash flow.

The periods when the cash flows are expected to occur and when they are expected to affect profit or loss is shown in note 23 Liquidity risk.

Exposures to interest rate risks are monitored by management on a daily basis and reported to the Investment Committee bi-monthly.

Fair value hedging

The Group has long-dated term deposits. Changes in the interest rate will lead to changes in the fair value of the long-dated term deposits. Thus interest rate swaps have been entered into to mitigate this risk.

GROUP AND PARENT	2008 $000	2007 $000
Gains (losses) on interest rate swaps	338	-
Gains (losses) on long dated term deposits	(349)	-

Financial risk assessment

The interest rate risk exposure including all derivatives 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 99% confidence interval (i.e. there is a 1% probability that the impact from market fluctuations exceeds the level calculated) and assumes a 10 day 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. This approach is consistent with Basel 2 standards. The resultant measure is the true economic loss rather than that which would be immediately recognised.

GROUP AND PARENT	2008 $000	2007 $000
10 day Value at Risk at 99% confidence level	51	1,127

The values stated are on a pre-tax basis.

20 Interest rate risk (continued)

The following analyses have been prepared on the basis of the notional value of the underlying financial assets and financial liabilities and show the periods to contractual repricing or maturity dates (which ever date is earlier) as at balance date:

GROUP 2008	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	30,600	30,600	30,600	-	-	-	-
Interest bearing securities	649,769	667,679	580,790	7,000	22,000	57,889	-
Advances to clients	5,811	5,811	5,811	-	-	-	-
Advances secured by mortgage	317,124	297,786	199,524	45,816	25,949	26,108	389
Other financial assets	4,120	4,120	4,120	-	-	-	-
	1,007,424	1,005,996	820,845	52,816	47,949	83,997	389
Liabilities							
Liabilities to clients – at call or short term	431,718	431,718	431,718	-	-	-	-
Liabilities to clients – term deposits	545,195	534,163	484,958	21,123	11,683	8,399	8,000
Overdraft	15,063	15,063	15,063	-	-	-	-
	991,976	980,944	931,739	21,123	11,683	8,399	8,000
Derivatives							
Forward rate agreements	(283)	-	-	-	-	-	-
Interest rate swaps	(148)	-	145,335	(39,160)	(36,345)	(77,830)	8,000
	(431)	-	145,335	(39,160)	(36,345)	(77,830)	8,000
REPRICING GAP	**15,017**	**25,052**	**34,441**	**(7,467)**	**(79)**	**(2,232)**	**389**

GROUP 2007	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	23,692	23,692	23,692	-	-	-	-
Interest bearing securities	542,597	538,884	488,884	4,000	7,000	33,000	6,000
Advances to clients	8,274	8,274	8,274	-	-	-	-
Advances secured by mortgage	236,657	238,888	133,841	45,101	22,680	37,266	-
Other financial assets	3,684	3,684	3,684	-	-	-	-
	814,904	813,422	658,375	49,101	29,680	70,266	6,000
Liabilities							
Liabilities to clients – at call or short term	402,198	402,198	402,198	-	-	-	-
Liabilities to clients – term deposits	381,735	373,997	360,961	8,434	2,968	1,634	-
Overdraft	1,792	1,792	1,792	-	-	-	-
	785,725	777,987	764,951	8,434	2,968	1,634	-
Derivatives							
Forward rate agreements	656	-	-	-	-	-	-
Interest rate swaps	3,688	-	143,185	(41,660)	(27,025)	(68,500)	(6,000)
	4,344	-	143,185	(41,660)	(27,025)	(68,500)	(6,000)
REPRICING GAP	**33,523**	**35,435**	**36,609**	**(993)**	**(313)**	**132**	**-**

20 Interest rate risk (continued)

PARENT 2008	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	30,576	30,576	30,576	-	-	-	-
Interest bearing securities	649,769	667,679	580,790	7,000	22,000	57,889	-
Advances to clients	5,811	5,811	5,811	-	-	-	-
Advances secured by mortgage	317,124	297,786	199,524	45,816	25,949	26,108	389
Other financial assets	5,248	5,248	5,248	-	-	-	-
	1,008,528	1,007,100	821,949	52,816	47,949	83,997	389
Liabilities							
Liabilities to clients – at call or short term	431,718	431,718	431,718	-	-	-	-
Liabilities to clients – term deposits	545,195	534,163	484,958	21,123	11,683	8,399	8,000
Overdraft	15,063	15,063	15,063	-	-	-	-
Loan from subsidiary	6,795	6,795	6,795				
	998,771	987,739	938,534	21,123	11,683	8,399	8,000
Derivatives							
Forward rate agreements	(283)	-	-	-	-	-	-
Interest rate swaps	(148)	-	145,335	(39,160)	(36,345)	(77,830)	8,000
	(431)	-	145,335	(39,160)	(36,345)	(77,830)	8,000
REPRICING GAP	**9,326**	**19,361**	**28,750**	**(7,467)**	**(79)**	**(2,232)**	**389**

PARENT 2007	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	23,685	23,685	23,685	-	-	-	-
Interest bearing securities	542,597	538,884	488,884	4,000	7,000	33,000	6,000
Advances to clients	8,274	8,274	8,274	-	-	-	-
Advances secured by mortgage	236,657	238,888	133,841	45,101	22,680	37,266	-
Other financial assets	3,245	3,245	3,245	-	-	-	-
	814,458	812,976	657,929	49,101	29,680	70,266	6,000
Liabilities							
Liabilities to clients – at call or short term	402,198	402,198	402,198	-	-	-	-
Liabilities to clients – term deposits	381,735	373,997	360,961	8,434	2,968	1,634	-
Overdraft	1,792	1,792	1,792	-	-	-	-
Loan from subsidiary	5,281	5,281	5,281	-	-	-	-
	791,006	783,268	770,232	8,434	2,968	1,634	-
Derivatives							
Forward rate agreements	656	-	-	-	-	-	-
Interest rate swaps	3,688	-	143,185	(41,660)	(27,025)	(68,500)	(6,000)
	4,344	-	143,185	(41,660)	(27,025)	(68,500)	(6,000)
REPRICING GAP	**27,796**	**29,708**	**30,882**	**(993)**	**(313)**	**132**	**-**

21 Currency risk

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

The Group may be exposed to foreign currency risk on investments denominated in a currency other than the Group's functional currency, New Zealand dollars, which is also the presentation currency. The currencies in which foreign investment transactions are primarily denominated are Australian dollars. The Group materially hedges their exposure in foreign currency investments.

Exposure to foreign exchange fluctuations is managed by hedging to New Zealand dollars using forward exchange contracts. Hedge accounting is not applied.

Management monitors the Group's exposure to changes in foreign currencies on a daily basis.

Some supplier contracts, generally in relation to software licence agreements, are denominated in foreign currencies. Where these are below a size that is not economically viable to hedge, the risk is not mitigated.

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Total foreign currency investments	-	11	-	11
Foreign currency exchange contract hedge	-	(26)	-	(26)
NET OPEN POSITION	-	(15)	-	(15)
Forward foreign exchange contracts				
New Zealand dollar position	-	27	-	27
Foreign currency position	-	(26)	-	(26)
FAIR VALUE OF CONTRACT IN GAIN (LOSS) POSITION	-	1	-	1

22 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		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Mortgage backed securities	171,433	208,739	171,433	208,739
Registered banks	301,371	221,051	301,348	221,044
Corporates	147,784	79,158	147,784	79,158
Local authorities	58,692	59,444	58,692	59,444
New Zealand Government	3,080	2,993	3,080	2,993
Client overdrafts	5,119	7,658	5,119	7,658
Advances to client beneficiaries	692	616	692	616
Real estate mortgages secured by underwriting agreement	7,178	8,397	7,178	8,397
Real estate mortgages	309,946	228,260	309,946	228,260
Receivables of uncertain timing	2,083	1,734	2,083	1,734
Other	2,036	1,917	3,163	1,478
TOTAL FINANCIAL ASSETS SUBJECT TO CREDIT RISK	**1,009,414**	**819,967**	**1,010,518**	**819,521**

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

	2008			2007		
GROUP	ADVANCES TO CLIENTS $000	TRADE RECEIVABLES $000	ADVANCES SECURED BY MORTGAGE $000	ADVANCES TO CLIENTS $000	TRADE RECEIVABLES $000	ADVANCES SECURED BY MORTGAGE $000
Neither past due nor impaired	5,811	3,882	262,477	8,274	3,483	207,858
Past due but not impaired	-	238	36,396	-	201	28,799
Impaired	-	28	29,104	-	25	-
Gross	5,811	4,148	327,977	8,274	3,709	236,657
Less: Allowance for impairment	-	(28)	(10,853)	-	(25)	-
NET	**5,811**	**4,120**	**317,124**	**8,274**	**3,684**	**236,657**

22 Credit risk (continued)

	2008			2007		
	ADVANCES TO CLIENTS $000	TRADE RECEIVABLES $000	ADVANCES SECURED BY MORTGAGE $000	ADVANCES TO CLIENTS $000	TRADE RECEIVABLES $000	ADVANCES SECURED BY MORTGAGE $000
PARENT						
Neither past due nor impaired	5,811	3,385	262,477	8,274	3,055	207,858
Past due but not impaired	-	168	36,396	-	190	28,799
Impaired	-	28	29,104	-	25	-
Gross	5,811	3,581	327,977	8,274	3,270	236,657
Less: Allowance for impairment	-	(28)	(10,853)	-	(25)	-
NET	**5,811**	**3,553**	**317,124**	**8,274**	**3,245**	**236,657**

Further analyses of these loans and receivables are below.

