Annual Report 2016

with you for generations to come

Public Trust

Under the Public Trust Act 2001, our required principal objective is to operate as an effective business. To this end we need to:

— be as efficient as comparable businesses that are not owned by the Crown;

— prudently manage our assets and liabilities;

— maintain financial viability in the long term;

— be a good employer; and

— be an organisation that exhibits a sense of social responsibility by having regard to the interests of the communities in which we operate.

This report covers the activities for the year ended 30 June 2016 and has been prepared to meet the requirements of:

— Section 150 of the Crown Entities Act 2004; and

— Public Trust's 2015 Statement of Intent.

On behalf of the Board we have the pleasure of presenting the annual report of Public Trust for the year 1 July 2015 to 30 June 2016.

Sarah Roberts
Chair

Dinu Harry
Chair, Audit Committee

7 October 2016

Public Trust has a long tradition of looking after the interests of New Zealanders – it's what we've been doing since 1873.

Contents

Highlights

Granted over
$11 million
through Charitable Trusts

Helped
355
new customers prepare for the future with a Pre-paid Funeral Trust

Protected the fees of
58,744
students through Fee Protect

Formalised our partnership with
Bupa Care Services NZ Limited (Bupa)
under a Memorandum of Understanding

Provided information to
180,651
visitors to our website

Managed over
7,500
estates

Entered into a 3-year agreement with
Alzheimers New Zealand

Managed
3,985
Family Trusts

Assisted
454
Charitable Trusts

Wrote over
6,500
Wills

Provided trustee oversight to
59
rural properties

Answered

96,415

customer calls through our contact centre

Trained

22 cadets

through Smedley Station, one of New Zealand's largest training farms

Supervised

$50 billion

in corporate trust mandates, including retail investment and KiwiSaver funds

Held more than

$1 billion

of funds under management through our investment and deposit services

Report from the Chair and Chief Executive

On behalf of the Board and Executive Team, we are pleased to present Public Trust's Annual Report for the financial year ended 30 June 2016.

"We are helping New Zealanders"

As the country's first and most enduring trustee services organisation, we have a long tradition of helping New Zealanders protect their interests and the interests of their families and businesses.

The communities we serve, how we operate and our industry have all changed over time, but our role has not. We were established in 1873 to help New Zealanders and this is still what we do today. We are a service based organisation and our customers are at the heart of that.

During the year we've continued to make changes to bring us closer to our customers. This has included redefining our culture, refreshing our Business Plan and working with our people to define our purpose and customer promise.

"We are growing our business"

This year has seen us build on the work completed last year to enable us to grow and increase profitability. We have achieved this by streamlining our pricing, enhancing our products and increasing productivity.

We've expanded our Corporate Trustee Services team to meet the growing demands of the business. This has cemented our position as a leading provider of independent supervisory and trustee services for the corporate market.

Our continued focus on business growth has seen us finish the year with a significantly improved net profit and revenue growth of 4% year on year – a fantastic result we are very pleased with.

"We are educating New Zealanders"

Our research tells us that many New Zealanders don't understand the importance of estate planning, or avoid the topic because they think it's too complicated and time consuming. This is reflected by the fact that more than 50% of New Zealanders over 18 don't have a Will, and even less have an Enduring Power of Attorney.

We have an opportunity here to fill the role of educator; to dispel myths, highlight the importance of estate planning and provide New Zealanders with the means to make sure they have adequately provided for themselves and their families.

This is where we see a real value in an online presence; ensuring this information is easily and readily available.

We also have an important role to play in supporting New Zealand's ageing population who have an immediate need for our services. Dementia rates are on the rise and increasing numbers of the country's elderly are falling victim to financial abuse. We have partnered with Bupa and Alzheimers New Zealand, giving us a solid platform from which to grow and ensure our most vulnerable are protected.

"We are accessible to all New Zealanders"

Our history, our profile and our national footprint provide us with a great platform to take advantage of an under-served, expanding and fragmented New Zealand trustee services market.

We constantly monitor market trends as we strive to meet the evolving needs of our customers. One trend we have observed during the year is a continuing increase in digital and online Wills services. Despite this our research shows only 8% of New Zealanders have opted to do their Will themselves or through an online provider.

We have concerns around the limitations of current online Will offerings, because when it comes to estate planning one size does not fit all – and our customer research supports this. While there is a place for online Wills, and we look forward to this being reflected in the sophistication and rapid growth of digital services in our industry, our first focus is on educating New Zealanders.

We are proud to be accessible to all New Zealanders through our nationwide network of Customer Centres and of our ability to provide face-to-face or phone-based expertise to tailor an estate planning solution for every individual and family.

