YOUR WORD IS LAW publicTRUST

ANNUAL REPORT OF PUBLIC TRUST
FOR THE YEAR ENDED 30 JUNE 2009

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 2009.

Registered Office

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

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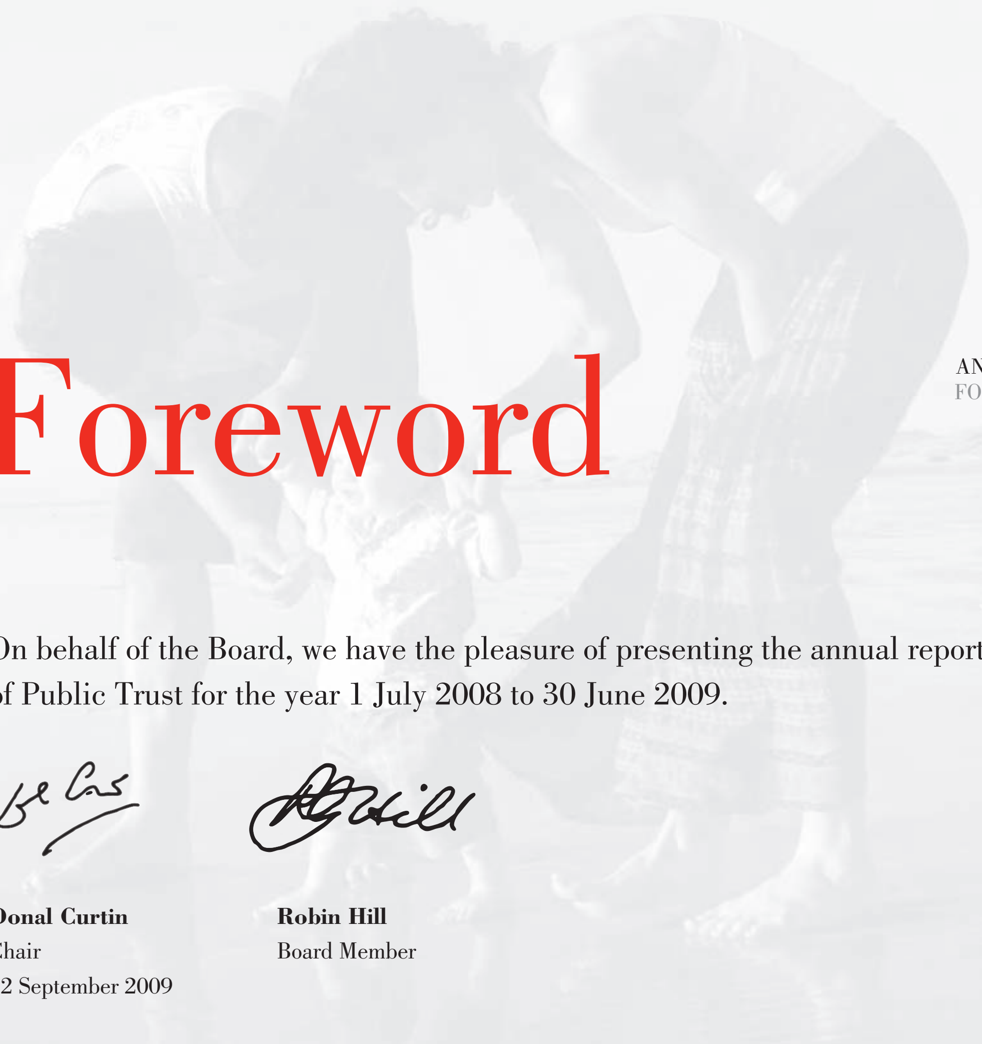

Foreword

On behalf of the Board, we have the pleasure of presenting the annual report of Public Trust for the year 1 July 2008 to 30 June 2009.

Donal Curtin
Chair
22 September 2009

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 492 staff operating from 30 customer centres and a number of part-time offices looking after the interests of 268,000 New Zealanders.

We provide services to three core customer markets that have far-reaching benefits for New Zealanders:

Personal

- Public Trust's advisors and lawyers help more New Zealanders write their Wills every year than anyone else. We're responsible for writing more than 24,000 Wills annually.
- Public Trust looks after more estates than any other organisation – around 6,000 each year.
- We manage around 4,000 family trusts.
- Our total mortgage lending, including commercial lending, is in excess of $290 million.
- Public Trust administers or manages approximately $4.1 billion in assets, including around $1.4 billion in investment funds.
- We manage the financial matters of more than 2,100 customers as their attorney, including 700 people who are incapacitated and unable to manage their own affairs.

Business

- We manage over 450 charitable trusts, comprising around $350 million in assets between them. These charitable trusts generate funding for interests as diverse as science, medicine, disability and agriculture. The funding totalled $12.8 million this year.
- Twenty nine New Zealand farms covering 19,600 hectares are actively managed by Public Trust. One of these farms is Smedley Station – New Zealand's largest training farm.
- Over 340 private training establishments now use Public Trust's "Fee Protect" service. Since its launch, Fee Protect has safeguarded almost $1 billion of fees for more than 200,000 students.

Corporate

- Corporate Trustee Services is a division of Public Trust serving the corporate and business market. It has approximately $24 billion under supervision on behalf of investors, up 35% from the previous year.
- 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 $47.5 million loss.

The result was affected by significant mortgage impairments – $14.7 million and predominantly unrealised mark-to-market investment losses on interest bearing and mortgage backed securities – $29.2 million.

More than half of the total unrealised losses over the last two years are expected to reverse to profit by their maturity date.

Underlying operating performance was below budget because of reduced interest margin in the Common Fund.

Underlying operating performance continued to improve. There was strong business growth for the year in key areas:

- Family Trust revenue was up 9%
- Personal Trusts revenue was up 10%
- Personal Assist (managing the financial matters of customers) revenue was up 10%
- Strong Common Fund deposit growth of 11%
- Fee Protect funds under management continue to grow, up 22%
- Corporate funds under supervision increased 35%.

People and change

- Employee engagement survey rating of 55% is well above the industry benchmark.
- Our transformation programme continues to progress well, with significant employee support.
- We have achieved tertiary accreditation for Health & Safety, under the ACC Workplace Safety Management Practices Programme.

Customers

- More New Zealanders are choosing to have their Wills with Public Trust – new Wills increased by 9%.
- Customer satisfaction rating continues to be high at 8.2 out of 10.

Chair's Report

This has, without doubt, been a year of mixed results. Whilst it was encouraging to see core fee-earning revenue continue to improve, Public Trust's overall financial performance continued to be impacted by weak financial and property markets and by the need to continue investing in transforming the business. The performances of these markets generated further mortgage provisions as well as mark-to-market Common Fund investment losses on interest bearing and mortgage backed securities. These were significant.

The 2008/09 loss after tax of $47.5 million is $52.0 million below budget, due largely to Common Fund investment losses of $29.2 million against a budgeted profit of $5.1 million and mortgage provisions of $14.7 million. The operating surplus before change costs of $2.7 million is also below the budgeted surplus of $5.9 million largely because of a Common Fund revenue negative variance of $2.7 million.

As we've commented in previous reports, a fundamental performance transformation is being undertaken to ensure the long-term viability of Public Trust. In light of the economic environment and financial performance the Board is placing increased focus on achieving all important short-term gains whilst encouraging the wider organisational changes required to return Public Trust to a sustainable financial position.

Financial performance

Public Trust recorded a loss of $32.1 million in 2007/08 and had anticipated a profit of $4.5 million this year. The anticipated profit was on the basis of Common Fund unrealised investment losses reversing, and the continuing transformation to a customer-centric organisation. Like other organisations with investment portfolios though, the performance of our investments was affected by the global credit crunch and by tightening financial markets. These generated results that were worse than we had anticipated.

Public Trust's Common Fund includes investments in mortgages and interest bearing and mortgage backed securities. These investments have historically provided stable returns, backed by the material reassurance of property and sound credit ratings, enabling us to lock in what at the time seemed good yet responsible rates of return.

As we all know, however, dramatic shifts in the market returns and property values over the last two years have significantly impacted that scenario.

Although we expect to hold our investments to maturity, under international accounting standards we report changes in market value in the financial statements. That means in effect that we must continually disclose the impacts generated by revaluation of those interest bearing and mortgage backed securities over the past two years.

It is important to recognise the $50.8 million of interest bearing and mortgage backed securities losses over the last two years ($21.6 million in 2007/08 and $29.2 million in 2008/09) are predominately unrealised. In other words, they are almost all "paper" adjustments at this stage, based on mark-to-market revaluation.

We expect more than half of the total unrealised losses to reverse to profit. Most of the unrealised losses on interest bearing securities will reverse to profit by their maturity date, however, reversal of the remaining losses on particular mortgage backed securities is less certain and will depend on the future performance of the underlying assets.

In response to the deteriorating position, the Crown confirmed that it has provided additional capital of $30 million in August 2009. This follows an injection of $20 million by the Crown in November 2008. The commitment of additional capital is not only a prudent measure to safeguard the credibility of Public Trust, it also supports the delivery of changes to the business and provides a level of contingency for continuing uncertainties in financial markets. This support is seen as a very positive move for Public Trust, reflecting the Crown's recognition of the importance of Public Trust's role today and the potential to generate additional value in the future. We gratefully acknowledge the Crown's support in strengthening our balance sheet through these present difficulties, especially given the pressures on the Crown balance sheet.

The Board also wishes to assure investors the Crown guarantee that applies to our customers' deposits held in the Common Fund continues to apply. The guarantee on capital is provided under the Public Trust Act 2001 and is not time-limited. The guarantee on interest is provided under the Public Finance Act and is effective until 12 October 2010.

Strategic direction

This year the Board has continued to oversee the ongoing reshaping of the organisation, as the business has sought to deepen the relationships it has with its customers by moving from single products to more tailored customer solutions. We regard the strategy itself as sound, with the changes we have made centred on adjusting the business's risk appetite.

We will focus considerable energies on ways to enhance short-term contributions from the business and corporate segments and transforming the personal segment through deeper relationships and a greater emphasis on cross-sales. We are confident these changes will yield strong gains in fee earning revenues. This will alter the fundamental balance of our revenue streams markedly over coming years, as we look to increase revenues from trustee services and place less dependence on investment services. The resulting shift in revenue mix is a key component of our business plan. Based on this plan, the Board is confident we can return to profitability by 2010/11.

We also expect actions being taken to manage costs to impact positively on our operating expenses. Having said that, it's very important that we strike a balance between investing for future value, and responsibly managing day-to-day operational costs.

Both the Board and management share the Crown's concern with the overall financial performance of Public Trust and together we are committed to taking the necessary steps to ensure the current position does not arise again. Fundamental transformation must continue, but as I stated earlier, the Board has directed that actions be taken to achieve short-term results without losing sight of the wider programme. To this end, the Board has engaged with the Crown and agreed to make changes to its strategy in order to reduce investment risk in the Common Fund and boost the profitability of its core trustee services. In particular, the Board and management acknowledge that there is a need to significantly lift people capability and to achieve cultural change in order for Public Trust to become customer-centric and financially sustainable. This in itself requires an important investment.

Core strategies remain unchanged, however, the Board has moved to lower the risk profile of the Common Fund. Specifically, we have changed, or are changing, investment and lending policies and practices. We are no longer accepting Common Fund deposits from customers who do not have a trustee services relationship with us, and are ensuring deposit rates fully reflect the value of the Crown guarantee.

The Board also recognises that there are underlying issues with the quality of some loans in the mortgage portfolio. For that reason, a number of changes to lending policies and practices have been implemented to reduce future risk. These include tightening our lending criteria, reviewing assessment practices and delegated authorities, and a review of our mortgage strategy. Implementation of these initiatives will reshape the mortgage portfolio so that it is focused on residential customers with whom Public Trust has an existing or pending trustee relationship.

While we are focused on minimising ongoing impacts, a risk of future mortgage provisions remains, and further revaluation losses, particularly on mortgage backed securities, are possible depending on market conditions.

Non-commercial services

For many years, Public Trust has proudly provided non-commercial protective fiduciary services to the Ministry of Justice. These services have included the provision of free Wills, and the administration of small estates, trusts, and Personal Property Protection Rights. As a Crown entity, we recognise and value the importance of the relationship and the services we provide on behalf of the Crown.

That said, if we are to operate as an effective business, it is important that the policy basis for Crown purchase of these non-commercial services remains relevant. We have agreed to review the range of services we provide and their alignment with Government policy objectives.

Changes to the Board

It is my great pleasure on behalf of the Board to welcome two Board members with significant experience – Trevor Janes and Rodger Finlay. Trevor and Rodger take the places of Hon. Matthew Robson and David Edwards whose terms expired on April 30 and who consequently have retired. I would like to sincerely thank Matthew and David for their invaluable contributions and the energy and commitment both brought to the Board.