Advances to clients

The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for their 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 high. There has been no renegotiation of amounts that would be past due or impaired in 2008 (2007: nil).

Client overdrafts

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

Advances to client beneficiaries

Advances to client beneficiaries are 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
- approval and review of the advance or overdraft requires delegated authority.

22 Credit risk (continued)

Trade receivables

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 these receivables is high.

There are policies and procedures for the invoicing and collection of all fees and client estate debts.

There are adequate procedures for monitoring and reviewing outstanding debts. These procedures ensure appropriate actions are taken to recover the debt and assess the potential loss as a result of the risks.

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

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Past due 1-30 days	96	102	57	93
Past due 31-60 days	53	35	34	35
Past due 61-90 days	22	17	16	17
Past due more than 90 days	67	47	61	45
TOTAL	**238**	**201**	**168**	**190**

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. The Group administers the estate of these receivables and has title to the estate and their assets. 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 collectibility of all amounts greater than a specified level is individually reviewed. For the remainder of the balance, a sample is taken and their collectibility is assessed. This review determines the requirement for any impairment allowance, either individually or collectively.

Advances secured by mortgage

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

Initial advances and annual reviews are subject to risk grading assessments. Appropriate actions are taken should the assessment indicate a credit downgrading is required.

Security for advances secured by mortgage comprises a registered first mortgage over freehold or leasehold property. Standard policy is that mortgage advances should not exceed at the time of making the loan:

- 90% of the value of residential or residential investment properties
- 66% of the value of commercial properties
- 50% of the value of rural properties.

22 Credit risk (continued)

These percentages are upper limits and individual advances are subject to a number of further conditions.

Where a residential loan exceeds 80% of the valuation, the mortgage security is supplemented by Mortgage Lenders Insurance.

The lending portfolio is subject to ongoing monitoring in relation to composition, 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.

When the collectibility of the advance is in doubt, an individual impairment allowance is made. All relevant considerations that have a bearing on the future cash flows are taken into account including the business prospects of the customer, the realisable value of the security and the likely costs and duration of the disposal process (where applicable). Subjective judgements are made in this process.

Furthermore, judgements can change with time as new information becomes available resulting in revisions to the impairment allowance.

The credit quality of advances secured by mortgage that are neither past due nor impaired is prudent and within approved policy guidelines.

The carrying amount of advances secured by mortgage that would otherwise be past due or impaired whose terms have been renegotiated is $914,000 (2007: $1.5 million).

The following table provides an analysis of the advances secured by mortgage that are past due but not impaired.

GROUP AND PARENT	2008 $000	2007 $000
Past due 1-30 days	30,668	26,224
Past due 31-60 days	249	2,151
Past due 61-90 days	294	76
Past due more than 90 days	5,185	348
TOTAL	**36,396**	**28,799**

The following table provides an analysis of advances secured by mortgage that are individually impaired.

	2008			2007		
GROUP AND PARENT	GROSS VALUE $'000	IMPAIRMENT $'000	NET VALUE $'000	GROSS VALUE $'000	IMPAIRMENT $'000	NET VALUE $'000
Residential investment	23,651	(7,595)	16,056	-	-	-
Commercial	5,453	(3,258)	2,195	-	-	-
Rural	-	-	-	-	-	-
	29,104	**(10,853)**	**18,251**	-	-	-

22 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 reported to the Investment Committee on a bi-monthly basis.

Interest rate derivative counterparty swaps credit risk is managed by:

- undertaking derivative transactions with banks rated AA- and above and including an allowance for that exposure in the calculations of the credit exposure to that particular bank, which in turn is governed by credit limits
- acquiring interest rate swaps with several different banks, 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.

22 Credit risk (continued)

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		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Long term credit rating				
AAA	141,966	228,249	141,966	228,249
AA+	6,498	-	6,498	-
AA	161,747	127,915	161,747	127,915
AA-	48,068	42,846	48,068	42,846
A+	55,103	55,773	55,103	55,773
A	11,784	22,819	11,784	22,819
BBB-	14,987	-	14,987	-
BB	9,911	-	9,911	-
Unrated local authority	23,734	23,870	23,734	23,870
	473,798	501,472	473,798	501,472
Short term credit rating				
A1+	199,325	69,863	199,302	69,856
A2	9,229	-	9,229	-
	208,554	69,863	208,531	69,856
Unrated – mortgages	327,062	263,909	328,189	263,470
TOTAL FINANCIAL ASSETS	**1,009,414**	**835,244**	**1,010,518**	**834,798**

23 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 and reported to the Investment Committee on a bi-monthly basis.

The following table sets out the undiscounted contractual cash flows for all financial assets and 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.

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 balance date.

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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

23 Liquidity risk (continued)

GROUP 2008	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	30,600	30,600	30,600	-	-	-	-
Investment securities	649,769	795,307	307,391	160,429	80,018	178,748	68,721
Advances to clients	5,811	6,277	5,294	68	68	137	710
Trade receivables	4,120	5,176	2,634	-	-	-	2,542
Advances secured by mortgages	317,124	469,587	71,736	51,574	52,765	101,606	191,906
Total non-derivative financial assets	1,007,424	1,306,947	417,655	212,071	132,851	280,491	263,879
Interest rate swaps							
Held for trading	175	238	216	22	-	-	-
Held for hedging	434	447	541	166	(255)	(5)	-
Cash flow hedge accounted	783	843	689	107	45	2	-
Fair value hedge accounted	320	442	(48)	130	91	105	164
Forward rate agreements	278	282	282	-	-	-	-
Options	-	-	-	-	-	-	-
Forward foreign exchange contracts	-	-	-	-	-	-	-
Total derivative financial assets	1,990	2,252	1,680	425	(119)	102	164
Total financial assets	1,009,414	1,309,199	419,335	212,496	132,732	280,593	264,043
Liabilities to clients - at call or short term	431,718	431,718	431,718	-	-	-	-
Liabilities to clients - term deposits	545,195	574,112	516,719	25,227	11,818	10,484	9,864
Overdraft	15,063	15,063	15,063	-	-	-	-
Trade payables	3,778	3,778	3,778	-	-	-	-
Total non-derivative financial liabilities	995,754	1,024,671	967,278	25,227	11,818	10,484	9,864
Interest rate swaps							
Held for trading	35	41	41	-	-	-	-
Held for hedging	1,422	1,714	(148)	346	433	1,083	-
Cash flow hedge accounted	403	420	(5)	240	103	82	-
Fair value hedge accounted	-	-	-	-	-	-	-
Forward rate agreements	561	570	570	-	-	-	-
Total derivative financial liabilities	2,421	2,745	458	586	536	1,165	-
Total financial liabilities	998,175	1,027,416	967,736	25,813	12,354	11,649	9,864
TOTAL CONTRACTUAL MATURITIES	**11,239**	**281,783**	**(548,401)**	**186,683**	**120,378**	**268,944**	**254,179**