"We are investing in our people and looking to the future"

We realise that our greatest advantage lies in the knowledge, care and expertise of our people. Their positivity and willingness to adapt to change has been reflected by substantial improvements in engagement and productivity.

We've made great progress this year, getting our people trained and ready for the launch of our new technology platform. As we enter the new financial year we will continue to invest in our people, by developing our leaders and increasing the capability of our frontline people.

We finish this reporting period with a great sense of positivity about our future. After several years of significant change and investment in our organisation we are well on our way to achieving our Business Plan goals and making our vision a reality "to be New Zealanders' first choice of trustee services provider".

Sarah Roberts
Chair

Bob Smith
Chief Executive

Our Board

Our Board is currently made up of seven members who have academic backgrounds in law, commerce, engineering, accounting and science, which they've used to gain local and international experience in law, accounting, banking, strategy, business and financial markets.

Chaired by Sarah Roberts, the Board comprises Simon Craddock, John Duncan, Dinu Harry, Lyn Lim, Fiona Oliver (Deputy Chair) and Diana Puketapu. The Board has responsibility for the affairs and activities of Public Trust and recognises the importance of focusing on governance and the long term sustainability of the business.

The Chief Executive is charged with the day to day management of Public Trust, and provides the principal link between the Board and management, acting within authorities delegated by the Board.

Sarah Roberts
Chair, ex-officio Member Audit, Due Diligence, Investment, Human Resources and Remuneration Committees

Huei Min (Lyn) Lim
Member Due Diligence Committee, Chair Human Resources and Remuneration Committee

John Duncan
Member Audit and Investment Committees

Diana Puketapu
Member Audit Committee, Chair Due Diligence Committee

Dinu Harry
Chair Audit Committee

Corporate governance

This section reports on our corporate governance framework. We have adopted the principles and recommendations set out in the Financial Markets Authority Handbook (FMA): Corporate Governance in New Zealand, Principles and Guidelines issued in December 2014. These are addressed in the section below and throughout the report.

Principle 1: Ethical standards

The Board operates under a charter which states members must comply with the express terms and spirit of their statutory obligations to Public Trust, including acting honestly, in good faith and in what they reasonably believe to be our best interests.

The Board must also comply with Public Trust's Ethics Framework and Code of Conduct Policy, and are provided with quarterly reports which detail any significant employee breaches of the Framework and Policy. These documents have been developed with external guidance from KPMG and the State Services Commission.

Each of these documents is available on our website at publictrust.co.nz/about-us/corporate-governance and reflects the FMA Principles and Guidelines in so far as they are applicable to Public Trust.

Principle 2: Board composition and performance

The structure of the Board is set out in the Public Trust Act 2001 and the Crown Entities Act 2004. Members are independent from Public Trust's Executive Team and are appointed and removed by our Responsible Ministers; the Minister of Justice together with the Minister of Finance. This process is managed by Treasury, in consultation with the Chair, in keeping with the appointment process for Crown Entities.

The performance of the Board, Committees, and Members is evaluated regularly. To help develop our Board and enable them to deliver market-leading Board of Director services, a Board performance assessment is facilitated by an external company annually.

All new Board Members are provided with a comprehensive Board manual and undergo a formal induction. This includes attending the Treasury's induction programme, sessions with the Executive Team and site visits. Board Members also undertake further education and training as necessary to ensure they have the skills and expertise needed to carry out their responsibilities.

Principle 3: Board Committees

The Board had four standing committees during the reporting period; Audit Committee, Due Diligence Committee, Investment Committee and Human Resources and Remuneration Committee.

Each Committee has a charter which sets out its roles, responsibilities, composition and structure. Charters are reviewed annually and are available on our website at publictrust.co.nz/about-us/corporate-governance.

The Board retains oversight over the Committees and is kept informed of any recommendations, issues and activities.

Principle 4: Reporting and disclosure

We have specific reporting requirements we must meet as a Crown Entity, and produce the following documents:

- our Statement of Intent sets out our strategic objectives and performance measures over a four year period;
- our Statement of Performance Expectations supports our Statement of Intent by providing detailed information about our planned outputs and desired results; and
- our Annual Report details our performance and progress against our Statement of Intent and Statement of Performance Expectations.

These documents are all available on our website at publictrust.co.nz/more-information/publications.

The Audit Committee assists with ensuring integrity of our financial reporting by overseeing and providing advice to the Board on Public Trust's financial statements.

We have an internal control framework in place that supports the preparation of quality financial statements. This includes a system of policies and procedures, adherence to standard New Zealand accounting practices, employing appropriately qualified and experienced personnel, the use of independent auditors and seeking guidance from other professional organisations as required.