Thanks

While the pressures of a very demanding year have most certainly been felt at Board level, we cannot and should not underestimate the impact on the Public Trust team. Under what have been at times extremely difficult circumstances, the Public Trust team has worked hard to instigate important and sweeping change. On behalf of the Board, our thanks to Grenville Gaskell, the executive team and all employees for their continuing efforts to transform Public Trust. Finally, my thanks to our Ministers and officials for their belief in Public Trust and what it stands for.

Outlook

Ongoing volatility in both the property and financial markets means we end the year with a higher than usual degree of uncertainty around forecasting financial performance. As I said earlier, the Board is deeply concerned about the result and, alongside the Crown's desire that we lower the investment risk profile of the Common Fund, we are working proactively with the executive team to turn the situation around. We remain confident, based on current plans, that the change in the revenue mix, coupled with the organisational and cultural transformation programme, will enable Public Trust to secure a bright future.

Donal Curtin
Chair

Chief Executive's Report

It has been a most demanding year as Public Trust has faced Common Fund investment performance issues whilst at the same time undertaking a major change programme in a recessionary environment. As I've previously reported, this organisation had little option but to increase its resilience and the most viable ways to do that are to continue to change how we work, improve the customer experience and find new ways of meeting the expectations of the Crown.

This year's result has increased the urgency for short-term initiatives that contain costs and improve revenue. At the same time, it's essential we build organisational capability and develop a commercial culture that positively supports ongoing change.

Current performance

The identified risk of our historical dependence on Common Fund performance has eventuated. Prior to the last two years, Public Trust achieved good overall revenue growth, principally driven by the achievement of increased Common Fund interest margin and investment gains. This is evidenced by diverging performances historically in core fee earnings (growth of 2% to 8% p.a.) versus Common Fund net interest income (growth at up to 13% p.a.). This worked to Public Trust's advantage while markets were positive, but the past two years has seen a reversal of these trends, with fee earning revenue up 5% and Common Fund net interest income declining by 6%.

The services tailored to our relatively small corporate and business customer segments have provided a strong contribution, whereas those intended to meet needs of the considerably larger personal segment have been provided at a significant loss.

This year's combination of substantial losses on our Common Fund investments including adverse conditions in the property and financial markets mean we can have no future expectation that Common Fund investment performance will support overall business viability to the extent it has in the past. The level of pressure in interest margins has accelerated faster than anticipated, in part due to the introduction of the Crown Retail Deposit Guarantee scheme and intense competition.

We have recognised the need to achieve a significant change in our revenue mix, reducing our dependence on Common Fund performance and achieving a continued increase in core fee-earning revenue. This represents a significant change not only in the way we do our business but in the whole way we think about what we do.

As the Chair has reported, we need to move quickly and decisively to ensure long-term sustainability. A refinement of the strategic direction will see us increase revenues by focussing on core trustee services and minimise Common Fund investment risk by changing our investment and lending policies.

To that end, it was pleasing to see our core fee-earning revenue continue to improve by 5% in the 2008/09 year. This is an important lift in performance, given how fee revenues have performed historically, especially considering the economic climate. It is significant for the organisation because it is precisely these sorts of changes that signal the implementation of our strategy is working, particularly in light of the decision to reduce the risk profile in the Common Fund. The fee-earning revenue increase demonstrates initial success in refocusing our energies, and in the changes begun last year.

At an operational level, we have undertaken a number of actions this year to improve short-term performance in terms of both revenue gains and managing costs, whilst continuing to prudently invest in the business. These have included reviewing revenue growth opportunities by moving our fees closer to market levels, a remuneration freeze, changing the service delivery model in five customer centres and the deferral of several high investment initiatives within the change programme.

At the same time, we continue to tightly manage expenses including employee costs by reducing permanent roles and contract resources, despite some initial restructuring costs. In addition, we expect to see productivity gains from improving processes and further developing people capabilities.

Improving the customer experience

In 2007, we began a major organisational change programme to address a number of fundamental issues to create an effective business and ensure future viability. These issues included an underperforming personal trustee business that was losing market share, costs that were rising faster than revenues and an over-reliance on Common Fund interest margin and Common Fund investment gains to produce a small annual profit.

The five year programme that we embarked on was, and still is, focused on Public Trust becoming a more customer-centric organisation. Improving the experience our customers have when they do business with us will help us build stronger relationships. Those strengthened relationships, coupled with operational efficiency, are the road map for how we will achieve the level of performance required to become a sustainable business.

In order to build stronger relationships, truly understanding and meeting the changing needs of our customers is very important. We're addressing our short-term customer service requirements as quickly as we can through our transformation programme. Longer term though, New Zealand's demographic profile is expected to change dramatically over the next 50 years, with an older population, significant population growth in Auckland and greater ethnic diversity. If we are to effectively meet the changing needs of New Zealanders, it is important we continue to respond to these trends.

We are actively monitoring how New Zealanders feel about doing business with us. Encouragingly, customer satisfaction continues to track above target. Our headline score of 8.2 out of 10 is consistently achieved and remains above target.

One of our important measures reflects the willingness of our customers to recommend Public Trust, it is known as a Net Promoter Score. Our score of 36 is very high by most business benchmarks and, again, above target. What that tells us is that we are engaging well with the people who come to us, that our customers are strong advocates for our brand and that we are trusted by the people who do business with us.

Our PT*ON* Change Programme has been modified as we have responded appropriately to increases in our Common Fund investment losses and as the need for short-term performance improvement has become more urgent. We continue to be encouraged by the progress being made across a range of programme and project areas, with a healthy number of milestones reached and verified by independent assurance reviews.

Key deliverables have included:

- Strengthening of local leadership, including the establishment of Customer Centre Manager roles
- Review of our customer centre distribution model
- Alignment of pricing to market levels
- Increased capabilities in process management and design, and the delivery of initial re-engineering benefits
- Product refinement, particularly for Term Life Insurance and Enduring Powers of Attorney
- Completion of brand design work, an internal launch and initial implementation
- Further development of our broader leadership team, through the leadership development programme
- Achieving tertiary status for Health & Safety, under the ACC Workplace Safety Management Practices Programme.

Changing how people engage with us

Continuing to build sustained and profitable relationships with customers has required us to look carefully at our brand. In particular, we need to change how people think of Public Trust and when, and how often, they do business with us. Many people have intermittent contact with Public Trust, they deal with us over one or two matters over the course of their lifetime, and those transactions can literally be decades apart. To encourage customers to engage with us more frequently we need to ensure that we are relevant to them in terms of what we offer and attractive to them at key moments in their lives.

We've recognised that our brand revolves around a single organising idea – grow the trust. Trust is what sets this organisation apart from our competition and it is what will earn us customer loyalty and therefore grow our business.

Last year, we refreshed our values to realign our organisational culture priorities. Over coming months, we will look to better position our brand to ensure that Public Trust is as relevant and valuable for New Zealanders as possible. Public Trust is justifiably proud of its history and the contributions that it has made, and continues to make, however no business can rely on history alone to continue to operate.

Our people

The strengths and determination of Public Trust people provide a real sense of faith that we will succeed. Our people have embraced the need for change. This is confirmed by our annual employee survey which shows our people retain a high level of engagement. In fact, the overall engagement level of 55% compares very favourably with a global benchmark of 34% and a national benchmark of 42%. This is a very encouraging result given the challenging transformation programme that is underway.

There have also been changes at management level. It has been my pleasure to welcome a number of new appointments to the executive team, each of whose individual strengths add to our collective capabilities. Grant Brenton, an experienced manager within the trustee industry, joined the organisation in October as General Manager Marketing. Other additions were Dennis Church, General Manager Corporate Trustee Services and David Conning, General Manager Human Resources. Meanwhile, Ann Brennan, our General Counsel Corporate has taken a year's leave of absence. Sue Brown, a partner at DLA Phillips Fox, is filling the role in Ann's absence.

Regulatory changes

The regulatory environment in which we do business continues to materially change. Future developments will impact on how we work and engage with our customers through greater complexity and specialisation. Relevant pieces of legislation include the Non Bank Deposit Taker Regime, Financial Adviser and Service Provider Acts and Anti Money Laundering Act.

We welcome changes to the regulations surrounding the provision of financial advice because we anticipate that they will bolster the quality of financial advice that New Zealanders can expect to receive.

Some matters are yet to be finalised. For example, the regulatory regime for Non Bank Deposit Takers is defined in such a way that it includes Public Trust. The regulations include draft capital adequacy requirements that will be implemented over the next two years. We're currently consulting with the Reserve Bank over how these requirements will impact on us.

Thanks

I want to thank and recognise those who work at Public Trust for their hard work and continuing motivation in what have been challenging times for all of us. This includes my executive team who have been responsible for overseeing and continuing to direct the roll-out of our transformation programme. The executive has worked closely with the Board to see us through a most difficult and challenging time and I want to thank Chair Donal Curtin and each member of the Board for their guidance and the benefit of their many years of experience.

Outlook

There is no doubt in any of our minds that, in order to meet our performance expectations, we need to continue to change in what is a very challenging economic environment.

Over the next year, you'll see us continue to:

- Improve our market and customer segmentation to ensure we target the highest value customer opportunities;
- Reduce the Common Fund investment risk profile, while providing enhanced investment services through tailored investment solutions;
- Enhance our people capability, values and cultural alignment in order to deliver a superior customer experience;
- Re-engineer our processes end-to-end to improve operational effectiveness and efficiency and deliver substantial gains in annual productivity; and
- Focus on our response to the key changes in the regulatory environment that impact on Public Trust.

This year, whilst acknowledging our poor financial result, we have made solid progress, but there remains much work to do. We are confident that over the next year we can make significant further gains but recognise that the organisation still faces many challenges.

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, 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 (to 30 April 2009)
Sarah Roberts (from 18 June 2009)
Trevor Janes (from 18 June 2009)

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)
Candis Craven
Rodger Finlay (from 18 June 2009)

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 (to 30 April 2009)
Rodger Finlay (from 18 June 2009)

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 16.

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 84.

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 88.

Financial Statements

Report on the Statement of Intent

For the year ended 30 June 2009

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

	ACTUAL 2007/08	ACTUAL 2008/09	TARGET[1] 2008/09	TARGET[2] 2009/10
Ownership Perspective				
Profit (Loss) Post-Tax ($'000)[3]	(32,148)	(47,451)	4,521	(2,400)
Cost/Revenue[4]	117.1%	128.8%	100.9%	103.7%
Return on equity[5]	(99.7%)	n/a	14.3%	n/a
Distributions to Crown	Nil	Nil	Nil	Nil
Capability Perspective				
Staff satisfaction[6]	2.84	-	-	-
Employee engagement[7]	48%	55%	45%	56%
Customer and Market Perspective				
Customer satisfaction[8]				
– Wills	8.2	8.4	8.0	8.0
– Estates	8.1	8.1	8.0	8.0
Market shares[9]				
– Wills	12.0%	12.0%	n/a	13.0%
– Estates (probates)	13.5%	14.0%	n/a	14.2%

1 Source: 2009/11 Statement of Intent.
2 Source: 2010/12 Statement of Intent.
3 Not a measure until 2008/09 but 2007/08 has been disclosed for comparability with the 2008/09 actual and target.
4 Percentage of total whole-of-year operating expenditure to total whole-of-year revenues (excluding investment losses).
5 Return on equity not calculated for 2008/09 due to the loss and negative average equity. Return on equity not calculated for 2009/10 due to forecast negative equity at 2008/09. Return on equity is profit (loss) post tax divided by the average opening and closing equity. Profit (loss) does not include cash flow hedging reserve.
6 Independent survey of staff satisfaction. (Range: 1 = excellent; 6 = poor). No longer a measure from June 2007/08.
7 Independent survey of employee engagement (Australasian benchmark = 40%). 2008/09 target reduction from 2007/08 result reflects the expected impact of the PT*ON* Change Programme. Not a measure until 2008/09 but 2007/08 has been disclosed for comparability with 2008/09 actual and target.
8 Independently conducted survey of customer satisfaction. (Range: 1 = poor; 10 = excellent).
9 Independently conducted survey of market share. Not a target measure until 2009/10 but was disclosed in the 2010/12 Statement of Intent.