23 Liquidity risk (continued)

GROUP 2007	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	23,692	23,692	23,692	-	-	-	-
Investment securities	542,597	656,014	202,550	123,872	95,336	141,508	92,748
Advances to clients	8,274	8,625	7,764	59	59	118	625
Trade receivables	3,684	4,674	2,336	-	-	-	2,338
Advances secured by mortgages	236,657	415,900	57,844	30,763	43,598	75,874	207,821
Total non-derivative financial assets	814,904	1,108,905	294,186	154,694	138,993	217,500	303,532
Interest rate swaps							
Held for trading	-	-	-	-	-	-	-
Held for hedging	1,252	1,401	719	618	443	(383)	4
Cash flow hedge accounted	2,441	2,722	1,371	766	384	201	-
Fair value hedge accounted	-	-	-	-	-	-	-
Forward rate agreements	1,357	1,409	1,409	-	-	-	-
Options	12	12	12	-	-	-	-
Forward foreign exchange contracts	1	1	1	-	-	-	-
Total derivative financial assets	5,063	5,545	3,512	1,384	827	(182)	4
Total financial assets	819,967	1,114,450	297,698	156,078	139,820	217,318	303,536
Liabilities to clients – at call or short term	402,198	402,198	402,198	-	-	-	-
Liabilities to clients – term deposits	381,735	394,221	380,427	8,595	3,375	1,824	-
Overdraft	1,792	1,792	1,792	-	-	-	-
Trade payables	2,093	2,093	2,093	-	-	-	-
Total non-derivative financial liabilities	787,818	800,304	786,510	8,595	3,375	1,824	-
Interest rate swaps							
Held for trading	-	-	-	-	-	-	-
Held for hedging	-	-	-	-	-	-	-
Cash flow hedge accounted	5	6	(5)	3	4	4	-
Fair value hedge accounted	-	-	-	-	-	-	-
Forward rate agreements	701	720	720	-	-	-	-
Total derivative financial liabilities	706	726	715	3	4	4	-
Total financial liabilities	788,524	801,030	787,225	8,598	3,379	1,828	-
TOTAL CONTRACTUAL MATURITIES	**31,443**	**313,420**	**(489,527)**	**147,480**	**136,441**	**215,490**	**303,536**

23 Liquidity risk (continued)

PARENT 2008	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	30,576	30,576	30,576	-	-	-	-
Investment securities	649,769	795,307	307,391	160,429	80,018	178,748	68,721
Advances to clients	5,811	6,277	5,294	68	68	137	710
Trade receivables	3,553	4,609	2,067	-	-	-	2,542
Due from subsidiary	1,695	1,695	1,695	-	-	-	-
Advances secured by mortgages	317,124	469,587	71,736	51,574	52,765	101,606	191,906
Total non-derivative financial assets	1,008,528	1,308,051	418,759	212,071	132,851	280,491	263,879
Interest rate swaps							
Held for trading	175	238	216	22	-	-	-
Held for hedging	434	447	541	166	(255)	(5)	-
Cash flow hedge accounted	783	843	689	107	45	2	-
Fair value hedge accounted	320	442	(48)	130	91	105	164
Forward rate agreements	278	282	282	-	-	-	-
Options	-	-	-	-	-	-	-
Forward foreign exchange contracts	-	-	-	-	-	-	-
Total derivative financial assets	1,990	2,252	1,680	425	(119)	102	164
Total financial assets	1,010,518	1,310,303	420,439	212,496	132,732	280,593	264,043
Liabilities to clients – at call or short term	431,718	431,718	431,718	-	-	-	-
Liabilities to clients – term deposits	545,195	574,112	516,719	25,227	11,818	10,484	9,864
Overdraft	15,063	15,063	15,063	-	-	-	-
Trade payables	3,746	3,746	3,746	-	-	-	-
Loan from subsidiary	6,795	6,795	6,795	-	-	-	-
Total non-derivative financial liabilities	1,002,517	1,031,434	974,041	25,227	11,818	10,484	9,864
Interest rate swaps							
Held for trading	35	41	41	-	-	-	-
Held for hedging	1,422	1,714	(148)	346	433	1,083	-
Cash flow hedge accounted	403	420	(5)	240	103	82	-
Fair value hedge accounted	-	-	-	-	-	-	-
Forward rate agreements	561	570	570	-	-	-	-
Total derivative financial liabilities	2,421	2,745	458	586	536	1,165	-
Total financial liabilities	1,004,938	1,034,179	974,499	25,813	12,354	11,649	9,864
TOTAL CONTRACTUAL MATURITIES	**5,580**	**276,124**	**(554,060)**	**186,683**	**120,378**	**268,944**	**254,179**

23 Liquidity risk (continued)

PARENT 2007	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	23,685	23,685	23,685	-	-	-	-
Investment securities	542,597	656,014	202,550	123,872	95,336	141,508	92,748
Advances to clients	8,274	8,625	7,764	59	59	118	625
Trade receivables	3,245	4,235	1,897	-	-	-	2,338
Due from subsidiary	-	-	-	-	-	-	-
Advances secured by mortgages	236,657	415,900	57,844	30,763	43,598	75,874	207,821
Total non-derivative financial assets	814,458	1,108,459	293,740	154,694	138,993	217,500	303,532
Interest rate swaps							
Held for trading	-	-	-	-	-	-	-
Held for hedging	1,252	1,401	719	618	443	(383)	4
Cash flow hedge accounted	2,441	2,722	1,371	766	384	201	-
Fair value hedge accounted	-	-	-	-	-	-	-
Forward rate agreements	1,357	1,409	1,409	-	-	-	-
Options	12	12	12	-	-	-	-
Forward foreign exchange contracts	1	1	1	-	-	-	-
Total derivative financial assets	5,063	5,545	3,512	1,384	827	(182)	4
Total financial assets	819,521	1,114,004	297,252	156,078	139,820	217,318	303,536
Liabilities to clients – at call or short term	402,198	402,198	402,198	-	-	-	-
Liabilities to clients – term deposits	381,735	394,221	380,427	8,595	3,375	1,824	-
Overdraft	1,792	1,792	1,792	-	-	-	-
Trade payables	2,088	2,088	2,088	-	-	-	-
Loan from subsidiary	5,281	5,281	5,281	-	-	-	-
Total non-derivative financial liabilities	793,094	805,580	791,786	8,595	3,375	1,824	-
Interest rate swaps							
Held for trading	-	-	-	-	-	-	-
Held for hedging	-	-	-	-	-	-	-
Cash flow hedge accounted	5	6	(5)	3	4	4	-
Fair value hedge accounted	-	-	-	-	-	-	-
Forward rate agreements	701	720	720	-	-	-	-
Options	-	-	-	-	-	-	-
Forward foreign exchange contracts	-	-	-	-	-	-	-
Total derivative financial liabilities	706	726	715	3	4	4	-
Total financial liabilities	793,800	806,306	792,501	8,598	3,379	1,828	-
TOTAL CONTRACTUAL MATURITIES	**25,722**	**307,698**	**(495,249)**	**147,480**	**136,441**	**215,490**	**303,536**

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

23 Liquidity risk (continued)

Cash flow hedges

The below 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 2008						
Cash inflows (assets)	843	689	107	45	2	-
Cash outflows (liabilities)	420	(5)	240	103	82	-
NET CASH INFLOWS (OUTFLOWS)	**423**	**694**	**(133)**	**(58)**	**(80)**	**-**
Group & Parent 2007						
Cash inflows (assets)	2,722	1,371	766	384	201	-
Cash outflows (liabilities)	6	(5)	3	4	4	-
NET CASH INFLOWS (OUTFLOWS)	**2,716**	**1,376**	**763**	**380**	**197**	**-**

	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 2008						
Statement of Financial Performance	423	694	(133)	(58)	(80)	-
Group & Parent 2007						
Statement of Financial Performance	2,716	1,376	763	380	197	-

24 Fair value

Bases to fair value

Cash and cash equivalents, Advances to clients at call, Trade receivables, Overdraft, 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 based on quoted market prices or valuation techniques with reference to observable market data.

For investment securities that are actively traded in exchanges, the fair value is determined by reference to exchange quoted market bid prices on balance date.

For a portion of the mortgage backed securities portfolio worth $132.3 million (2007: $199.8 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

24 Fair value (continued)

prepayment speed, credit spread, arrears history, any actual/expected losses, credit rating, and time to expected maturity, loan to value ratios, insurance status and credit rating of the insurer where applicable.

For a portion of the mortgage backed securities portfolio worth $39.1 million (2007: $8.9 million), there is no quoted market price or pricing available from a third party agent. The fair value is determined by reference to the current third party's 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 daily prepayment history. The expected cash flows of the investment are then discounted using quoted market discount rates and the adjusted credit margin. The primary management judgements involved are therefore the determination of the like securities, the expected average life of the investment and the credit margin to be used.

Advances secured by mortgage and other advances to clients

Advances secured by mortgage and other advances to clients 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 prices, discounted cash flows or option pricing models as appropriate.