Principle 5: Remuneration

The remuneration of Board Members is set by the Responsible Ministers in accordance with the State Services Commission's 'Cabinet Fees Framework' and as such, is independent from Public Trust.

The Human Resources and Remuneration Committee assists the Board in respect of the Chief Executive's remuneration. Each year prior to the Chief Executive's remuneration review, the Board consult with the State Services Commission which provides advice regarding expectations and remuneration movement. The Committee also approves (on behalf of the Board) Executive Team remuneration and incentive programmes.

Principle 6: Risk management

Public Trust's Statement of Intent details how risk is managed, and highlights key risks faced by the business and their respective mitigants. The Board receives six monthly enterprise risk reporting covering all material risks faced by Public Trust. The Audit Committee also receives six monthly reporting on compliance, regulations and key internal policies for controlling risk. The Executive Team has escalation processes in place to ensure the Board remains informed of significant compliance and risk issues.

Principle 7: Auditors

Our external audits are overseen by the Audit Committee and undertaken by the Auditor-General, who has appointed Stuart Mutch of Ernst & Young to carry these out for a term of five years, ending on or before 31 October 2016. The external auditors attend all Audit Committee meetings and meet with the Audit Committee independently of management at least five times per year.

The policy of the Board is that non-audit services for Public Trust may not be undertaken by, or sought from, our external auditors without the Audit Committee's approval.

Principle 8: Shareholder relations

Public Trust is an Autonomous Crown Entity and as a result may be directed by the Responsible Ministers to have regard to Government policy that relates to our functions and objectives. We can also be directed to give effect to a whole of government approach by the Ministers of Finance and State Services.

We have a 'no surprises' policy between the Executive Team and our Board, and the Board and the Minister of Justice.

The Board Chair meets with the Minister and attends Select Committee meetings as required. We provide quarterly reports to the Minister on matters of note, and as necessary when other matters arise. In addition to this our Chief Executive and Chief Financial Officer regularly meet with Treasury officials.

Principle 9: Stakeholder interests

We have a wide range of stakeholders we're responsible for delivering positive outcomes to. Our Ethics Framework and Code of Conduct Policy guide how we interact with our customers, employees, Responsible Ministers, partners and the communities we serve.

What we do

Our core business is providing estate planning and management services; trustee services for individuals, businesses, corporates and charities; personal management services; investments for fiduciary customers and protective fiduciary services to New Zealanders.

Estate planning

We write Wills and set up Enduring Powers of Attorney (EPAs) and help establish Trusts. Wills set out the wishes of our customers for how their affairs are to be managed after they're gone, EPAs specify who can take care of their personal or financial matters if they can't and Trusts allow them to protect and manage their assets.

Trust administration

We work with individuals, businesses and corporates to manage their funds and assets held in Family Trusts, Inheritance Trusts, Pre-Paid Funeral Trusts and Charitable Trusts. We also safeguard student fees on behalf of private training establishments through our Fee Protect service.

Estate management

We administer and manage approximately 7,500 immediately distributable and ongoing estates each year, carrying out the wishes of customers as set out in their Wills to ensure assets are transferred to beneficiaries as smoothly and efficiently as possible.

Executor Assist

We work with lawyers and private Executors to help them with some or all of the tasks associated with being an Executor. We complete probate applications, collect assets, pay liabilities, complete tax returns and sometimes completely manage estates on behalf of Executors.

Corporate Trustee Service

We provide specialist trustee services and leading prudential independent supervisory oversight to the New Zealand corporate market.

PPPR and Personal Assist

We provide personal management services under the Protection of Personal and Property Rights Act 1988 (PPPR) and our tailored personal management service, Personal Assist. We help customers manage their financial and property matters, including paying bills, managing bank accounts, buying or selling assets, arranging home repairs and applying for pensions when they're unable to.

Investment services for fiduciary customers

We provide investment management services to a range of customers ensuring they can access effective and appropriate advice. Our Common Fund is subject to strict investment guidelines, and comprises Trust accounts for fiduciary customers and Term Deposits which we pool and invest directly.

Social good

Under various statutes, we have specific responsibilities in relation to providing protective fiduciary services to New Zealanders. This includes PPPR and some estate management services, for which we receive funding from the Ministry of Justice through a Services Agreement. We are also required, in some instances, to act as Trustee of Last Resort and provide fiduciary services to individuals when there is no other provider, or when their needs are unlikely to be met by private sector trustee organisations.

Who we are

Our Executive Team of six have backgrounds in law, finance, insurance, business and telecommunications.

Led by Bob Smith our Chief Executive, the team comprises: Dennis Church, Karen Hutson, Matt Sale, Liz Style and Simeon Wright. During the financial year Monique Twort resigned as General Manager Business Customers and Rod Benjes resigned as General Manager Business Transformation Services.