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 2007 $M	ACTUAL 2008 $M	ACTUAL 2009 $M
Fiduciary Assets			
Funds under management			
Common Fund	785	978	1,086
Managed Funds	455	400	354
Assets under management	2,000	2,262	2,614
Funds under supervision	14,805	18,097	24,370

Statement of Responsibility

For the year ended 30 June 2009

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 2009 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

22 September 2009

Statement of Financial Position

As at 30 June 2009

	NOTES	GROUP ACTUAL 2009 $000	GROUP BUDGET 2009 $000	GROUP ACTUAL 2008 $000	PARENT ACTUAL 2009 $000	PARENT ACTUAL 2008 $000
Assets						
Cash and cash equivalents	1	14,538	23,000	30,600	14,521	30,576
Investment securities	2	762,733	646,156	649,769	762,733	649,769
Derivative financial instruments	3	3,682	8,000	1,990	3,682	1,990
Advances to clients		6,267	7,000	5,811	6,267	5,811
Trade receivables	4	4,445	12,000	4,120	3,881	3,553
Due from subsidiary	29	-	-	-	-	1,695
Advances secured by mortgage	5	292,322	365,400	317,124	292,322	317,124
TOTAL FINANCIAL ASSETS		1,083,987	1,061,556	1,009,414	1,083,406	1,010,518
Sundry receivables	6	168	50	175	168	175
Prepayments		477	1,000	944	477	944
Property, plant & equipment	7	7,652	11,314	7,577	7,652	7,577
Intangibles	8	3,141	2,550	2,966	636	461
Investments in subsidiaries	9	-	-	-	4,654	4,654
Current tax	10	670	-	846	670	846
Deferred tax asset	11	-	-	-	-	-
TOTAL ASSETS		**1,096,095**	**1,076,470**	**1,021,922**	**1,097,663**	**1,025,175**
Liabilities						
Liabilities to clients – at call or short-term		479,792	412,490	431,718	479,792	431,718
Liabilities to clients – term deposits	12	604,963	600,667	545,195	604,963	545,195
Prepaid estate administration	13	774	750	762	774	762
TOTAL LIABILITIES TO CLIENTS		1,085,529	1,013,907	977,675	1,085,529	977,675
Overdraft	1	2,946	17,000	15,063	2,946	15,063
Trade payables	14	2,872	1,500	3,778	2,793	3,746
Other payables	15	1,838	2,800	1,720	1,838	1,720
Derivative financial instruments	3	14,133	1,900	2,421	14,133	2,421
Prepaid income		346	450	411	-	-
Employee benefits	16	4,401	4,223	4,578	4,401	4,578
Provisions	17	1,028	700	1,043	958	1,043
Loan from subsidiary	29	-	-	-	5,773	6,795
TOTAL LIABILITIES		1,113,093	1,042,480	1,006,689	1,118,371	1,013,041
Equity						
Contributed equity	18	60,174	40,174	40,174	60,174	40,174
Cash flow hedging reserve	18	(5,157)	1,587	(377)	(5,157)	(377)
Retained earnings	18	(72,015)	(7,771)	(24,564)	(75,725)	(27,663)
TOTAL EQUITY		(16,998)	33,990	15,233	(20,708)	12,134
TOTAL LIABILITIES PLUS EQUITY		**1,096,095**	**1,076,470**	**1,021,922**	**1,097,663**	**1,025,175**

For and on behalf of the Board, who authorised the issue of the financial statements on 22 September 2009.

Donal 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 2009

	NOTES	GROUP ACTUAL 2009 $000	GROUP BUDGET 2009 $000	GROUP ACTUAL 2008 $000	PARENT ACTUAL 2009 $000	PARENT ACTUAL 2008 $000
Equity at the beginning of the year		15,233	29,469	49,245	12,134	46,155
Net change in cash flow hedges	18	(4,780)	-	(1,864)	(4,780)	(1,864)
Revenue and expenses recognised directly in equity		(4,780)	-	(1,864)	(4,780)	(1,864)
Profit (loss) after tax	18	(47,451)	4,521	(32,148)	(48,062)	(32,157)
TOTAL RECOGNISED REVENUES AND EXPENSES FOR THE YEAR		(52,231)	4,521	(34,012)	(52,842)	(34,021)
Contribution from the Crown		20,000	-	-	20,000	-
EQUITY AT THE END OF THE YEAR	18	**(16,998)**	**33,990**	**15,233**	**(20,708)**	**12,134**

Statement of Financial Performance

For the year ended 30 June 2009

	NOTES	GROUP ACTUAL 2009 $000	GROUP BUDGET 2009 $000	GROUP ACTUAL 2008 $000	PARENT ACTUAL 2009 $000	PARENT ACTUAL 2008 $000
Revenue						
Revenue from financial instruments						
Interest from interest bearing securities		57,007	55,181	58,313	57,007	58,313
Interest from advances secured by mortgage		27,513	32,989	26,884	27,513	26,884
		84,520	88,170	85,197	84,520	85,197
Less: Interest expense		61,104	61,707	60,328	61,380	60,722
		23,416	26,463	24,869	23,140	24,475
Fees and commission revenue		36,120	34,807	35,522	33,755	33,086
Less: Fees and commission expense		1,249	-	1,212	1,249	1,212
Other revenue		167	-	122	1,609	1,815
Revenue from the Crown	29	4,500	4,500	4,500	4,500	4,500
REVENUE BEFORE EXPENSES	26	**62,954**	**65,770**	**63,801**	**61,755**	**62,664**
Expenses						
Employee benefits	26	41,476	39,414	37,795	41,476	37,795
Operating lease costs		4,562	4,300	4,297	4,562	4,297
Depreciation	7	1,944	2,737	1,923	1,944	1,923
Amortisation of intangibles	8	195	110	101	195	101
Net losses (gains) on disposals of property, plant & equipment and intangibles		99	-	23	99	23
Impairment losses on advances secured by mortgage	5	14,698	600	12,361	14,698	12,361
Other expenses	26	18,138	19,212	18,225	17,811	17,961
TOTAL EXPENSES		**81,112**	**66,373**	**74,725**	**80,785**	**74,461**
Net realised gains (losses) on investments		(12)	-	2,914	(12)	2,914
Net unrealised gains (losses) on investments		(29,149)	5,124	(24,547)	(29,149)	(24,547)
Net gains (losses) on investments	26	(29,161)	5,124	(21,633)	(29,161)	(21,633)
PROFIT (LOSS) BEFORE TAX FOR THE YEAR		**(47,319)**	**4,521**	**(32,557)**	**(48,191)**	**(33,430)**
Tax expense (benefit)	27	132	-	(409)	(129)	(1,273)
PROFIT (LOSS) AFTER TAX FOR THE YEAR		**(47,451)**	**4,521**	**(32,148)**	**(48,062)**	**(32,157)**

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 2009

	NOTES	GROUP ACTUAL 2009 $000	GROUP BUDGET 2009 $000	GROUP ACTUAL 2008 $000	PARENT ACTUAL 2009 $000	PARENT ACTUAL 2008 $000
Cash flows from operating activities						
Trading receipts						
Fees and other revenue		40,253	38,807	39,787	41,086	37,554
Interest		87,386	88,170	80,925	87,386	80,925
Taxation		44	357	14	44	-
Trading payments						
Expenses		64,268	62,653	60,466	64,042	60,229
Interest		65,008	61,707	57,068	65,284	57,461
GST		571	800	936	587	927
CASH FLOWS FROM OPERATING ACTIVITIES BEFORE CHANGES IN TRADING INVESTMENTS		**(2,164)**	**2,174**	**2,256**	**(1,397)**	**(138)**
Net flows from trading investments		1,466	-	15,245	1,466	15,245
NET CASH FLOWS FROM OPERATING ACTIVITIES	28	**(698)**	**2,174**	**17,501**	**69**	**15,107**
Cash flows from investing activities						
Net flows from non-trading investments		(129,142)	(89,261)	(211,871)	(129,142)	(211,871)
Sale of property, plant & equipment		3	-	-	3	-
Purchase of property, plant & equipment		(2,680)	(5,000)	(1,369)	(2,680)	(1,369)
Purchase of intangibles		(526)	-	(297)	(526)	(297)
NET CASH FLOWS FROM INVESTING ACTIVITIES		**(132,345)**	**(94,261)**	**(213,537)**	**(132,345)**	**(213,537)**
Cash flows from financing activities						
Net receipts from clients		109,098	92,087	189,674	108,338	192,051
Contribution from the Crown		20,000	-	-	20,000	-
NET CASH FLOWS FROM FINANCING ACTIVITIES		**129,098**	**92,087**	**189,674**	**128,338**	**192,051**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(3,945)**	**-**	**(6,362)**	**(3,938)**	**(6,379)**
Cash and cash equivalents at beginning of the year		15,537	6,000	21,900	15,513	21,893
Net exchange gains (losses) on foreign currency cash and cash equivalents		-	-	(1)	-	(1)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	1	**11,592**	**6,000**	**15,537**	**11,575**	**15,513**

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

Statement of Commitments

As at 30 June 2009

Commitments to be met by Public Trust are as follows:

	GROUP		PARENT	
	2009 $000	2008 $000	2009 $000	2008 $000
Payable within 1 year	4,376	3,300	4,376	3,300
Payable after 1 year and within 5 years	7,025	4,413	7,025	4,413
Payable after 5 years	320	658	320	658
	11,721	**8,371**	**11,721**	**8,371**

Operating leases

The Group has sublet three properties (2008: two). The total minimum sublease payments expected to be received off the subleases is $523,000 (2008: $671,000). The income received during the year from sublet properties was $123,000 (2008: $122,000).

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 (2008: nil).

The Group has no commitments to purchase intangible IT assets (2008: nil).

The Group has no other non-cancellable commitments (2008: nil).

The Group, in connection with its mortgage lending activities, has commitments to a value of $7.8 million to provide funding under undrawn revolving credit facilities and approved but undrawn applications (2008: $15.6 million).

Statement of Accounting Policies

For the year ended 30 June 2009

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 2009, 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.

Going concern

As at 30 June 2009, the Group's liabilities exceed its assets by $17 million. Prior to balance date the Group sought and received a commitment from the Crown to a $30 million capital contribution. These funds were received on 10 August 2009.

The Group's business model has been reviewed to improve sustainability and future profitability. The Board has approved a business plan and associated budgets and forecasts for the 2010 to 2014 financial years. This business plan forecasts positive equity, the generation of surpluses from the 2011 financial year and an expectation of dividend payments to the Crown in five years. These forecasts include consideration of uncertainties and risks associated with the business plan.

In light of the above factors and assessments, the Board consider it appropriate to continue to adopt the going concern basis in preparing these financial statements.

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.

Budget

The budget figures are not audited.

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 determine the accounting treatment of the instrument:

- Financial assets at fair value through profit or loss
- Financial assets comprising loans and receivables
- Financial liabilities at fair value through profit or loss
- 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 or loss

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

- held for trading, having been acquired principally for the purpose of 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 or loss comprise:

- Investment in interest bearing securities
- Derivatives.

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

After initial recognition, financial assets at fair value through profit or 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, prices are obtained from an independent third party using a valuation technique. The valuation technique includes the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity specific inputs.

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 cash flow 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.

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 on the same basis of the mid-range value.

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 unrealised gains (losses) on investments.

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.

When the forecast transaction is no longer expected to occur the cumulative gain or loss on the hedging derivative recognised 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
- Investment securities
- Advances to clients
- Trade receivables
- Due from subsidiary (Parent financial statements)
- Advances secured by mortgage

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

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

Investment securities

There are some investment securities in interest bearing securities classified as loans and receivables. The initial and subsequent recognition are as described above.

Advances to clients

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

Trade receivables

The receivable from the Crown represents sums due, but not yet received, for services 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. Advances secured by mortgage including 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 advances secured by mortgage including 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 a result of one or more loss events that occurred after the initial recognition of the advance. The impairment allowance is an estimation of the amount and timing of future cash flows.

When an advance is uncollectible, it is written off against the carrying amount. The related impairment allowance previously provided for is reversed in the Statement of Financial Performance.

For the purposes of a collective evaluation of impairment, advances secured by mortgage excluding those where an individual impairment allowance has been provided are grouped together on the basis of similar risk characteristics. Future cash flows of the group are estimated on the basis of the contractual cash flows and historical loss experience for assets with similar risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Any collective impairment loss is recognised in the Statement of Financial Performance with a corresponding reduction in the carrying value of the financial instrument through a collective impairment allowance account.

Financial liabilities at fair value through profit or loss

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

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

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

In 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 carrying amount at the date of transition to NZ IFRS.

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 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 annual review for impairment. 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 annual review for impairment.

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.

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

Certain prior period balances may be restated to align with the current period's presentation. Where these are of a material nature, explanations and amounts are given in the notes to the financial statements.

In the Statement of Financial Performance for the year ended 30 June 2008, New Zealand Permanent Trustees' recoveries from client were classified as other revenue. This has been reclassified to fees and commission revenue to align with the current period's presentation.

In the Statement of Cash Flows for the year ended 30 June 2008, resident withholding tax and non-resident withholding tax collected on behalf of clients was classified as expenses within operating activities. This has been reclassified as interest expense to align with the current period's presentation.

Changes in accounting policies

There have been no changes in accounting policies. 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 *First-Time Adoption to New Zealand Equivalents to International Financial Reporting Standards* (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 2009, and have not been applied in preparing these financial statements. These standards will initially be applied in the financial statements for the year ending 30 June 2010.

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 7 *Financial Instruments: Disclosures (amendments)*: effective for annual periods beginning on or after 1 January 2009.

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

The following new standards, amendments to standards or interpretations have been issued but not yet effective for the year ended 30 June 2009, and have not been applied in preparing these financial statements. These standards will initially be applied in the financial statements for the year ending 30 June 2011.