24 Fair value (continued)

GROUP 2008	FAIR VALUE THROUGH PROFIT AND LOSS (DESIGNATED ON INITIAL RECOGNITION)		FAIR VALUE THROUGH PROFIT AND LOSS (HELD FOR TRADING)	
	CARRYING VALUE $000	FAIR VALUE $000	CARRYING VALUE $000	FAIR VALUE $000
Financial assets				
Cash and cash equivalents	-	-	-	-
Investment securities	649,769	649,769	-	-
Derivative financial instruments	-	-	887	887
Advances to clients	-	-	-	-
Trade receivables	-	-	-	-
Advances secured by mortgages	-	-	-	-
TOTAL FINANCIAL ASSETS	**649,769**	**649,769**	**887**	**887**
Financial liabilities				
Liabilities to clients – at call or short term	-	-	-	-
Liabilities to clients – term deposits	-	-	-	-
Overdraft	-	-	-	-
Trade payables	-	-	-	-
Derivative financial instruments	-	-	2,018	2,018
TOTAL FINANCIAL LIABILITIES	**-**	**-**	**2,018**	**2,018**

GROUP 2007	FAIR VALUE THROUGH PROFIT AND LOSS (DESIGNATED ON INITIAL RECOGNITION)		FAIR VALUE THROUGH PROFIT AND LOSS (HELD FOR TRADING)	
	CARRYING VALUE $000	FAIR VALUE $000	CARRYING VALUE $000	FAIR VALUE $000
Financial assets				
Cash and cash equivalents	-	-	-	-
Investment securities	542,597	542,597	15,277	15,277
Derivative financial instruments	-	-	2,622	2,622
Advances to clients	-	-	-	-
Trade receivables	-	-	-	-
Advances secured by mortgages	-	-	-	-
TOTAL FINANCIAL ASSETS	**542,597**	**542,597**	**17,899**	**17,899**
Financial liabilities				
Liabilities to clients – at call or short term	-	-	-	-
Liabilities to clients – term deposits	-	-	-	-
Overdraft	-	-	-	-
Trade payables	-	-	-	-
Derivative financial instruments	-	-	701	701
TOTAL FINANCIAL LIABILITIES	**-**	**-**	**701**	**701**

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**
-	-	30,600	30,600	-	-	30,600	30,600
-	-	-	-	-	-	649,769	649,769
1,103	1,103	-	-	-	-	1,990	1,990
-	-	5,811	5,811	-	-	5,811	5,811
-	-	4,120	4,120	-	-	4,120	4,120
-	-	317,124	310,420	-	-	317,124	310,420
1,103	**1,103**	**357,655**	**350,951**	**-**	**-**	**1,009,414**	**1,002,710**
-	-	-	-	431,718	431,718	431,718	431,718
26,455	26,320	-	-	518,740	518,782	545,195	545,102
-	-	-	-	15,063	15,063	15,063	15,063
-	-	-	-	3,778	3,778	3,778	3,778
403	403	-	-	-	-	2,421	2,421
26,858	**26,723**	**-**	**-**	**969,299**	**969,341**	**998,175**	**998,082**

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
-	-	23,692	23,692	-	-	23,692	23,692
-	-	-	-	-	-	557,874	557,874
2,441	2,441	-	-	-	-	5,063	5,063
-	-	8,274	8,274	-	-	8,274	8,274
-	-	3,684	3,684	-	-	3,684	3,684
-	-	236,657	230,017	-	-	236,657	230,017
2,441	**2,441**	**272,307**	**265,667**	**-**	**-**	**835,244**	**828,604**
-	-	-	-	402,198	402,198	402,198	402,198
-	-	-	-	381,735	375,926	381,735	375,926
-	-	-	-	1,792	1,792	1,792	1,792
-	-	-	-	2,093	2,093	2,093	2,093
5	5	-	-	-	-	706	706
5	**5**	**-**	**-**	**787,818**	**782,009**	**788,524**	**782,715**

24 Fair value (continued)

PARENT 2008	FAIR VALUE THROUGH PROFIT AND LOSS (DESIGNATED ON INITIAL RECOGNITION)		FAIR VALUE THROUGH PROFIT AND LOSS (HELD FOR TRADING)	
	CARRYING VALUE $000	FAIR VALUE $000	CARRYING VALUE $000	FAIR VALUE $000
Financial assets				
Cash and cash equivalents	-	-	-	-
Investment securities	649,769	649,769	-	-
Derivative financial instruments	-	-	887	887
Advances to clients	-	-	-	-
Trade receivables	-	-	-	-
Due from subsidiary	-	-	-	-
Advances secured by mortgages	-	-	-	-
TOTAL FINANCIAL ASSETS	**649,769**	**649,769**	**887**	**887**
Financial liabilities				
Liabilities to clients – at call or short term	-	-	-	-
Liabilities to clients – term deposits	-	-	-	-
Overdraft	-	-	-	-
Trade payables	-	-	-	-
Derivative financial instruments	-	-	2,018	2,018
Loan from subsidiary	-	-	-	-
TOTAL FINANCIAL LIABILITIES	**-**	**-**	**2,018**	**2,018**

PARENT 2007	FAIR VALUE THROUGH PROFIT AND LOSS (DESIGNATED ON INITIAL RECOGNITION)		FAIR VALUE THROUGH PROFIT AND LOSS (HELD FOR TRADING)	
	CARRYING VALUE $000	FAIR VALUE $000	CARRYING VALUE $000	FAIR VALUE $000
Financial assets				
Cash and cash equivalents	-	-	-	-
Investment securities	542,597	542,597	15,277	15,277
Derivative financial instruments	-	-	2,622	2,622
Advances to clients	-	-	-	-
Trade receivables	-	-	-	-
Due from subsidiary	-	-	-	-
Advances secured by mortgages	-	-	-	-
TOTAL FINANCIAL ASSETS	**542,597**	**542,597**	**17,899**	**17,899**
Financial liabilities				
Liabilities to clients – at call or short term	-	-	-	-
Liabilities to clients – term deposits	-	-	-	-
Overdraft	-	-	-	-
Trade payables	-	-	-	-
Derivative financial instruments	-	-	701	701
Loan from subsidiary	-	-	-	-
TOTAL FINANCIAL LIABILITIES	**-**	**-**	**701**	**701**

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
-	-	30,576	30,576	-	-	30,576	30,576
-	-	-	-	-	-	649,769	649,769
1,103	1,103	-	-	-	-	1,990	1,990
-	-	5,811	5,811	-	-	5,811	5,811
-	-	3,553	3,553	-	-	3,553	3,553
-	-	1,695	1,695	-	-	1,695	1,695
-	-	317,124	310,420	-	-	317,124	310,420
1,103	**1,103**	**358,759**	**352,055**	**-**	**-**	**1,010,518**	**1,003,814**
-	-	-	-	431,718	431,718	431,718	431,718
26,455	26,320	-	-	518,740	518,782	545,195	545,102
-	-	-	-	15,063	15,063	15,063	15,063
-	-	-	-	3,746	3,746	3,746	3,746
403	403	-	-	-	-	2,421	2,421
-	-	-	-	6,795	6,795	6,795	6,795
26,858	**26,723**	**-**	**-**	**976,062**	**976,104**	**1,004,938**	**1,004,845**

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
-	-	23,685	23,685	-	-	23,685	23,685
-	-	-	-	-	-	557,874	557,874
2,441	2,441	-	-	-	-	5,063	5,063
-	-	8,274	8,274	-	-	8,274	8,274
-	-	3,245	3,245	-	-	3,245	3,245
-	-	-	-	-	-	-	-
-	-	236,657	230,017	-	-	236,657	230,017
2,441	**2,441**	**271,861**	**265,221**	**-**	**-**	**834,798**	**828,158**
-	-	-	-	402,198	402,198	402,198	402,198
-	-	-	-	381,735	375,926	381,735	375,926
-	-	-	-	1,792	1,792	1,792	1,792
-	-	-	-	2,088	2,088	2,088	2,088
5	5	-	-	-	-	706	706
-	-	-	-	5,281	5,281	5,281	5,281
5	**5**	**-**	**-**	**793,094**	**787,285**	**793,800**	**787,991**

25 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 three different types of other price risk.

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

The Group from time to time holds for trading, equity investments listed on stock exchanges. The fair value varies in accordance with prices quoted on those exchanges.

Credit spreads

The Group holds a number of investments in bonds and other interest bearing securities. The value of these instruments is a function of underlying interest rates plus a credit margin. A reasonably possible change in credit margins is approximately 10 basis points, although under extreme circumstances this could be significantly more, as has happened in the last year when credit margins increased on average 150 basis points. The following table presents the effect by classes of investment securities, of the effect on profit or loss and therefore equity if there was a change in the credit margin of 10 basis points.

GROUP AND PARENT	2008 $000	2007 $000
Local authorities	168	215
Banks	271	196
Mortgage backed securities	321	404
Corporates	426	357
	1,186	**1,172**

Prepayment pattern

The Group holds a number of investments in which the issuer has the right to repay earlier than the contractual repayment term. A factor in the valuation of such instruments is the expected pattern of repayment due to the exercise of this right. If the period shortens there is a gain and if it lengthens there is a loss. For every month that the actual repayment pattern differs from the anticipated pattern there will be a change in value of $172,000 (2007: $194,000).

Equities

It is considered that a reasonably possible scenario for stock exchange quoted prices is a 10% decline. In the event that this happened, the effect on profit or loss and equity would be nil (2007: $1.5 million).

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.

26 Revenues arising and expenses incurred in arriving at profit

In addition to the items reported on the statement of financial performance, profit is stated after charging or crediting the following:

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Revenue				
Fees from trust and other fiduciary activities	31,711	29,428	29,546	27,545
Fees from other services	8,040	9,359	9,738	10,662
Other revenue	393	309	117	174
Net gains (losses) on:				
Financial assets/liabilities fair value through profit and loss				
Designated on initial recognition	(19,042)	(2,286)	(19,042)	(2,286)
Held for trading	(2,595)	5,236	(2,595)	5,236
Loans and receivables	1	(1)	1	(1)
Financial liabilities at amortised cost	-	(34)	-	(34)
Financial assets and financial liabilities not fair valued through profit and loss:				
Interest revenue	29,335	23,314	29,335	23,314
Interest expense	(60,399)	(44,637)	(60,722)	(44,960)
Fee income	1,055	695	1,055	695
Fee expense	(114)	(267)	(114)	(267)
Net exchange gain/loss	-	(34)	-	(34)

For financial instruments, only the net gains or losses on disposals are included in total revenue.

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Expenses				
Audit fees	235	182	230	177
Audit fees for non-consolidated managed funds	220	143	220	143
Other fees paid to auditors	104	164	104	164
Litigation settlement	12	-	12	-
Donations	16	-	16	-
Contribution to defined contribution plans	456	374	456	374
Fees on trust and other fiduciary activities	1,099	1,194	1,099	1,194

Other fees paid to auditors relates to NZ IFRS transition support services and assurance services for the non-consolidated managed funds' prospectus.

26 Revenues arising and expenses incurred in arriving at profit (continued)

Employee remuneration

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

	GROUP & PARENT	
REMUNERATION BAND	2008 NUMBER OF EMPLOYEES	2007 NUMBER OF EMPLOYEES
$100,000 to $109,999	25	18
$110,000 to $119,999	7	9
$120,000 to $129,999	2	7
$130,000 to $139,999	9	4
$140,000 to $149,999	7	2
$150,000 to $159,999	2	4
$160,000 to $169,999	1	1
$170,000 to $179,999	1	-
$180,000 to $189,999	1	1
$200,000 to $209,999	3	-
$210,000 to $219,999	-	1
$220,000 to $229,999	-	3
$230,000 to $239,999	1	-
$240,000 to $249,999	2	-
$270,000 to $279,999	-	1
$410,000 to $419,999	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.

Key management personnel

Key management personnel comprises 9 (2007: 11) members of the Board and 8 (2007: 9) employees in the Executive management team.

	GROUP & PARENT	
	2008 $000	2007 $000
Key management personnel compensation comprises:		
Short-term employee benefits	2,002	1,691
Post-employment benefits	2	-
Other long-term benefits	-	-
Termination benefits	131	271
	2,135	**1,962**

Within post-employment benefits are contributions to defined contribution plans of $2,000 (2007: nil).

Employment cessation payments

During the year, three employees received $262,000 (2007: two employees received a total of $271,000) relating to the cessation of their employment with Public Trust.

26 Revenues arising and expenses incurred in arriving at profit (continued)

	GROUP & PARENT 2008		GROUP & PARENT 2007	
	BOARD $000	SUB COMMITTEE $000	BOARD $000	SUB COMMITTEE $000
Remuneration paid or payable to Board Members:				
Donal Curtin	37	2	21	5
Peter Taylor[1]	14	-	42	-
Elizabeth Coutts[2]	-	-	22	6
Candis Craven[3]	11	1	-	-
David Edwards[4]	21	-	4	-
Robin Hill[4]	25	5	4	1
Patrica Jones[5]	-	-	7	-
Stephanie McIntyre[2]	-	-	18	-
Fiona Pimm	21	-	21	-
Sarah Roberts[4]	21	1	4	-
Hon. Matthew Robson[6]	21	1	21	-
Murray Weatherston	21	11	21	10
	192	21	185	22

[1] Retired in October 2007
[2] Retired in April 2007
[3] Appointed in January 2008
[4] Appointed in May 2007
[5] Retired in October 2006
[6] Appointed in May 2006

Insurance and Indemnities

Public Trust affects 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 employees in respect of liability for loss or cost they incur in the course of their duties to Public Trust, provided that they have acted in good faith and in accordance with internal processes and practices.

27 Tax expense (benefit)

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Profit (loss) before tax	(32,557)	6,577	(33,430)	5,704
Cash flow hedging reserve movement	(1,864)	1,815	(1,864)	1,815
	(34,421)	8,392	(35,294)	7,519
Income tax at 30% (2007: 33%)	(10,326)	2,769	(10,588)	2,481
Add (deduct) tax effect of temporary differences				
Non-deductible expenses	45	(10)	45	(10)
Non-taxable income	(11)	-	(11)	-
Prior period adjustment	(409)	(35)	(409)	(35)
Deferred tax expense relating to temporary differences	3,656	(133)	3,656	(133)
Deferred tax arising from losses written off	6,051	-	6,339	-
Deferred tax asset written off	-	504	-	504
Deferred tax arising from change in tax rate for deferred tax opening balance	-	(106)	-	(106)
Deferred tax allowance for change in tax rate for deferred tax opening balance	-	106	-	106
Retrospective adjustment in respect to group relief	-	-	(576)	-
Utilisation of losses	-	-	(288)	-
Utilisation of losses at a different marginal rate of tax	26	-	-	-
Imputation credits	-	(14)	-	(14)
Foreign dividend withholding payments	-	11	-	11
	(968)	3,092	(1,832)	2,804
Tax effect of movement in the cash flow hedging reserve	559	(599)	559	(599)
TAX EXPENSE (BENEFIT) PER STATEMENT OF FINANCIAL PERFORMANCE	**(409)**	**2,493**	**(1,273)**	**2,205**
Tax expense comprises:				
Current tax	-	2,013	-	1,725
Prior period adjustment	(409)	(35)	(409)	(35)
Deferred tax expense relating to temporary differences	(3,656)	133	(3,656)	133
Deferred tax allowance in respect to temporary differences	3,656	(133)	3,656	(133)
Deferred tax arising from losses	(6,051)	-	(6,339)	-
Deferred tax allowance in respect to losses	6,051	-	6,339	-
Deferred tax asset written off	-	504	-	504
Utilisation of losses	-	-	(288)	-
Retrospective adjustment in respect to group relief	-	-	(576)	-
Deferred tax arising from change in tax rate for deferred tax opening balance	-	(106)	-	(106)
Deferred tax allowance for change in tax rate for deferred tax opening balance	-	106	-	106
Foreign dividend withholding payments	-	11	-	11
TAX EXPENSE (BENEFIT) PER STATEMENT OF FINANCIAL PERFORMANCE	**(409)**	**2,493**	**(1,273)**	**2,205**

A prospective tax rate of 30% has been applied as it is anticipated these tax losses will reverse at this rate in the future.

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

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Profit (loss) after tax	(32,148)	4,084	(32,157)	3,499
Items relating to property, plant & equipment				
Depreciation	1,923	1,821	1,923	1,821
(Gains) losses on disposal of property, plant & equipment	23	14	23	14
GST on capital payables	103	(13)	103	(13)
Items relating to intangibles				
Amortisation	101	110	101	110
(Gains) losses on disposal of intangibles	-	43	-	43
Items relating to investment in subsidiary				
Management fee accrual	-	-	(1,695)	15
Subsidiary's utilisation of tax losses from the parent	-	-	(864)	-
Items relating to non-trading financial assets and financial liabilities				
Realised (gains) losses on disposal	(56)	(115)	(56)	(115)
Unrealised (gains) losses	18,838	2,196	18,838	2,196
Amortisation of premiums & discounts	(2,744)	457	(2,744)	457
Movement in accrued interest	1,147	(237)	1,147	(237)
Movement in impairment allowances	10,856	(26)	10,856	(26)
Write off of advances secured by mortgage	1,508	-	1,508	-
Movement in amortisation of origination fees and transaction costs	277	-	277	-
Write off of GST on receivables of uncertain timing	521	-	521	-
Other non-cash items				
Amortisation of lease incentives	(37)	(27)	(37)	(27)
Other items				
(Increase) decrease in trading investment securities	15,277	3,801	15,277	3,801
(Increase) decrease in trading derivatives assets	2,254	(3,319)	2,254	(3,319)
(Increase) decrease in trade receivables	(472)	596	(343)	650
(Increase) decrease in sundry receivables	(124)	249	(124)	249
(Increase) decrease in prepayments	(271)	242	(271)	242
(Increase) decrease in current tax	(475)	440	(489)	440
(Increase) decrease in deferred tax	-	504	-	504
Increase (decrease) in trade payables	756	27	729	47
Increase (decrease) in other payables	(943)	526	(943)	526
Increase (decrease) in trading derivatives liabilities	797	1,350	797	1,350
Increase (decrease) in prepaid income	(86)	(40)	-	-
Increase (decrease) in employee benefits	464	68	464	68
Increase (decrease) in provisions	12	251	12	251
NET CASH FLOWS FROM OPERATING ACTIVITIES	**17,501**	**13,002**	**15,107**	**12,546**

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

29 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. Transactions with all of these related parties are pervasive and it is not practical to isolate and report on them. All such transactions are carried out on an "arm's length" basis.