NZ IAS 7 *Statement of Cash Flows (amendments):* effective for annual periods beginning on or after 1 January 2010.

NZ IAS 36 *Impairment of Assets (amendments):* effective for annual periods beginning on or after 1 January 2010.

NZ IAS 39 *Financial Instruments: Recognition and Measurement (amendments)*: effective for annual periods beginning on or after 1 January 2010.

NZ IFRS 8 *Operating Segments (amendments):* effective for annual periods beginning on or after 1 January 2010.

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.

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.

Supplementary information

Crown Guarantee

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

The guarantee on capital for those deposits is provided by section 52 of the Public Trust Act 2001 and is not time-limited. The interest on client deposits is covered by a Government guarantee effective until 12 October 2010. The guarantee was provided under section 65ZD of the Public Finance Act 1989.

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

Notes to the Financial Statements

For the year ended 30 June 2009

1 Cash and cash equivalents

	GROUP		PARENT	
	2009 $000	2008 $000	2009 $000	2008 $000
Cash and bank	3,338	22,470	3,321	22,446
Money market deposit at call	11,200	8,130	11,200	8,130
Cash and cash equivalents	14,538	30,600	14,521	30,576
Overdraft used for cash management purposes	(2,946)	(15,063)	(2,946)	(15,063)
CASH AND CASH EQUIVALENTS IN THE STATEMENT OF CASH FLOWS	**11,592**	**15,537**	**11,575**	**15,513**

2 Investment securities

	GROUP		PARENT	
	2009 $000	2008 $000	2009 $000	2008 $000
Designated at fair value through profit or loss				
Interest bearing securities				
Local authorities	110,216	58,692	110,216	58,692
Banks	184,334	268,780	184,334	268,780
New Zealand Government	4,974	3,080	4,974	3,080
State owned enterprises	5,003	-	5,003	-
Mortgage backed securities	116,412	171,433	116,412	171,433
Corporates	244,413	147,784	244,413	147,784
	665,352	649,769	665,352	649,769
Loans and receivables				
Interest bearing securities				
Banks	97,381	-	97,381	-
	762,733	**649,769**	**762,733**	**649,769**

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	2009 $000	2008 $000	2009 $000	2008 $000
Assets					
Interest rate swaps					
Held for trading		870	175	870	175
Held for hedging		-	434	-	434
Cash flow hedge accounted	20	82	783	82	783
Fair value hedge accounted	20	2,726	320	2,726	320
Forward rate agreements		4	278	4	278
		3,682	**1,990**	**3,682**	**1,990**
Liabilities					
Interest rate swaps					
Held for trading		9	35	9	35
Held for hedging		10,193	1,422	10,193	1,422
Cash flow hedge accounted	20	3,862	403	3,862	403
Fair value hedge accounted	20	1	-	1	-
Forward rate agreements		68	561	68	561
		14,133	**2,421**	**14,133**	**2,421**

4 Trade receivables

	GROUP		PARENT	
	2009 $000	2008 $000	2009 $000	2008 $000
Accrued interest	1	2	1	2
Crown	361	355	361	355
Receivables of uncertain timing	2,435	2,111	2,435	2,111
Less: collective impairment allowance (see below)	(80)	(28)	(80)	(28)
Fees receivable and accrued	1,550	1,536	986	969
Other	178	144	178	144
	4,445	**4,120**	**3,881**	**3,553**
Collective impairment allowance				
Opening balance	(28)	(25)	(28)	(25)
Charge for the year	(52)	(3)	(52)	(3)
CLOSING BALANCE	**(80)**	**(28)**	**(80)**	**(28)**

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 Government Bond yield rates at balance date. Future cash flows beyond 11 years have been discounted using the 11 year rate. Where collection is expected within 12 months of balance date, no discounting is applied.

5 Advances secured by mortgage

	GROUP 2009 $000	GROUP 2008 $000	PARENT 2009 $000	PARENT 2008 $000
Gross value	311,284	327,977	311,284	327,977
Less: Individual impairment allowance	(14,544)	(10,853)	(14,544)	(10,853)
Less: Collective impairment allowance	(4,418)	-	(4,418)	-
	292,322	**317,124**	**292,322**	**317,124**
Individual impairment allowance				
Opening balance	(10,853)	-	(10,853)	-
Charge for the year	(10,743)	(12,409)	(10,743)	(12,409)
Bad debts written off	6,589	1,508	6,589	1,508
Unused allowance reversed	476	83	476	83
Interest accrued on impaired advances	(13)	(35)	(13)	(35)
CLOSING BALANCE	**(14,544)**	**(10,853)**	**(14,544)**	**(10,853)**
Collective impairment allowance				
Opening balance	-	-	-	-
Charge for the year	(4,418)	-	(4,418)	-
Bad debts written off	-	-	-	-
Unused allowance reversed	-	-	-	-
CLOSING BALANCE	**(4,418)**	-	**(4,418)**	-

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

6 Sundry receivables

	NOTES	GROUP 2009 $000	GROUP 2008 $000	PARENT 2009 $000	PARENT 2008 $000
Expected reimbursements	17	87	129	87	129
Other		81	46	81	46
		168	**175**	**168**	**175**

7 Property, plant & equipment

GROUP & PARENT	PLANT, FURNITURE & FITTINGS 2009 $000	IT EQUIPMENT & OPERATING SOFTWARE 2009 $000	CAPITAL WORK IN PROGRESS 2009 $000	TOTAL 2009 $000
Cost				
Opening balance	14,559	6,614	247	21,420
Additions	1,894	313	168	2,375
Transfer between classes	-	-	(247)	(247)
Transfer to expenses	-	-	-	-
Disposals	(1,355)	(1,200)	-	(2,555)
Closing balance	15,098	5,727	168	20,993
Depreciation				
Opening balance	(9,383)	(4,460)	-	(13,843)
Depreciation during the year	(1,115)	(829)	-	(1,944)
Disposals	1,259	1,187	-	2,446
Closing balance	(9,239)	(4,102)	-	(13,341)
CARRYING VALUE OF PROPERTY, PLANT & EQUIPMENT	5,859	1,625	168	7,652

GROUP & 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
Closing balance	(9,383)	(4,460)	-	(13,843)
CARRYING VALUE OF PROPERTY, PLANT & EQUIPMENT	5,176	2,154	247	7,577

Additions include irrecoverable GST of $76,000 (2008: $34,000).

8 Intangibles

	GROUP		PARENT	
	2009 $000	2008 $000	2009 $000	2008 $000
Intangible IT assets				
Cost	8,245	7,948	8,245	7,948
Opening balance	130	202	130	202
Additions	247	95	247	95
Transfer from work in progress	-	-	-	-
Disposals	(15)	-	(15)	-
Closing balance	8,607	8,245	8,607	8,245
Amortisation				
Opening balance	(7,784)	(7,683)	(7,784)	(7,683)
Amortisation during the year	(195)	(101)	(195)	(101)
Disposals	8	-	8	-
Closing balance	**(7,971)**	**(7,784)**	**(7,971)**	**(7,784)**
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	**3,141**	**2,966**	**636**	**461**

Additions for intangible IT assets include irrecoverable GST of $10,000 (2008: nil).

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 with key judgements and assumptions as follows:

- The recoverable amount of the CGU was calculated on the basis of value in use, using a discounted cash flows model and the resultant gross value allocated to the various physical and intangible assets.
- Future cash flows were projected out five years, based on the previous years' actual results and approved business plans for the year ending 30 June 2010, with key assumptions being Funds under Supervision, and operating costs.
- Fee revenue was assumed to remain consistent with the 2009 fee revenue adjusted for changes in Funds under Supervision 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.
- A pre-tax discount rate of 20% (2008: 14.9%) was applied to compute present value. A further reduction of 20% was then applied as a prudential margin to reflect other risks such as liquidity risk.

9 Investments in subsidiaries

	COUNTRY OF INCORPORATION	PERCENT HELD	
		2009	2008
New Zealand Permanent Trustees Limited	New Zealand	100%	100%
Public Trust Limited[1]	New Zealand	100%	100%
Plan for Life Limited[1]	New Zealand	100%	100%
Specialist Trustee Services Limited[1]	New Zealand	100%	100%
Star Software Limited[1]	New Zealand	100%	100%
Capital Nominees Limited[3]	New Zealand	100%	100%
FXNL Nominees Limited[3]	New Zealand	100%	-
Group U Nominees Limited[2]	New Zealand	100%	100%
Lancashire Limited[3]	New Zealand	100%	100%
Masterportfolio Nominees Limited[3]	New Zealand	100%	100%
Mint Nominees Limited[2]	New Zealand	100%	100%
Moorhouse Central Limited[3]	New Zealand	100%	-
Newburg Nominees Limited[3]	New Zealand	100%	100%
Newcliff Limited[3]	New Zealand	100%	100%
NZPT Custodians (Grosvenor) Limited[2]	New Zealand	100%	100%
NZPT Custodians Limited[2]	New Zealand	100%	100%
NZPT (Infiniti) Asset Trust Security Trustee Limited[2]	New Zealand	100%	100%
NZPT (Infiniti) Security Trustee Limited[2]	New Zealand	100%	100%
NZPT Marac ABCP Security Trustee Limited[2]	New Zealand	100%	100%
Pathfinder Nominees Limited[3]	New Zealand	100%	100%
Permanent Nominees Limited[3]	New Zealand	100%	100%
Plato Nominees Limited[3]	New Zealand	100%	100%
Portfolio Nominees Limited[3]	New Zealand	100%	100%
Proteus Limited[3]	New Zealand	100%	100%
Public Nominees Limited[3]	New Zealand	100%	100%
Sirius Wealth Management Nominees Limited[2]	New Zealand	100%	100%
Tepler Nominees Limited[2]	New Zealand	100%	100%
Windley Nominees Limited[3]	New Zealand	100%	100%

[1] These entities are non-trading and have no assets and liabilities.
[2] These entities are subsidiaries held by New Zealand Permanent Trustees Limited.
[2] and [3] These entities are nominee companies established to undertake business on behalf of corporate trustee clients. They are not consolidated in the Group's financial statements.

10 Current tax

		GROUP		PARENT	
	NOTES	2009 $000	2008 $000	2009 $000	2008 $000
Opening balance		846	371	846	357
Prior period adjustment		(132)	409	(132)	409
Use of money interest		-	80	-	80
Foreign dividend withholding payments		-	-	-	-
Tax expense through Statement of Financial Performance		-	-	-	-
Tax expense through cash flow hedging reserve	18	-	-	-	-
Cash paid (received)		(44)	(14)	(44)	-
CLOSING BALANCE		**670**	**846**	**670**	**846**

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	2009 $000	2008 $000	2009 $000	2008 $000
Deferred tax assets				
Receivables of uncertain timing	337	325	12	21
Individual impairment allowance for advances secured by mortgage	4,363	3,256	1,108	3,256
Collective impairment allowance for advances secured by mortgage	1,325	-	1,325	-
Other trade payables	48	42	6	9
Employee benefits	1,423	1,413	10	112
Remedial work and litigation provision	170	252	(82)	(29)
Vacant space provision	15	22	(7)	(6)
Property, plant & equipment and intangibles	71	15	56	(48)
Unrealised gains (losses) on investment securities and derivatives	-	-	-	906
Prepaid estate administration	25	-	31	-
	7,777	5,325	2,459	4,221
Deferred tax liabilities				
Expected reimbursements	(26)	(39)	13	(26)
Prepaid estate administration	-	(7)	-	20
	(26)	(46)	13	(6)
RECOGNISED IN STATEMENT OF FINANCIAL PERFORMANCE			2,472	4,215
Unrelieved losses	19,167	6,051		
Net deferred tax asset (liability)	**26,918**	**11,330**		
Net deferred tax asset (liability) not allowed for	**(26,918)**	**(11,330)**		
NET DEFERRED TAX ASSET (LIABILITY) RECOGNISED	-	-		
Net deferred tax asset (liability)				
Opening balance	11,330	1,064		
Recognised in Statement of Financial Performance	1,038	3,656		
Recognised in cash flow hedging reserve	1,434	559		
Future income tax benefit	13,116	6,051		
CLOSING BALANCE	**26,918**	**11,330**		
Net deferred tax asset (liability) not allowed for				
Opening balance	(11,330)	(1,064)		
Recognised in Statement of Financial Performance	(1,038)	(3,656)		
Recognised in cash flow hedging reserve	(1,434)	(559)		
Future income tax benefit	(13,116)	(6,051)		
Deferred tax asset written off	-	-		
CLOSING BALANCE	**(26,918)**	**(11,330)**		