Revenue from the Crown of $4.5 million (2007: $4.5 million) arises from an output agreement between Public Trust and the Responsible Minister (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 Investment Funds

In addition Public Trust manages 29 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 AND PARENT	2008 $000	2007 $000
Reimbursement of expenses	1,712	1,806
Management fee received	3,956	3,267
Interest paid to Group Investment Funds	20	9
Interest received from Group Investment Funds	23	22

From 1 October 2007, certain funds elected to become Portfolio Investment Entities and from that date the management fee was charged directly at the fund level. Previously, the management fee had been deducted directly from the distribution to unit holders.

Balances due from these funds at balance date totalled $47,000 (2007: $3,000 payable).

The Common Fund is the primary banker for these funds. At balance date the funds had a total position of $155,000 (2007: overdrawn $34,000).

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

New Zealand Permanent Trustees Limited

New Zealand Permanent Trustees Limited is a wholly owned subsidiary of Public Trust. The amounts outstanding at balance date are shown in the Parent's statement of financial position. Public Trust receives a management fee from New Zealand Permanent Trustees Limited for services provided. For the year ended 30 June 2008, this was $1,698,000 (2007: $1,302,000). All transactions between Public Trust 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.

Public Trust Office Superannuation Fund

Public Trust has a defined contribution scheme, The Public Trust Office Superannuation Funds (PTSF). It was established under a Trust Deed dated 31 March 1993. The PTSF is open to all salaried employees at Public Trust.

The PTSF is a related party of Public Trust by virtue of the appointment of the PTSF's trustees. Public Trust can appoint up to two (out of five) trustees. There are no remunerated transactions between Public Trust and the PTSF. The PTSF is administered by Mercer Human Resource Consulting.

29 Related parties (continued)

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.

A member of the key management personnel has a mortgage with the Group. The balance as at 30 June 2008 was $380,000 and interest paid to the Group up to 30 June 2008 was $14,000.

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.

30 Segment reporting

The Group's primary reporting format is a single business segment as the Group's risks and returns are affected predominantly by the services provided. The Group has one business segment of managing and administering estates and other trusts. These services extend to the related businesses of trustee services, mortgage lending, management of investment funds and the taking of deposits.

The Group's secondary reporting format is a geographical segment. The Group's operations are carried out solely within New Zealand.

31 Comparison of budget to actual

Assets and Liabilities

Liabilities to clients increased by $192.9 million compared with a budgeted increase of $41.9 million, mainly reflecting term deposit growth of $163.4 million compared with a budgeted increase of $40.0 million. Mortgage growth of $80.5 million exceeded budgeted growth by $45.8 million.

Revenue

Revenue exceeded budget as a result of above budget Common Fund interest income, reflecting both above budget volumes and strong performance from interest bearing securities. Excluding interest income, operating revenue was at budget level with above budget returns from Corporate Trustee Services, estates, personal management services, Protection of Personal and Property Rights related activity and mortgage fee income offset by below budget revenue mainly from conveyancing, reflecting the depressed property market.

Expenses

Expenditure significantly exceeded budget as a result of increased personnel costs, mainly salaries expense and leave provisioning.

In July 2007, Public Trust embarked on a change programme to implement a new strategic direction. The programme involves a number of projects to enhance the customer experience, secure competitive position and grow value. The change programme expenditure was within budget.

Impairment losses on advances secured by mortgage

Impairment losses and allowances have been made on a number of advances secured by mortgage in an environment of widespread deterioration in the property market.

Investment losses

Investment losses were not budgeted for and reflect a reduction in the market value of interest bearing securities due to a significant widening of credit spreads. This is in line with market wide experience. Public Trust policy is to hold securities to maturity and therefore, over the remaining life of these securities, the unrealised losses recognised this year are expected to return to profit in future years.

Profit and Equity

The profit, before change programme costs, mortgage impairment losses and investment losses is ahead of both last year and budget. However, the exceptional investment losses and mortgage impairments have resulted in a substantial reduction in equity and a significant adverse variance against budget.

32 Transition to New Zealand Equivalents to International Financial Reporting Standards

The accounting policies required by NZ IFRS have been applied retrospectively and consistently to all years presented in these financial statements and in preparing an opening NZ IFRS statement of financial position at 1 July 2006 subject to the following elections permitted under NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards:*

Business combinations

Business combinations that occurred prior to 1 July 2006 have not been restated in preparing the Group's opening NZ IFRS statement of financial position at that date.

The carrying amount of goodwill in the Group's opening NZ IFRS balance sheet at 1 July 2006 is its carrying amount under previous NZ GAAP at 30 June 2006, after performance of impairment testing required under NZ IFRS, and separation of any assets included within goodwill under previous NZ GAAP that require separate recognition under NZ IFRS.

Financial instruments

Financial assets and financial liabilities qualifying for recognition in the opening NZ IFRS balance sheet at 1 July 2006 and designated as fair value through profit and loss have been so designated at that date.

Investments in subsidiaries

Investment in subsidiary is recognised at deemed cost. Deemed cost is the previous NZ GAAP carrying amount at 1 July 2006.

Explanation of transition to New Zealand Equivalents to International Financial Reporting Standards

In preparing the opening NZ IFRS statement of financial position, the Parent and the Group have adjusted amounts previously reported in their respective financial statements that were prepared in accordance with the previous basis of accounting (previous NZ GAAP).

An explanation of how the transition from previous NZ GAAP to NZ IFRS has affected the Parent's and the Group's respective financial positions and financial performances is set out in the following tables and accompanying notes:

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

32 Transition to New Zealand Equivalents to International Financial Reporting Standards (continued)

Reconciliation of equity under previous NZ GAAP to that under NZ IFRS

		GROUP		PARENT	
	NOTES	1 JULY 2006 $000	30 JUNE 2007 $000	1 JULY 2006 $000	30 JUNE 2007 $000
Total equity under previous NZ GAAP		42,137	45,487	42,137	45,487
Adjustments to retained earnings					
NZ IFRS opening balance sheet adjustments		-	1,537	-	(968)
Collective impairment allowance on mortgages	a	836	65	836	65
Changes in the valuation of investment securities	b	537	(590)	537	(590)
Changes in the valuation of derivative financial instruments	b	(7)	(14)	(7)	(14)
Accrued interest on cash flow hedge accounting interest rate swaps	c	97	(97)	97	(97)
Investment in subsidiary's deemed cost	d	(2,505)	-	(2,505)	-
Reinstatement of goodwill from investment in subsidiary	d	2,505	-	-	-
Goodwill amortisation	d	-	668	-	668
Equity accounted earnings	d	-	-	-	(873)
Sick leave liability	e	(59)	-	(59)	-
Cash flow hedge accounting ineffectiveness	c	-	81	-	81
Tax effect of the above adjustments	f	-	621	-	909
Tax effect of cash flow hedge accounting	c	133	-	133	-
Adjustments to cash flow hedging reserve					
Recognition of interest rate swaps qualifying for cash flow hedges	c	404	2,220	404	2,220
Tax effect of cash flow hedge accounting	c	(133)	(733)	(133)	(733)
TOTAL EQUITY UNDER NZ IFRS		**43,945**	**49,245**	**41,440**	**46,155**

Reconciliation of profit after tax under previous NZ GAAP to that under NZ IFRS

		GROUP	PARENT
	NOTES	30 JUNE 2007 $000	30 JUNE 2007 $000
Profit after tax under previous NZ GAAP		3,350	3,350
Collective impairment allowance on mortgages	a	65	65
Changes in the valuation of investment securities	b	(590)	(590)
Changes in the valuation of derivative financial instruments	b	(14)	(14)
Accrued interest on cash flow hedge accounting interest rate swaps	c	(97)	(97)
Goodwill amortisation	d	668	668
Equity accounted earnings	d	-	(873)
Cash flow hedge accounting ineffectiveness	c	81	81
Tax effect of the above adjustments	f	621	909
PROFIT AFTER TAX UNDER NZ IFRS		**4,084**	**3,499**

32 Transition to New Zealand Equivalents to International Financial Reporting Standards (continued)

a. Impairment allowance in relation to mortgages

The Group's past history of mortgage losses does not support the recognition of a collective impairment allowance under NZ IFRS. The collective impairment allowance of $836,000 provided at 1 July 2006 was eliminated on transition to NZ IFRS.