11 Deferred tax asset (continued)

PARENT	STATEMENT OF FINANCIAL POSITION 2009 $000	STATEMENT OF FINANCIAL POSITION 2008 $000	STATEMENT OF FINANCIAL PERFORMANCE 2009 $000	STATEMENT OF FINANCIAL PERFORMANCE 2008 $000
Deferred tax assets				
Receivables of uncertain timing	337	325	12	21
Individual impairment allowance for advances secured by mortgage	4,363	3,256	1,108	3,256
Collective impairment allowance for advances secured by mortgage	1,325	-	1,325	-
Other trade payables	48	42	6	9
Employee benefits	1,423	1,413	10	112
Remedial work and litigation provision	170	252	(82)	(29)
Vacant space provision	15	22	(7)	(6)
Property, plant & equipment and intangibles	71	15	56	(48)
Unrealised gains (losses) on investment securities and derivatives	-	-	-	906
Prepaid estate administration	25	-	31	-
	7,777	5,325	2,459	4,221
Deferred tax liabilities				
Expected reimbursements	(26)	(39)	13	(26)
Prepaid estate administration	-	(7)	-	20
	(26)	(46)	13	(6)
RECOGNISED IN STATEMENT OF FINANCIAL PERFORMANCE			2,472	4,215
Unrelieved losses	19,167	6,051		
Net deferred tax asset (liability)	**26,918**	**11,330**		
Net deferred tax asset (liability) not allowed for	**(26,918)**	**(11,330)**		
NET DEFERRED TAX ASSET (LIABILITY) RECOGNISED	-	-		
Net deferred tax asset (liability)				
Opening balance	11,330	1,064		
Recognised in Statement of Financial Performance	1,038	3,656		
Recognised in cash flow hedging reserve	1,434	559		
Future income tax benefit	13,377	6,339		
Subsidiary's loss relief	(261)	(288)		
CLOSING BALANCE	**26,918**	**11,330**		
Net deferred tax asset (liability) not allowed for				
Opening balance	(11,330)	(1,064)		
Recognised in Statement of Financial Performance	(1,038)	(3,656)		
Recognised in cash flow hedging reserve	(1,434)	(559)		
Future income tax benefit	(13,377)	(6,339)		
Release of utilised loss	261	288		
CLOSING BALANCE	**(26,918)**	**(11,330)**		

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 the Group's planning horizons. The planning horizon extends for a period of five years and is 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 (2008: nil).

12 Liabilities to clients – term deposits

		GROUP		PARENT	
	NOTES	2009 $000	2008 $000	2009 $000	2008 $000
Term deposits		563,834	518,740	563,834	518,740
Term deposits subject to hedging		38,509	26,106	38,509	26,106
Fair value adjustment for term deposits subject to hedging	20	2,620	349	2,620	349
		604,963	**545,195**	**604,963**	**545,195**

13 Prepaid estate administration

	GROUP		PARENT	
	2009 $000	2008 $000	2009 $000	2008 $000
Opening balance	762	847	762	847
Services provided	(118)	(147)	(118)	(147)
Increase in estimated cost of service	20	22	20	22
Unwinding of discount and impact of change in interest rates	110	40	110	40
CLOSING BALANCE	**774**	**762**	**774**	**762**

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 2009 (2008: 2.20%). The estimated future cash flows are discounted at the lowest point on the New Zealand Government Bond yield curve of 6.46% at 30 June 2009 (2008: 6.34%).

14 Trade payables

	GROUP 2009 $000	GROUP 2008 $000	PARENT 2009 $000	PARENT 2008 $000
Trade creditors and accrued expenses	2,358	2,669	2,279	2,637
Capital creditors	271	939	271	939
Other	243	170	243	170
	2,872	**3,778**	**2,793**	**3,746**

15 Other payables

	GROUP 2009 $000	GROUP 2008 $000	PARENT 2009 $000	PARENT 2008 $000
Withholding taxes payable	911	1,299	911	1,299
Fringe Benefit Tax	134	84	134	84
Goods and Services Tax	44	(185)	44	(185)
Lease incentives	42	79	42	79
Employees	556	384	556	384
Other	151	59	151	59
	1,838	**1,720**	**1,838**	**1,720**

16 Employee benefits

	GROUP 2009 $000	GROUP 2008 $000	PARENT 2009 $000	PARENT 2008 $000
Annual leave	1,296	1,211	1,296	1,211
Sick leave	59	59	59	59
Long-service leave	2,696	2,732	2,696	2,732
Performance incentive payments	350	576	350	576
	4,401	**4,578**	**4,401**	**4,578**

The sick leave liability assumed a salary increase of 0% (2008: 5%).

The long-service leave assumed a salary increase of 2.75% (2008: 2.75%). A 1% increase in salary would increase the provision by $185,000 (2008: $194,000).

17 Provisions

	GROUP		PARENT	
	2009 $000	2008 $000	2009 $000	2008 $000
Restructuring				
Opening balance	131	-	131	-
Additions during the year	696	131	696	131
Amount applied during the year (cash paid)	(454)	-	(454)	-
Reversal of provision not used	(32)	-	(32)	-
Closing balance	341	131	341	131
Remedial work & litigation				
Opening balance	840	937	840	937
Additions during the year	468	677	398	677
Amount applied during the year (cash paid)	(250)	(379)	(250)	(379)
Reversal of provision not used	(421)	(395)	(421)	(395)
Closing balance	637	840	567	840
Vacant space				
Opening balance	72	94	72	94
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	50	72	50	72
TOTAL	**1,028**	**1,043**	**958**	**1,043**

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 $87,000 expected upon the final resolution of some of these matters have been recognised within sundry receivables (2008: $129,000).

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 3.80% at 30 June 2009 (2008: 6.95%).

The future minimum payments (undiscounted) until final maturity date are disclosed in the Statement of Commitments.

18 Equity

	GROUP		PARENT	
	2009 $000	2008 $000	2009 $000	2008 $000
Contributed equity				
Opening balance	40,174	40,174	40,174	40,174
Contribution by the Crown	20,000	-	20,000	-
Closing balance	60,174	40,174	60,174	40,174
Cash flow hedging reserve				
Opening balance	(377)	1,487	(377)	1,487
Net gains (losses) from changes in fair value	(3,815)	(1,661)	(3,815)	(1,661)
Less: Tax effect of above movement	-	-	-	-
Transferred to Statement of Financial Performance	(965)	(203)	(965)	(203)
Less: Tax effect of above movement	-	-	-	-
Closing balance	(5,157)	(377)	(5,157)	(377)
Retained earnings				
Opening balance	(24,564)	7,584	(27,663)	4,494
Profit (loss) after tax	(47,451)	(32,148)	(48,062)	(32,157)
Closing balance	(72,015)	(24,564)	(75,725)	(27,663)
TOTAL	**(16,998)**	**15,233**	**(20,708)**	**12,134**

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 $96,000 loss (2008: $15,000 gain).

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's liabilities exceed its assets as at 30 June 2009. Prior to 30 June 2009, the Board received a commitment from the Crown to additional capital of $30 million. This was received on 10 August 2009.

The Group seeks to manage its capital position through managing its assets, liabilities and capital by building a sustainable and long-term financially viable business.

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. 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 the prior year.

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 2009			GROUP 2008		
	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	14,538	14,538	-	30,600	30,600	-
Investment securities	762,733	379,992	382,741	649,769	270,779	378,990
Derivative financial instruments	3,682	1,155	2,527	1,990	419	1,571
Advances to clients	6,267	5,505	762	5,811	5,119	692
Trade receivables	4,445	2,758	1,687	4,120	2,640	1,480
Advances secured by mortgage	292,322	58,699	233,623	317,124	62,076	255,048
TOTAL FINANCIAL ASSETS	**1,083,987**	**462,647**	**621,340**	**1,009,414**	**371,633**	**637,781**
Sundry receivables	168	168	-	175	175	-
Prepayments	477	456	21	944	944	-
Property, plant & equipment	7,652	-	7,652	7,577	-	7,577
Intangibles	3,141	-	3,141	2,966	-	2,966
Current tax	670	670	-	846	846	-
TOTAL ASSETS	**1,096,095**	**463,941**	**632,154**	**1,021,922**	**373,598**	**648,324**
Liabilities						
Liabilities to clients – at call or short-term	479,792	479,792	-	431,718	431,718	-
Liabilities to clients – term deposits	604,963	536,791	68,172	545,195	495,640	49,555
Prepaid estate administration	774	-	774	762	-	762
TOTAL LIABILITIES TO CLIENTS	**1,085,529**	**1,016,583**	**68,946**	**977,675**	**927,358**	**50,317**
Overdraft	2,946	2,946	-	15,063	15,063	-
Trade payables	2,872	2,872	-	3,778	3,778	-
Other payables	1,838	1,838	-	1,720	1,720	-
Derivative financial instruments	14,133	3,537	10,596	2,421	1,535	886
Prepaid income	346	346	-	411	411	-
Employee benefits	4,401	1,988	2,413	4,578	2,084	2,494
Provisions	1,028	341	687	1,043	131	912
TOTAL LIABILITIES	**1,113,093**	**1,030,451**	**82,642**	**1,006,689**	**952,080**	**54,609**

For 2008, accrued interest on all interest bearing assets and liabilities and individual impaired advances secured by mortgage have been reclassified to the less than 12 months category, with no change in the overall total.

Within employee benefits, long-service leave for 2008 has been restated in accordance with the expected settlement from the actuarial valuation. The split between less than 12 months and greater than 12 months categories has been updated, with no change in the overall total.

19 Maturity analysis of assets and liabilities (continued)

	PARENT 2009			PARENT 2008		
	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	14,521	14,521	-	30,576	30,576	-
Investment securities	762,733	379,992	382,741	649,769	270,779	378,990
Derivative financial instruments	3,682	1,155	2,527	1,990	419	1,571
Advances to clients	6,267	5,505	762	5,811	5,119	692
Trade receivables	3,881	2,194	1,687	3,553	2,073	1,480
Due from subsidiary	-	-	-	1,695	1,695	-
Advances secured by mortgage	292,322	58,699	233,623	317,124	62,076	255,048
TOTAL FINANCIAL ASSETS	**1,083,406**	**462,066**	**621,340**	**1,010,518**	**372,737**	**637,781**
Sundry receivables	168	168	-	175	175	-
Prepayments	477	456	21	944	944	-
Property, plant & equipment	7,652	-	7,652	7,577	-	7,577
Intangibles	636	-	636	461	-	461
Investments in subsidiaries	4,654	-	4,654	4,654	-	4,654
Current tax	670	670	-	846	846	-
TOTAL ASSETS	**1,097,663**	**463,360**	**634,303**	**1,025,175**	**374,702**	**650,473**
Liabilities						
Liabilities to clients – at call or short-term	479,792	479,792	-	431,718	431,718	-
Liabilities to clients – term deposits	604,963	536,791	68,172	545,195	495,640	49,555
Prepaid estate administration	774	-	774	762	-	762
TOTAL LIABILITIES TO CLIENTS	**1,085,529**	**1,016,583**	**68,946**	**977,675**	**927,358**	**50,317**
Overdraft	2,946	2,946	-	15,063	15,063	-
Trade payables	2,793	2,793	-	3,746	3,746	-
Other payables	1,838	1,838	-	1,720	1,720	-
Derivative financial instruments	14,133	3,537	10,596	2,421	1,535	886
Employee benefits	4,401	1,988	2,413	4,578	2,084	2,494
Provisions	958	341	617	1,043	131	912
Loan from subsidiary	5,773	5,773	-	6,795	6,795	-
TOTAL LIABILITIES	**1,118,371**	**1,035,799**	**82,572**	**1,013,041**	**958,432**	**54,609**

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's policy requires the mismatch between the weighted average interest rate reset term of liabilities and

20 Interest rate risk (continued)

assets to be less than six months. Exposures to interest rate risks are monitored by management on a daily basis and reported to the Investment Committee bi-monthly.

Cash flow hedging

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

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.

Fair value hedging

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

GROUP & PARENT	2009 $000	2008 $000
Gains (losses) on interest rate swaps	2,221	338
Gains (losses) on long-dated term deposits	(2,270)	(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 & PARENT	2009 $000	2008 $000
10 day VaR at 99% confidence level	181	51

The values stated are on a pre-tax basis.

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

- A 10 day holding period assumes that it is possible to hedge or dispose of positions within that period. This may not be the case of certain highly illiquid assets or in situations in which there is severe general market illiquidity.
- A 99% confidence level does not reflect losses that may occur beyond this level. Even within the VaR model used there is a 1% probability that losses could exceed the VaR.
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the day.
- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all scenarios, especially those of an exceptional nature.
- The VaR measure is dependent upon the Group's position and the volatility of market prices. The VaR of an unchanged position reduces if market price volatility declines and vice versa.
- VaR does not include changes in credit spreads on interest bearing securities. It reflects potential VaR arising from interest rate movements.

20 Interest rate risk (continued)

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

GROUP 2009	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	14,538	14,538	14,538	-	-	-	-
Interest bearing securities	762,733	803,259	676,670	38,700	62,500	25,389	-
Advances to clients	6,267	6,267	6,267	-	-	-	-
Advances secured by mortgage	292,322	275,375	177,735	47,634	30,586	19,420	-
Other financial assets	4,445	4,445	4,445	-	-	-	-
	1,080,305	1,103,884	879,655	86,334	93,086	44,809	-
Liabilities							
Liabilities to clients – at call or short-term	479,792	479,792	479,792	-	-	-	-
Liabilities to clients – term deposits	604,963	595,181	529,630	30,590	7,998	18,963	8,000
Overdraft	2,946	2,946	2,946	-	-	-	-
	1,087,701	1,077,919	1,012,368	30,590	7,998	18,963	8,000
Derivatives							
Forward rate agreements	(64)	-	-	-	-	-	-
Interest rate swaps	(10,387)	-	159,925	(56,460)	(87,375)	(24,090)	8,000
	(10,451)	-	159,925	(56,460)	(87,375)	(24,090)	8,000
RE-PRICING GAP		**25,965**	**27,212**	**(716)**	**(2,287)**	**1,756**	**-**

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
RE-PRICING GAP		**25,052**	**34,441**	**(7,467)**	**(79)**	**(2,232)**	**389**

20 Interest rate risk (continued)

PARENT 2009	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	14,521	14,521	14,521	-	-	-	-
Interest bearing securities	762,733	803,259	676,670	38,700	62,500	25,389	-
Advances to clients	6,267	6,267	6,267	-	-	-	-
Advances secured by mortgage	292,322	275,375	177,735	47,634	30,586	19,420	-
Other financial assets	3,881	3,881	3,881	-	-	-	-
	1,079,724	1,103,303	879,074	86,334	93,086	44,809	-
Liabilities							
Liabilities to clients – at call or short-term	479,792	479,792	479,792	-	-	-	-
Liabilities to clients – term deposits	604,963	595,181	529,630	30,590	7,998	18,963	8,000
Overdraft	2,946	2,946	2,946	-	-	-	-
Loan from subsidiary	5,773	5,773	5,773	-	-	-	-
	1,093,474	1,083,692	1,018,141	30,590	7,998	18,963	8,000
Derivatives							
Forward rate agreements	(64)	-	-	-	-	-	-
Interest rate swaps	(10,387)	-	159,925	(56,460)	(87,375)	(24,090)	8,000
	(10,451)	-	159,925	(56,460)	(87,375)	(24,090)	8,000
RE-PRICING GAP		**19,611**	**20,858**	**(716)**	**(2,287)**	**1,756**	-

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
RE-PRICING GAP		**19,361**	**28,750**	**(7,467)**	**(79)**	**(2,232)**	**389**

21 Currency risk

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

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.

Where applicable, 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.

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	
	2009 $000	2008 $000	2009 $000	2008 $000
Mortgage backed securities	116,412	171,433	116,412	171,433
Registered banks	299,936	301,371	299,919	301,348
Corporates	244,413	147,784	244,413	147,784
Local authorities	110,216	58,692	110,216	58,692
State owned enterprises	5,003	-	5,003	-
New Zealand Government	4,974	3,080	4,974	3,080
Client overdrafts	5,505	5,119	5,505	5,119
Advances to client beneficiaries	762	692	762	692
Real estate mortgages secured by underwriting agreement	5,590	7,178	5,590	7,178
Real estate mortgages	286,732	309,946	286,732	309,946
Receivables of uncertain timing	2,355	2,083	2,355	2,083
Other	2,089	2,036	1,525	3,163
TOTAL FINANCIAL ASSETS SUBJECT TO CREDIT RISK	**1,083,987**	**1,009,414**	**1,083,406**	**1,010,518**

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

	2009			2008		
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	6,267	4,239	254,039	5,811	3,882	262,477
Past due but not impaired	-	206	22,043	-	238	36,396
Impaired	-	80	35,202	-	28	29,104
Gross	6,267	4,525	311,284	5,811	4,148	327,977
Less: Allowance for impairment	-	(80)	(18,962)	-	(28)	(10,853)
NET	**6,267**	**4,445**	**292,322**	**5,811**	**4,120**	**317,124**

22 Credit risk (continued)

	2009			2008		
	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	6,267	3,734	254,039	5,811	3,385	262,477
Past due but not impaired	-	147	22,043	-	168	36,396
Impaired	-	80	35,202	-	28	29,104
Gross	6,267	3,961	311,284	5,811	3,581	327,977
Less: Allowance for impairment	-	(80)	(18,962)	-	(28)	(10,853)
NET	**6,267**	**3,881**	**292,322**	**5,811**	**3,553**	**317,124**

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 2009 (2008: nil).

Client overdrafts

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

Advances to client beneficiaries

Advances to client beneficiaries are 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	
	2009 $000	2008 $000	2009 $000	2008 $000
Past due 1-30 days	91	96	50	57
Past due 31-60 days	49	53	40	34
Past due 61-90 days	11	22	11	16
Past due more than 90 days	55	67	46	61
TOTAL	**206**	**238**	**147**	**168**

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:

- 80% 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 management credit committee was established during 2008/09. This committee meets monthly to monitor mortgages in arrears and impaired mortgages. 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.

Where the collectibility of the advance is not in doubt, a collective impairment assessment is made. Exposures are grouped in pools of similar advances with similar risk characteristics. The collective impairment allowance is estimated on the basis of historical loss experience for advances with risk characteristics similar to those in the pool, adjusted for current observable data and economic conditions. Subjective judgements are made in this process including the credit risk assessment and categorisation of individual advances, appropriateness of loss history and the impact of economic conditions on the relevant pool.

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 $1.4 million (2008: $914,000).

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

GROUP & PARENT	2009 $000	2008 $000
Past due 1-30 days	18,131	30,668
Past due 31-60 days	90	249
Past due 61-90 days	300	294
Past due more than 90 days	3,522	5,185
TOTAL	**22,043**	**36,396**

22 Credit risk (continued)

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

GROUP & PARENT	2009 GROSS VALUE $'000	2009 IMPAIRMENT $'000	2009 NET VALUE $'000	2008 GROSS VALUE $'000	2008 IMPAIRMENT $'000	2008 NET VALUE $'000
Residential investment	19,674	(9,787)	9,887	23,651	(7,595)	16,056
Commercial	11,623	(2,786)	8,837	5,453	(3,258)	2,195
Residential	3,905	(1,971)	1,934	-	-	-
	35,202	**(14,544)**	**20,658**	**29,104**	**(10,853)**	**18,251**

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

GROUP & PARENT	2009 GROSS VALUE $'000	2009 IMPAIRMENT $'000	2009 NET VALUE $'000	2008 GROSS VALUE $'000	2008 IMPAIRMENT $'000	2008 NET VALUE $'000
Residential investment	96,804	(1,682)	95,122	-	-	-
Commercial	70,295	(2,108)	68,187	-	-	-
Rural	7,760	(107)	7,653	-	-	-
Residential	100,498	(521)	99,977	-	-	-
	275,357	**(4,418)**	**270,939**	-	-	-

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	
	2009 $000	2008 $000	2009 $000	2008 $000
Long-term credit rating				
AAA	99,409	141,966	99,409	141,966
AA+	-	6,498	-	6,498
AA	147,120	161,747	147,120	161,747
AA-	69,375	48,068	69,375	48,068
A+	66,843	55,103	66,843	55,103
A	12,093	11,784	12,093	11,784
BBB+	16,124	-	16,124	-
BBB-	-	14,987	-	14,987
BB+	8,706	-	8,706	-
BB	3,556	9,911	3,556	9,911
Unrated local authority	24,927	23,734	24,927	23,734
	448,153	473,798	448,153	473,798
Short-term credit rating				
A1+	274,345	199,325	274,328	199,302
A1	53,445	-	53,445	-
A2	5,003	9,229	5,003	9,229
	332,793	208,554	332,776	208,531
Unrated - other financial assets	303,041	327,062	302,477	328,189
TOTAL FINANCIAL ASSETS	**1,083,987**	**1,009,414**	**1,083,406**	**1,010,518**

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.

23 Liquidity risk (continued)

GROUP 2009	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	14,538	14,538	14,538	-	-	-	-
Investment securities	762,733	873,342	399,410	155,731	110,519	125,566	82,116
Advances to clients	6,267	6,538	5,606	62	45	105	720
Trade receivables	4,445	5,488	2,742	-	-	-	2,746
Advances secured by mortgages	292,322	427,213	62,950	51,248	43,711	74,772	194,532
Total non-derivative financial assets	1,080,305	1,327,119	485,246	207,041	154,275	200,443	280,114
Interest rate swaps							
Held for trading	870	883	883	-	-	-	-
Held for hedging	-	-	-	-	-	-	-
Cash flow hedge accounted	82	130	(192)	(2)	150	174	-
Fair value hedge accounted	2,726	2,738	1,550	734	279	110	65
Forward rate agreements	4	4	4	-	-	-	-
Total derivative financial assets	3,682	3,755	2,245	732	429	284	65
Total financial assets	1,083,987	1,330,879	487,491	207,773	154,704	200,727	280,179
Liabilities to clients - at call or short-term	479,792	479,792	479,792	-	-	-	-
Liabilities to clients - term deposits	604,963	621,707	546,980	34,039	10,294	21,121	9,273
Overdraft	2,946	2,946	2,946	-	-	-	-
Trade payables	2,872	2,872	2,872	-	-	-	-
Total non-derivative financial liabilities	1,090,573	1,107,317	1,032,590	34,039	10,294	21,121	9,273
Interest rate swaps							
Held for trading	9	9	9	-	-	-	-
Held for hedging	10,193	10,536	5,297	3,342	1,465	432	-
Cash flow hedge accounted	3,862	3,973	2,773	950	202	48	-
Fair value hedge accounted	1	3	(7)	(2)	4	5	3
Forward rate agreements	68	68	68	-	-	-	-
Total derivative financial liabilities	14,133	14,589	8,140	4,290	1,671	485	3
Total financial liabilities	1,104,706	1,121,906	1,040,730	38,329	11,965	21,606	9,276
TOTAL CONTRACTUAL MATURITIES		**208,968**	**(553,239)**	**169,444**	**142,739**	**179,121**	**270,903**

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	-	-	-	-
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		**281,783**	**(548,401)**	**186,683**	**120,378**	**268,944**	**254,179**

23 Liquidity risk (continued)

PARENT 2009	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	14,521	14,521	14,521	-	-	-	-
Investment securities	762,733	873,342	399,410	155,731	110,519	125,566	82,116
Advances to clients	6,267	6,538	5,606	62	45	105	720
Trade receivables	3,881	4,924	2,178	-	-	-	2,746
Due from subsidiary	-	-	-	-	-	-	-
Advances secured by mortgages	292,322	427,213	62,950	51,248	43,711	74,772	194,532
Total non-derivative financial assets	1,079,724	1,326,538	484,665	207,041	154,275	200,443	280,114
Interest rate swaps							
Held for trading	870	883	883	-	-	-	-
Held for hedging	-	-	-	-	-	-	-
Cash flow hedge accounted	82	130	(192)	(2)	150	174	-
Fair value hedge accounted	2,726	2,738	1,550	734	279	110	65
Forward rate agreements	4	4	4	-	-	-	-
Total derivative financial assets	3,682	3,755	2,245	732	429	284	65
Total financial assets	1,083,406	1,330,293	486,910	207,773	154,704	200,727	280,179
Liabilities to clients – at call or short-term	479,792	479,792	479,792	-	-	-	-
Liabilities to clients – term deposits	604,963	621,707	546,980	34,039	10,294	21,121	9,273
Overdraft	2,946	2,946	2,946	-	-	-	-
Trade payables	2,793	2,793	2,793	-	-	-	-
Loan from subsidiary	5,773	5,773	5,773	-	-	-	-
Total non-derivative financial liabilities	1,096,267	1,113,011	1,038,284	34,039	10,294	21,121	9,273
Interest rate swaps							
Held for trading	9	9	9	-	-	-	-
Held for hedging	10,193	10,536	5,297	3,342	1,465	432	-
Cash flow hedge accounted	3,862	3,973	2,773	950	202	48	-
Fair value hedge accounted	1	3	(7)	(2)	4	5	3
Forward rate agreements	68	68	68	-	-	-	-
Total derivative financial liabilities	14,133	14,589	8,140	4,290	1,671	485	3
Total financial liabilities	1,110,400	1,127,600	1,046,424	38,329	11,965	21,606	9,276
TOTAL CONTRACTUAL MATURITIES		**202,693**	**(559,514)**	**169,444**	**142,739**	**179,121**	**270,903**

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	-	-	-	-
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		**276,124**	**(554,060)**	**186,683**	**120,378**	**268,944**	**254,179**

23 Liquidity risk (continued)

Cash flow hedges

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

	TOTAL $000	1 YEAR OR LESS $000	1 TO 2 YEARS $000	2 TO 3 YEARS $000	3 TO 5 YEARS $000	OVER 5 YEARS $000
Group & Parent 2009						
Cash inflows (assets)	130	(192)	(2)	150	174	-
Cash outflows (liabilities)	3,973	2,773	950	202	48	-
NET CASH INFLOWS (OUTFLOWS)	**(3,843)**	**(2,965)**	**(952)**	**(52)**	**126**	**-**
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)**	**-**

	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 2009						
Statement of Financial Performance	(3,843)	(2,965)	(952)	(52)	126	-
Group & Parent 2008						
Statement of Financial Performance	423	694	(133)	(58)	(80)	-

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

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 investment securities that are not actively traded in exchanges, the price to determine the fair value is available from an independent source using a valuation technique.