A collective impairment allowance under previous NZ GAAP of $901,000 was provided during the year ended 30 June 2007. At transition $836,000 was written back against retained earnings. The movement of $65,000 for 2007 was written back against bad debts expense in the statement of financial performance under NZ IFRS.

b. Change in valuation of financial instruments

Under previous NZ GAAP, financial instruments were valued at the mid-market price. Under NZ IFRS, bid prices are used for financial assets at fair value through profit and loss, and offer prices for financial liabilities at fair value through profit and loss. On transition, the increase in valuation between previous NZ GAAP and NZ IFRS was largely due to the elimination of $583,000 applied at 1 July 2006 to reflect the possible loss of value due to the material scale of investment held compared to that quoted in the market. NZ IFRS does not permit the liquidity discounting of a security where the quoted prices are readily and regularly available from a recognised exchange.

At transition, the impact of the change from mid price to bid/offer prices was $53,000 reduction in value. The change in value of financial instruments from mid price to bid/offer prices for the year ended 30 June 2007 was $21,000 decrease.

As a result of transition to NZ IFRS the practice of isolating accrued interest from the instrument to which it relates is no longer permissible. Accordingly, accrued interest has been included in the carrying value of relevant financial instruments.

c. Recognition of interest rate swaps on call liabilities

Interest rate swaps (IRS) hedging the cash flows from liabilities to clients at call have been recognised in the statement of financial position as cash flows hedge accounting. Under previous NZ GAAP, these were not recognised. On transition, an IRS asset of $457,000, accrued interest asset of $97,000, and an IRS liability of $53,000 were recognised. During the year ended 30 June 2007, interest rate swaps positions which qualify for cash flow hedging of $2,220,000 and tax effect of $733,000 were recognised under NZ IFRS, with the effective portion recognised in the cash flow hedging reserve and the ineffective portion of $81,000 recognised in the statement of financial performance.

d. Investment in subsidiary and resultant goodwill

Under NZ IFRS, the investment in subsidiary is accounted for using the cost method. Under previous NZ GAAP, this was accounted for using the equity method.

A transitional exemption has allowed the investment in subsidiary to be carried at the net assets of the subsidiary under previous NZ GAAP of $4,654,000 in the Parent. This resulted in the elimination of goodwill of $2,505,000 in the Parent only.

Equity accounted earnings from the subsidiary of $873,000 was eliminated against the investment in subsidiary under NZ IFRS during the year ended 30 June 2007 in the Parent.

Under NZ IFRS, goodwill is no longer amortised and is subject to a recoverable value impairment calculation. The amortisation of goodwill of $668,000 (in Parent and Group) was eliminated in the 30 June 2007 NZ IFRS statement of financial performance.

Notes to the Financial Statements (continued)

For the year ended 30 June 2008

32 Transition to New Zealand Equivalents to International Financial Reporting Standards (continued)

e. Sick leave liability

Employment contracts for a majority of employees at Public Trust contain a sick leave entitlement which accumulates as the employees' level of service increases. Under previous NZ GAAP, no liability for accumulating sick leave was recognised. NZ IAS 19 *Employee Benefits* requires such an entitlement to be recognised as a liability.

The sick leave liability at transition was assessed at $59,000. This amount represents the liability at transition for future sick leave that will be taken from current or future entitlements.

The liability remained unchanged as at 30 June 2007.

f. Deferred tax

Under NZ IAS 12 *Income Taxes,* deferred tax asset is recognised for all deductible temporary difference to the extent that future probable taxable profits will be available against which the deductible temporary difference can be utilised.

At 30 June 2007, the estimated expected future profits did not justify recognising any deferred tax asset.

There are no material adjustments to the statement of cash flows presented under previous NZ GAAP for the year ended 30 June 2007 to that of the same year under NZ IFRS.

33 Post balance date events

In the period since balance date the capital markets in which Public Trust trades have been affected by adverse developments in overseas markets, particularly those in the United States of America. These events have caused changes in the price elements underlying the market values of the securities held in Public Trust's investment portfolios. In addition, further impairment of one advance secured by mortgage has been identified.

The effect of these market changes on the portfolio of investment securities, related derivatives and the additional impairment at 30 September 2008 was an unrealised loss of $2.4 million for the three months ended on that date.

Subsequent to balance date, the Board has received approval from the Government for additional capital of $20 million on acceptance of certain conditions relating to operating and financing policy.

Statement of Service Performance

For the year ended 30 June 2008

Non-commercial activities

The principal functions of Public Trust are to carry out the duties prescribed in the Public Trust Act 2001. Public Trust and the Responsible Minister (with the agreement of the Minister of Finance) have entered into an output agreement in respect of the 2007/08 financial year. Under that agreement certain non-commercial services 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 non-commercial services provided by Public Trust under the output agreement are classified as Provision of Protective Fiduciary Services, and defined as follows:

- advice on Wills and the preparation of Wills
- non-commercial services with respect to the protection of personal property rights
- advice on behalf of incapacitated persons for the protection of personal property rights
- non-commercial services for the administration of small and/or complex estates and trusts
- other non-commercial public functions.

Performance criteria are contained in the output agreement. The description of each output and the key performance measures for the year to 30 June 2008 are set out below: Quality and timeliness measures stated in the Statement of Intent refer to general performance criteria only (i.e. that services will comply with legislation, regulatory and industry standards). These are supported by more specific measures for each output in the Memorandum of Understanding, and these measures are reported on below.

Output Class: Provision of protective fiduciary services

Output 1: Wills advice and preparation

Description

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

Performance Criteria

Quantity	
PERFORMANCE MEASURE	ACHIEVEMENT
7,000 new and 14,000 revised Wills made appointing Public Trust as executor.	Achieved 24,971 Wills (8,675 new and 16,296 revised) written

Quality and timeliness	
PERFORMANCE MEASURE	ACHIEVEMENT
Standards are set through the computerised Wills Expert System (WES) and documented in Wills making “best practice”. These will be reviewed once per year and on any changes to legislation.	Achieved
Internal legal audit of 25 Wills per month will be undertaken with an error rate of no more than one requiring re-writing.	Achieved
Public Trust’s bench mark is to obtain an overall customer satisfaction rating of 8.0 on a scale of 1 to 10 where 1 is completely unsatisfactory and 10 is perfect.	Achieved 8.2
95% of Wills will be available for signing within seven days of taking instructions.	Not Achieved 93.7% of Wills were available for signing within seven days of taking instructions

Statement of Service Performance (continued)

For the year ended 30 June 2008

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

Description

Administration, audit and advice services to incapacitated persons pursuant to the Protection of Personal and Property Rights Act 1988 under orders or elections, or under Public Trust Agencies, where charges to the recipient will not meet the costs of the service.

Performance Criteria

Quantity

PERFORMANCE MEASURE	ACHIEVEMENT
6,500 actions and 7,000 hours spent providing service under the Protection of Personal and Property Rights Act.	Achieved 6,865 actions and 7,922 hours

Quality and timeliness

PERFORMANCE MEASURE	ACHIEVEMENT
Administration of financial affairs: 95% reappointment as manager following review of management by Family Court.	Achieved
Administration of financial affairs: no complaints from relatives and caregivers, relating to individual interests of the beneficiaries.	Achieved
Examination of Private Manager Statements: no complaints received of late filing of Private Manager Statements to Courts.	Achieved

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

Description

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

Performance Criteria

Quantity

PERFORMANCE MEASURE	ACHIEVEMENT
1,000 hours spent providing services on behalf of incapacitated persons.	Achieved 1,043 hours

Quality and timeliness

PERFORMANCE MEASURE	ACHIEVEMENT
All enquiries will be acknowledged within five days of receipt. Urgent cases will be responded to within one working day.	Achieved
95% of complex cases will be actioned within five working days.	Achieved
Complaints from customers will be less than 1% of cases dealt with.	Achieved No complaints received

Statement of Service Performance (continued)

For the year ended 30 June 2008

Output 4: Small estates and trusts

Description

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.

Performance Criteria

Quantity

PERFORMANCE MEASURE	ACHIEVEMENT
10,519 hours spent administering small and/or complex estates and trusts. 493 hours spent providing advice on small and/or complex estates and trusts. 1,100 tax returns.	Not Achieved The number of hours spent was 6,300 on administrating small and/or complex estates. 703 hours spent on advice, 319 hours on manual tax returns (1,294 individual returns) and 659 automated tax returns-totalling 1,953 tax returns

Quality and timeliness

PERFORMANCE MEASURE	ACHIEVEMENT
90% compliance with Public Trust processes, Best Practice standards and Output Agreement Charging Policies – to be assessed by a review process of a random sample of three contract files per Customer Services Officer per quarter.	Achieved
All enquiries will be acknowledged within five days of receipt.	Achieved
Urgent cases will be responded to within one working day.	Achieved
95% of complex cases will be actioned within five working days.	Achieved
Public Trust's benchmark is to obtain an overall customer satisfaction rating of 8.0 on a scale of 1 to 10 where 1 is completely unsatisfactory and 10 is perfect.	Achieved with a satisfaction rating of 8.1

Output 5: Administration of assets and other public functions

Description

Representation, audit, review, administration of the assets of missing, unknown or incapable owners arising from Parts 7 & 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.