For a portion of the mortgage backed securities portfolio with a carrying value of $78.4 million (2008: $132.3 million), prices are obtained from third party agents. Assumptions made by the third party agents are relied on. The judgement involved in determining the market price is based on the following factors: an assessment of the prepayment speed, credit spread, arrears history, any actual/expected losses, credit rating, time to expected maturity, loan to value ratios, insurance status and credit rating of the insurer where applicable.

For a portion of the mortgage backed securities portfolio with a carrying value of $38.0 million (2008: $63.6 million), there is no quoted market price or pricing available from a third party agent and a valuation technique is used.

Two groups of mortgage backed securities with carrying values of $19.0 million (2008: $24.5 million) and $19.0 million (2008: $39.1 million) are subject to this valuation technique. The credit ratings of these mortgage backed securities range from AAA to BB. The fair value is determined by reference to a third party's current market price of a similar instrument not held in the portfolio, which has a substantively similar subordination and credit rating structure. The credit margin of this benchmark instrument is adjusted to reflect the unique nature of the mortgage backed security held. These adjustments relate principally to whether the underlying pool of mortgages is residential or commercial and takes account of the expected average life of each tranche which is calculated by assessing the prepayment history. The expected cash flows of the investment are then discounted using quoted market discount rates and the adjusted credit margin.

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

24 Fair value (continued)

The following table provides an analysis on the carrying value of the mortgage backed securities and corresponding unrealised loss if one of the key assumptions (with all other variables remaining constant) above changed unfavourably:

GROUP & PARENT	2009 $000	2008 $000
Expected average life (+ 1 year)	2,020	2,194
Credit margins (+100 basis points)	1,256	761
Discount rates (+100 basis points)	1,256	761

The change in fair value of the mortgage backed securities subject to a valuation technique where some of the inputs are based on reference to the third party's current market price of a similar instrument for 2009 was a $20.4 million loss (2008: $9.7 million loss).

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

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.

The 2008 fair value for advances secured by mortgage has been restated to remove mortgages where individual impairment allowance had been provided after the actuarial's valuation was completed.

24 Fair value (continued)

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 2009	FAIR VALUE THROUGH PROFIT OR LOSS (DESIGNATED ON INITIAL RECOGNITION)		FAIR VALUE THROUGH PROFIT OR LOSS (HELD FOR TRADING)	
	CARRYING VALUE $000	FAIR VALUE $000	CARRYING VALUE $000	FAIR VALUE $000
Financial assets				
Cash and cash equivalents	-	-	-	-
Investment securities	665,352	665,352	-	-
Derivative financial instruments	-	-	874	874
Advances to clients	-	-	-	-
Trade receivables	-	-	-	-
Advances secured by mortgages	-	-	-	-
TOTAL FINANCIAL ASSETS	**665,352**	**665,352**	**874**	**874**
Financial liabilities				
Liabilities to clients – at call or short-term	-	-	-	-
Liabilities to clients – term deposits	-	-	-	-
Overdraft	-	-	-	-
Trade payables	-	-	-	-
Derivative financial instruments	-	-	10,270	10,270
TOTAL FINANCIAL LIABILITIES	**-**	**-**	**10,270**	**10,270**

GROUP 2008	FAIR VALUE THROUGH PROFIT OR LOSS (DESIGNATED ON INITIAL RECOGNITION)		FAIR VALUE THROUGH PROFIT OR LOSS (HELD FOR TRADING)	
	CARRYING VALUE $000	FAIR VALUE $000	CARRYING VALUE $000	FAIR VALUE $000
Financial assets				
Cash and cash equivalents	-	-	-	-
Investment securities	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**

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
-	-	14,538	14,538	-	-	14,538	14,538
-	-	97,381	97,647	-	-	762,733	762,999
2,808	2,808	-	-	-	-	3,682	3,682
-	-	6,267	6,267	-	-	6,267	6,267
-	-	4,445	4,445	-	-	4,445	4,445
-	-	292,322	299,707	-	-	292,322	299,707
2,808	**2,808**	**414,953**	**422,604**	**-**	**-**	**1,083,987**	**1,091,638**
-	-	-	-	479,792	479,792	479,792	479,792
41,129	41,125	-	-	563,834	566,633	604,963	607,758
-	-	-	-	2,946	2,946	2,946	2,946
-	-	-	-	2,872	2,872	2,872	2,872
3,863	3,863	-	-	-	-	14,133	14,133
44,992	**44,988**	**-**	**-**	**1,049,444**	**1,052,243**	**1,104,706**	**1,107,501**

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	312,808	-	-	317,124	312,808
1,103	**1,103**	**357,655**	**353,339**	**-**	**-**	**1,009,414**	**1,005,098**
-	-	-	-	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**

24 Fair value (continued)

PARENT 2009	FAIR VALUE THROUGH PROFIT OR LOSS (DESIGNATED ON INITIAL RECOGNITION)		FAIR VALUE THROUGH PROFIT OR LOSS (HELD FOR TRADING)	
	CARRYING VALUE $000	FAIR VALUE $000	CARRYING VALUE $000	FAIR VALUE $000
Financial assets				
Cash and cash equivalents	-	-	-	-
Investment securities	665,352	665,352	-	-
Derivative financial instruments	-	-	874	874
Advances to clients	-	-	-	-
Trade receivables	-	-	-	-
Due from subsidiary	-	-	-	-
Advances secured by mortgages	-	-	-	-
TOTAL FINANCIAL ASSETS	**665,352**	**665,352**	**874**	**874**
Financial liabilities				
Liabilities to clients – at call or short-term	-	-	-	-
Liabilities to clients – term deposits	-	-	-	-
Overdraft	-	-	-	-
Trade payables	-	-	-	-
Derivative financial instruments	-	-	10,270	10,270
Loan from subsidiary	-	-	-	-
TOTAL FINANCIAL LIABILITIES	**-**	**-**	**10,270**	**10,270**

PARENT 2008	FAIR VALUE THROUGH PROFIT OR LOSS (DESIGNATED ON INITIAL RECOGNITION)		FAIR VALUE THROUGH PROFIT OR LOSS (HELD FOR TRADING)	
	CARRYING VALUE $000	FAIR VALUE $000	CARRYING VALUE $000	FAIR VALUE $000
Financial assets				
Cash and cash equivalents	-	-	-	-
Investment securities	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**

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
-	-	14,521	14,521	-	-	14,521	14,521
-	-	97,381	97,647	-	-	762,733	762,999
2,808	2,808	-	-	-	-	3,682	3,682
-	-	6,267	6,267	-	-	6,267	6,267
-	-	3,881	3,881	-	-	3,881	3,881
-	-	-	-	-	-	-	-
-	-	292,322	299,707	-	-	292,322	299,707
2,808	**2,808**	**414,372**	**422,023**	**-**	**-**	**1,083,406**	**1,091,057**
-	-	-	-	479,792	479,792	479,792	479,792
41,129	41,125	-	-	563,834	566,633	604,963	607,758
-	-	-	-	2,946	2,946	2,946	2,946
-	-	-	-	2,793	2,793	2,793	2,793
3,863	3,863	-	-	-	-	14,133	14,133
-	-	-	-	5,773	5,773	5,773	5,773
44,992	**44,988**	**-**	**-**	**1,055,138**	**1,057,937**	**1,110,400**	**1,113,195**

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	312,808	-	-	317,124	312,808
1,103	**1,103**	**358,759**	**354,443**	**-**	**-**	**1,010,518**	**1,006,202**
-	-	-	-	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**

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 two different types of other price risk.

The Group has invested in interest bearing instruments where the value 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).

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 100 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 & PARENT	2009 $000	2008 $000
Local authorities	231	168
Banks	286	271
State owned enterprises	3	-
Mortgage backed securities	254	321
Corporates	405	426
	1,179	**1,186**

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 $450,000 (2008: $172,000).

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 loss

In addition to the items reported on the Statement of Financial Performance, loss is stated after charging or crediting the following:

	GROUP		PARENT	
	2009 $000	2008 $000	2009 $000	2008 $000
Fees and other revenue				
Fees from trust and other fiduciary activities	31,399	31,340	29,245	29,175
Fees from other services	8,609	8,040	10,052	9,738
Other revenue	779	764	567	488
Financial assets and financial liabilities not at fair value through profit or loss				
Interest revenue	28,632	29,335	28,632	29,335
Interest expense	(61,104)	(60,328)	(61,380)	(60,722)
Fee revenue	1,569	1,055	1,569	1,055
Fee expense	(203)	(114)	(203)	(114)
Net gains (losses)				
Financial assets/liabilities fair value through profit or loss				
Designated on initial recognition	(21,456)	(19,042)	(21,456)	(19,042)
Held for trading	(7,560)	(2,595)	(7,560)	(2,595)
Loans and receivables	-	1	-	1

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

The classification of recoveries from clients has changed from fees from trust and fiduciary activities to other revenue. The 2008 comparatives have been updated accordingly.

	GROUP		PARENT	
	2009 $000	2008 $000	2009 $000	2008 $000
Expenses				
Audit fees	234	235	229	230
Audit fees for non-consolidated managed funds	105	220	105	220
Other fees paid to auditors	50	104	50	104
Litigation settlement	29	12	29	12
Donations	13	16	13	16
Contribution to defined contribution plans	569	456	569	456
Fees on trust and other fiduciary activities	925	1,099	925	1,099

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

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

Employee remuneration

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

	GROUP & PARENT	
REMUNERATION BAND	2009 NUMBER OF EMPLOYEES	2008 NUMBER OF EMPLOYEES
$100,000 to $109,999	30	25
$110,000 to $119,999	11	7
$120,000 to $129,999	7	2
$130,000 to $139,999	4	9
$140,000 to $149,999	6	7
$150,000 to $159,999	3	2
$160,000 to $169,999	4	1
$170,000 to $179,999	1	1
$180,000 to $189,999	1	1
$200,000 to $209,999	2	3
$230,000 to $239,999	1	1
$240,000 to $249,999	1	2
$250,000 to $259,999	2	-
$410,000 to $419,999	-	1
$460,000 to $469,999	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 11 (2008: 9) members of the Board and 7 (2008:8) employees in the executive management team.

	GROUP & PARENT	
	2009 $000	2008 $000
Key management personnel compensation comprises:		
Short-term employee benefits	2,055	2,002
Post-employment benefits	3	2
Other long-term benefits	-	-
Termination benefits	-	131
	2,058	**2,135**

Within post-employment benefits are contributions to defined contribution plans of $3,000 (2008: $2,000).

Employment cessation payments

During the year, 33 employees received or will receive $1,334,000 (2008: three employees received a total of $262,000) relating to the cessation of their employment with Public Trust.

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

	GROUP & PARENT 2009		GROUP & PARENT 2008	
	BOARD $000	SUB-COMMITTEE $000	BOARD $000	SUB-COMMITTEE $000
Remuneration paid or payable to Board members:				
Donal Curtin	42	-	37	2
Peter Taylor[1]	-	-	14	-
Candis Craven[2]	21	2	11	1
David Edwards[3]	18	1	21	-
Rodger Finlay[4]	1	-	-	-
Robin Hill	26	5	25	5
Trevor Janes[4]	1	-	-	-
Fiona Pimm	21	-	21	-
Sarah Roberts	21	1	21	1
Hon. Matthew Robson[3]	18	1	21	1
Murray Weatherston	21	11	21	11
	190	**21**	**192**	**21**

[1] Retired in October 2007
[2] Appointed in January 2008
[3] Retired in April 2009
[4] Appointed in June 2009

Insurance and indemnities

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

Public Trust indemnifies 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	
	2009 $000	2008 $000	2009 $000	2008 $000
Loss before tax	(47,319)	(32,557)	(48,191)	(33,430)
Cash flow hedging reserve movement	(4,780)	(1,864)	(4,780)	(1,864)
	(52,099)	(34,421)	(52,971)	(35,294)
Income tax at 30%	(15,630)	(10,326)	(15,891)	(10,588)
Add (deduct) tax effect of temporary differences				
Non-deductible expenses	53	45	53	45
Non-taxable income	(11)	(11)	(11)	(11)
Prior period adjustment	132	(409)	132	(409)
Deferred tax expense relating to temporary differences	1,038	3,656	1,038	3,656
Deferred tax arising from losses written off	13,116	6,051	13,377	6,339
Retrospective adjustment in respect to group relief	-	-	-	(576)
Utilisation of losses	-	-	(261)	(288)
Utilisation of losses at a different marginal rate of tax	-	26	-	-
	(1,302)	(968)	(1,563)	(1,832)
Tax effect of movement in the cash flow hedging reserve	1,434	559	1,434	559
TAX EXPENSE (BENEFIT) PER STATEMENT OF FINANCIAL PERFORMANCE	**132**	**(409)**	**(129)**	**(1,273)**
Tax expense comprises:				
Current tax	-	-	-	-
Prior period adjustment	132	(409)	132	(409)
Deferred tax expense relating to temporary differences	(1,038)	(3,656)	(1,038)	(3,656)
Deferred tax allowance in respect to temporary differences	1,038	3,656	1,038	3,656
Deferred tax arising from losses	(13,116)	(6,051)	(13,377)	(6,339)
Deferred tax allowance in respect to losses	13,116	6,051	13,377	6,339
Utilisation of losses	-	-	(261)	(288)
Retrospective adjustment in respect to group relief	-	-	-	(576)
TAX EXPENSE (BENEFIT) PER STATEMENT OF FINANCIAL PERFORMANCE	**132**	**(409)**	**(129)**	**(1,273)**

In 2007/08 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 loss after tax to net cash flow from operating activities

	GROUP		PARENT	
	2009 $000	2008 $000	2009 $000	2008 $000
Loss after tax	(47,451)	(32,148)	(48,062)	(32,157)
Items relating to property, plant & equipment				
Depreciation	1,944	1,923	1,944	1,923
(Gains) losses on disposal of property, plant & equipment	99	23	99	23
GST on capital payables	(94)	103	(94)	103
Items relating to intangibles				
Amortisation	195	101	195	101
Gains (losses) on disposal of intangibles	-	-	-	-
Items relating to investment in subsidiary				
Management fee accrual	-	-	1,695	(1,695)
Subsidiary's utilisation of tax losses from the parent	-	-	(261)	(864)
Items relating to non-trading financial assets and financial liabilities				
Realised (gains) losses on disposal	(942)	(56)	(942)	(56)
Unrealised (gains) losses	22,334	18,838	22,334	18,838
Amortisation of premiums and discounts	(159)	(2,744)	(159)	(2,744)
Movement in accrued interest	(1,249)	1,147	(1,249)	1,147
Movement in impairment allowances	8,161	10,856	8,161	10,856
Write off of advances secured by mortgage	6,589	1,508	6,589	1,508
Movement in amortisation of origination fees and transaction costs	(156)	277	(156)	277
Write off of GST on receivables of uncertain timing	-	521	-	521
Other non-cash items				
Amortisation of lease incentives	(37)	(37)	(37)	(37)
Other items				
(Increase) decrease in trading investment securities	-	15,277	-	15,277
(Increase) decrease in trading derivative assets	12	2,254	12	2,254
(Increase) decrease in trade receivables	(377)	(472)	(380)	(343)
(Increase) decrease in sundry receivables	7	(124)	7	(124)
(Increase) decrease in prepayments	467	(271)	467	(271)
(Increase) decrease in current tax	176	(475)	176	(489)
Increase (decrease) in trade payables	(95)	756	(143)	729
Increase (decrease) in other payables	155	(943)	155	(943)
Increase (decrease) in trading derivative liabilities	9,980	797	9,980	797
Increase (decrease) in prepaid income	(65)	(86)	-	-
Increase (decrease) in employee benefits	(177)	464	(177)	464
Increase (decrease) in provisions	(15)	12	(85)	12
NET CASH FLOWS FROM OPERATING ACTIVITIES	**(698)**	**17,501**	**69**	**15,107**

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 (2008: $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 & PARENT	2009 $000	2008 $000
Reimbursement of expenses	1,463	1,712
Management fee received	3,658	3,956
Interest paid to Group Investment Funds	6	20
Interest received from Group Investment Funds	29	23

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 $14,000 (2008: $47,000 receivable).

The Common Fund is the primary banker for these funds. At balance date the funds had a total position of $136,000 (2008: $155,000).

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 2009, this was $1,443,000 (2008: $1,698,000). 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 Fund (PTSF). It was established under a Trust Deed dated 31 March 1993. A resolution was made under the terms of the Trust Deed by Public Trust to wind up the PTSF as at the end of June 2009. The PTSF is administered by Mercer Human Resource Consulting (Mercer). The Trustees are working with Mercer to wind up the PTSF.

29 Related parties (continued)

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 was open to all salaried employees at Public Trust.

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 2009 was $395,000 (2008: $380,000) and interest paid to the Group up to 30 June 2009 was $35,000 (2008: $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 $107.8 million compared with a budgeted increase of $36.2 million reflecting above budget growth in call deposits. The mortgage book reduced by $24.8 million including the impact of impaired mortgages, compared with budgeted growth of $48.2 million.

Revenue

Revenue was below budget by $2.8 million reflecting the impact of impaired mortgages in the Common Fund and lower than budgeted term deposit interest margins. Fee-earning revenue was close to budgeted levels, representing an increase of $598,000 over the previous year. Above budget revenue from estates, EPAs and Fee Protect were offset by below budget returns from conveyancing and mortgage fee revenue.

Expenses

Employee benefits exceeded budget as the result of personnel costs, including $1.4 million associated with restructuring expenses arising from implementation of the change programme, and above budget annual leave accruals.

Impairment losses on advances secured by mortgage

The establishment of a collective impairment allowance, and further individual impairment allowances have been necessary due to continuing widespread deterioration in the property market.

Investment losses

The budget provided for a return to profit of previously recognised unrealised losses. However, a continued reduction in the market value of interest bearing securities due to a widening of credit spreads resulted in additional unrealised investment losses being recognised. Public Trust policy is to hold securities to maturity and more than half of these losses will reverse to profit when the investment securities mature. Reversal of the losses on mortgage backed securities is less certain and will depend on the future performance of the underlying assets.

Profit and Equity

Profit before change programme costs, mortgage impairment losses and investment losses was $1.9 million below budget mainly as a result of the interest impact of impaired mortgages and lower than budgeted term deposit margins in the Common Fund interest margin. The continuing exceptional investment losses and mortgage impairments have resulted in negative equity at year end and a significant adverse variance against budget. The Crown approved a capital contribution of $30 million prior to balance date and this was received on 10 August 2009.

32 Post balance date events

Capital markets to which the Group's investment portfolio is exposed continue to exhibit signs of weakness and uncertainty.

Changes in the price elements underlying securities held in the Group's investment portfolio, and in particular credit margins on a small number of holdings, have impacted the valuation of securities. This has resulted in the recognition of unrealised losses of $1.2 million as a post balance date adjusting event.

The Crown approved a capital contribution of $30 million prior to balance date and this was received on 10 August 2009.

Statement of Service Performance

For the year ended 30 June 2009

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 2008/09 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:

(a) advice on Wills and the preparation of Wills;

(b) non-commercial services with respect to the protection of personal property rights;

(c) advice on behalf of incapacitated persons for the protection of personal property rights;

(d) non-commercial services for the administration of small and/or complex estates and trusts; and

(e) 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 2009 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 24,790 Wills (9,540 new and 15,250 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. Standards have been maintained and reviewed annually
Internal legal audit of 25 Wills per month will be undertaken with an error rate of no more than one requiring rewriting.	Achieved. Error rate was 2.18%
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 8.2
95% of Wills will be available for signing within seven days of taking instructions.	Not Achieved. 94.6% of Wills were available for signing within seven days of taking instructions

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 6,680 hours spent providing service under the Protection of Personal and Property Rights Act.	Achieved 6,935 actions and 7,911 hours

Quality and timeliness

PERFORMANCE MEASURE	ACHIEVEMENT
Administration of financial affairs: 95% reappointment as manager following review of management by Family Court.	Achieved. Reappointed 100% of occasions where reappointment required
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 for 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
1,400 enquiries on behalf of incapacitated persons. 1,000 hours spent providing services on behalf of incapacitated persons.	Not Achieved. 1,341 enquiries and 923 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 with no complaints received

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
1,000 new estates and 7,000 continuing estates. 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. 653 new estates and 6,079 continuing estates. The number of hours spent was 6,495 on administrating small and/or complex estates. 768 hours spent on advice, 363 hours on manual tax returns – 1,206 manual tax returns and 479 automated 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 with 13 contracts and 13 hours spent
10 contracts providing services involving public functions in relation to assets and rights of missing, unknown or incapable owners.	

Quality and timeliness

PERFORMANCE MEASURE	ACHIEVEMENT
98% compliance with agreed mandatory aspects of estate administration as shown by internal audit review.	Achieved
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)

Quantity

BUDGET	ACHIEVEMENT
Total appropriation $4,500,000.	Cost to the Crown $4,500,000
Expenses incurred (includes direct and allocated overhead costs) $10,825,000.	$10,364,131

Good Employer Report

For the year ended 30 June 2009

During 2008/09, 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, each of which is detailed below.

People and culture

During the 2008/09 year, Public Trust ran an employee survey measuring a number of constructs including employee engagement. There were significant increases from the previous year including the response rate which rose from 74% in 2007 to 91% in 2009.

Engagement across the organisation rose from 48% fully engaged in 2007 to 55% fully engaged in 2009. The engagement score of 55% is well above the global benchmark average of 34%, and just under the global and New Zealand high performing company benchmark of 60%.

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 134 positions in the 2008/09 year with 51 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. 64 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 $1,127 per employee including travel and accommodation. This included:

- 64 people undertaking orientation
- 528 people undertaking internal courses
- 137 people participating in external courses
- 34 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 continue 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.

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 45 employees who have flexible practices – being either reduced hours, compressed or reduced weeks or a proportion of hours from home.

Remuneration, recognition and conditions

For the 2008/09 year Public Trust continued 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 including high performer incentives and allowances.

Harassment and bullying prevention

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

Safe and healthy environment

The 2008/09 Health, Safety and Wellness (HS&W) work plan was designed to implement the systems and practices required to meet the tertiary level ACC Workplace Safety Management Practices (WSMP) audit requirements. The elements of the work plan built on the initiatives that had been completed to engage with employees and continue the strong leadership focus on HS&W. The tertiary standard was met at the audit in June 2009 and the result has been confirmed by ACC.

The elements of the HS&W programme include:

- a Steering Committee involving the Chief Executive and senior managers that meets monthly to champion the HS&W programme
- a national HS&W committee involving employee and management representatives. This committee meets quarterly to advise, monitor and review the HS&W programme
- Site Coordinators in each location to implement the HS&W programme in their area
- training for managers, employee representatives and Site Coordinators has continued during 2009
- regular review of incidents and actions identified to prevent harm to employees
- comprehensive review and improvement programme to upgrade all work locations to provide for the safety and security of employees
- wellness programmes including the provision of a debit card for health-related purchases or a contribution toward the cost of an eye examination and glasses; an online questionnaire about lifestyle factors and on-site visits by a health nurse to undertake health assessments completed by 217 employees; workplace counselling arrangements; influenza vaccinations taken up by 349 employees; and specific information prepared and distributed to employees to minimise the spread of communicable diseases. This was in response to the H1N1 pandemic situation.

The work plan for 2009/10 has been developed to sustain the tertiary accreditation and complete continuous improvement projects as identified through the annual review.

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Audit Report

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

For the year ended 30 June 2009

The Auditor-General is the auditor of Public Trust and Group. The Auditor-General has appointed me, Warren Allen, using the staff and resources of Ernst & Young, to carry out the audit. 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 2009.

Unqualified opinion

In our opinion:

- The financial statements of Public Trust and Group on pages 18 to 83:
  - comply with generally accepted accounting practice in New Zealand; and
  - fairly reflect:
    - Public Trust and Group's financial position as at 30 June 2009; 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 page 16 and 84 to 87:
  - 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 22 September 2009, and is the date at which our opinion is expressed.

The basis of the opinion, which refers to disclosures about the value of unlisted mortgaged backed securities, 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;

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- 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.

Disclosures about the value of unlisted mortgaged backed securities

In forming our unqualified opinion, we considered the adequacy of the disclosures in Note 24 on pages 67 and 68 about the value of unlisted mortgage backed securities of $38.0 million for which there is not an active liquid market and for which no quoted price is available. Although the fair value of these investments is based on the best available information, in the absence of an active, liquid market and quoted market prices, a high degree of uncertainty exists about that value, which could have a material effect on the Statement of Financial Performance and Statement of Financial Position. We consider the disclosures to be adequate.

Responsibilities of the Board and the Auditor

The Board is responsible for preparing financial statements and a 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 2009 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 the 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, we have carried out audit assignments of the Public Trust Investment Funds and Group Investment Funds, agreed upon procedures in relation to the half year financial statements of the Public Trust Investment Funds and Group Investment Funds and a review assignment of the Public Trust Investment Funds prospectus. Other than the audit and these assignments, we have no relationship with or interests in Public Trust or any of its subsidiaries.

Warren Allen

Warren Allen
Ernst & Young

On behalf of the Auditor-General
Wellington, New Zealand

Notes

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