Performance Criteria

Quantity

PERFORMANCE MEASURE	ACHIEVEMENT
10 hours spent providing services involving public functions in relation to assets and rights of missing, unknown or incapable owners.	Achieved 19 hours spent

Quality and timeliness

PERFORMANCE MEASURE	ACHIEVEMENT
98% compliance with agreed mandatory aspects of estate administration as shown by internal audit review.	Not achieved (one contract from 13 rejected)

Statement of Service Performance (continued)

For the year ended 30 June 2008

Outputs 1-5: Location and accessibility

PERFORMANCE MEASURE	ACHIEVEMENT
Staff will be available nationally during normal business hours.	Achieved
Website will be available 24 hours per day with no more than 0.5% downtime.	Achieved
0800 phone lines available during standard office hours.	Achieved

Outputs 1-5: Appropriation (GST exclusive)

BUDGET	ACHIEVEMENT
Total appropriation $4,500,000.	Cost to the Crown $4,500,000
Expenses incurred (includes direct and allocated overhead costs) $9,364,000.	$10,213,000

Good Employer Report

For the year ended 30 June 2008

During 2007/2008 Public Trust worked to improve the outcomes relating to the fair and proper treatment of all employees. These included requirements relating to…

- provision of good and safe working conditions
- equal employment opportunities
- impartial and transparent recruitment and selection practices
- recognition of the aims, employment requirements and involvement of Maori
- opportunities for the enhancement of individual employees' abilities
- recognition of the aims, employment requirements and involvement of ethnic or minority groups
- the employment requirements of persons with disabilities.

The areas of focus are divided across seven major areas.

People and culture

During the 2007/2008 year Public Trust transitioned from a staff satisfaction measure to an employee engagement measure. This was a significant shift and reflected a move to a best practice approach. Public Trust achieved an overall engagement score of 48% (the higher the score the better) which compares very favourably with the international sample benchmark of 40%.

The level of engagement reflects employees engagement in their overall commitment to the business, the value they place on what Public Trust does as an organisation, an appreciation that change is necessary for Public Trust to continue to achieve, knowing what we need to do to help our customers and an understanding of what must be done to produce high quality work.

During the year we continued to work with the Public Service Association on initiatives that could or did affect staff.

Recruitment, selection and induction

We continue to use a range of recruitment activities to encourage a broad range of applicants while ensuring we maintain minimum skill and capability requirements for roles.

We filled 126 positions in the 2007/2008 year with 53 of these being internal movements.

Using structured recruitment and selection practices we continue to ensure that appointments meet our policy requirements and are on the basis of merit and not influenced by irrelevant considerations.

Appropriate induction of employees continued this year with every new employee undertaking both a full day induction course and a self paced induction pack. Eighty staff participated in orientation during the year.

We have retained our membership of the Equal Employment Opportunities (EEO) Trust and continue to use the EEO Employers Group branding for all external advertisements we place. In addition, every job description contains our EEO statement of intent.

Employee development, promotion and exit

The average expenditure on employee development, covering both internal and external courses and conferences, was $1,237 per employee including travel and accommodation. This included…

- 80 people undertaking orientation
- 552 people undertaking internal courses
- 156 people participating in external courses
- 44 employees who undertook formal tertiary study through a range of institutions.

Note: Staff could attend more than one course or type of course in a year so some double counting occurs.

In addition to these specific development initiatives, opportunities also existed for employees to…

- participate in internal secondments
- act up in higher and/or different roles
- become involved in specific projects.

We have also strengthened our focus on exit interviews as a mechanism to gather relevant data, in sufficient volumes, to inform us what leads employees to a decision to leave Public Trust. Improvements in practices resulting from these interviews will become more visible in 2008/2009.

Flexibility and work design

We have continued to support flexible work hours and practices while balancing the business, health and safety requirements with the personal requests. We have 50 employees who access flexible practices – being either reduced hours, compressed or reduced weeks or a proportion of hours from home.

The requirement for flexible work practices generally relates to women with young families who balance care requirements with work requirements.

Remuneration, recognition and conditions

For the 2007/2008 year Public Trust continues to apply a remuneration system which ensures the consistent application of remuneration changes across all employees. This is backed up by a transparent, consistent and gender neutral performance assessment system.

Alongside our performance system we have procedures to reward and recognise employees for additional contributions they make. These fall into several major categories…

- high achiever incentives
- allowances
- "Our stars" programme (a bi-monthly contestable award recognising service over and above that which would normally be expected).

All new staff are automatically enrolled in the KiwiSaver superannuation scheme as per statutory requirements. Our own Public Trust superannuation scheme continues to be well supported.

Harassment and bullying prevention

We continue to have a policy of zero tolerance to bullying and harassment.

Safe and healthy environment

During 2006/2007 an objective was set to obtain a tertiary level of accreditation under ACC's Workplace Safety Management Practices programme by 30 June 2009. An objective of primary accreditation by 30 June 2008 was also set. During 2007/2008 we established...

- a complete review and update of our health and safety policies and forms
- training for staff and managers
- Health, Safety and Wellness (HS & W) committees comprising a steering group supported by regional and local champions and delegates
- an employee participation scheme
- accredited training for HS & W representatives
- initial review of all premises and physical safety requirements.

This resulted in Public Trust achieving a secondary level of accreditation, well in front of our projected timetable and planned level of primary accreditation.

Ernst & Young Chartered Accountants

Audit Report

To the readers of Public Trust and Group's Financial Statements and Statement of Service Performance

For the year ended 30 June 2008

The Auditor-General is the auditor of Public Trust (Public Trust) and Group. The Auditor-General has appointed me, S R L O'Connor, using the staff and resources of Ernst & Young, to carry out the audit on his behalf. The audit covers the financial statements and statement of service performance included in the annual report of Public Trust and Group for the year ended 30 June 2008.

Unqualified opinion

In our opinion:

- The financial statements of Public Trust and Group on pages 16 to 81:
  - comply with generally accepted accounting practice in New Zealand; and
  - fairly reflect:
    - Public Trust and Group's financial position as at 30 June 2008; and
    - the results of operations and cash flows for the year ended on that date.
- The statement of service performance of Public Trust and Group on pages 14 and 82 to 85:
  - complies with generally accepted accounting practice in New Zealand; and
  - fairly reflects for each class of outputs:
    - standards of delivery performance achieved, as compared with the forecast standards outlined in the statement of forecast service performance adopted at the start of the financial year; and
    - actual revenue earned and output expenses incurred, as compared with the forecast revenues and output expenses outlined in the statement of forecast service performance adopted at the start of the financial year.

The audit was completed on 15 October 2008, and 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 and the Auditor, and explain our independence.

Basis of opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements and statement of service performance did not have material misstatements, whether caused by fraud or error.

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

The audit involved performing procedures to test the information presented in the financial statements and statement of service performance. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Board;

Chartered Accountants

- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement and statement of service performance disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and statement of service performance.

We evaluated the overall adequacy of the presentation of information in the financial statements and statement of service performance. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Board and the Auditor

The Board is responsible for preparing the financial statements and statement of service performance in accordance with generally accepted accounting practice in New Zealand. The financial statements must fairly reflect the financial position of Public Trust and Group as at 30 June 2008 and the results of operations and cash flows for the year ended on that date. The statement of service performance must fairly reflect, for each class of outputs, Public Trust and Group's standards of delivery, performance achieved and revenue earned and expenses incurred, as compared with the forecast standards, revenue and expenses adopted at the start of the financial year. The Board's responsibilities arise from the Crown Entities Act 2004 and Public Trust Act 2001.

We are responsible for expressing an independent opinion on the financial statements and statement of service performance and reporting that opinion to you. This 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 Institute of Chartered Accountants of New Zealand.

In addition to the audit of Public Trust and Group, we have carried out the audit assignments of the Public Trust Investment Funds and Group Investment Funds, a review of the Public Trust Investment Funds prospectus and provided assurance services in relation to Public Trust's transition to New Zealand Equivalents to International Financial Reporting Standards, which are compatible with those independence requirements. Other than the audit and these assignments, we have no relationship or interest in Public Trust.

S R L O'Connor
Ernst & Young

On behalf of the Auditor-General
Wellington, New Zealand

YOUR WORD IS LAW publicTRUST

www.publictrust.co.nz