Following these resignations and the confirmation of our 2016-2020 Business Plan, we have made changes to our Executive Team's structure to better support the growth of our business. This has involved ensuring support functions are more connected to our customer facing business units and as a result the areas that previously sat under Business Customers have shifted to other business units.

We have integrated our Charitable Services, Rural Property and Fee Protect teams under Retail, shifted reporting lines of our Investment Services, and Information and Technology Services to the Chief Financial Officer and formed a new Culture, Change and Capability business unit to help our people deliver on our Business Plan goals.

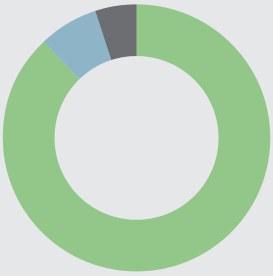
Our people

We're the proud employer of 329* individuals at 25 permanent locations. We have support sites in Auckland and Wellington, a contact centre in Christchurch and our Customer Centres and appointment only sites can be found across New Zealand from Whangarei to Invercargill.

Our workforce is as diverse as our customers, aged between 20 and 71 and made up of more than 14 different ethnicities. Our employees have experience from a range of industries including law, banking, finance, insurance, security, tourism, fashion, local government and technology.

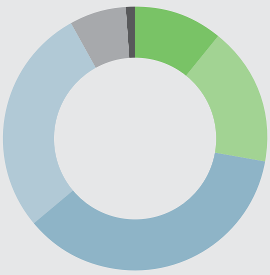
*not including contract or casual workforce

Workforce percentages



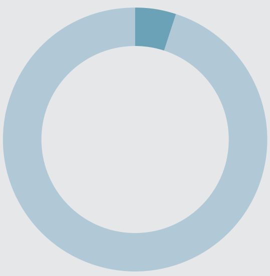
- **88%** Permanent full time
- **7%** Permanent part time
- **5%** Temporary full time

Age ranges and percentages



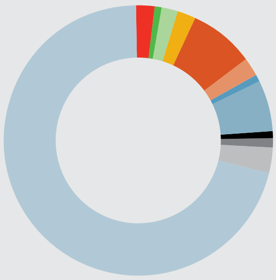
- **11%** 20-29
- **17%** 30-39
- **36%** 40-49
- **28%** 50-59
- **7%** 60-69
- **1%** 70-79

Disability



- **5%**

Ethnicities and percentages



- **8%** Asian
- **2%** Australian
- **1%** Dutch
- **6%** English / Irish / Scottish
- **2%** New Zealand Māori
- **1%** Other
- **2%** Pacific Islander
- **2%** South African
- **1%** European
- **1%** Greek
- **3%** Indian
- **71%** New Zealand European/Pakeha

Average service length

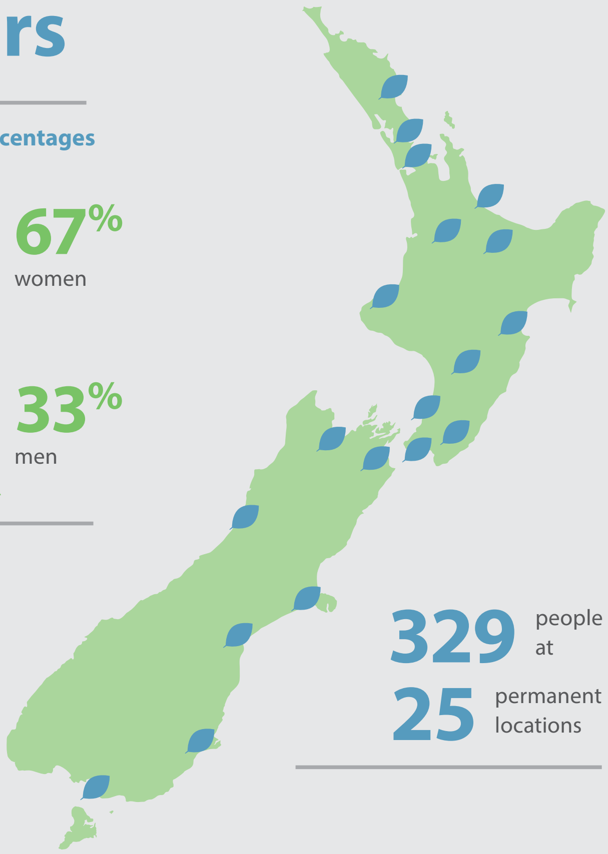
7 years

Gender split percentages

67% women

33% men

Permanent Locations



329 people at **25** permanent locations

How we look after our people

We recognise that a continued focus on people and culture is a critical success factor for our business. We are a member of the Equal Employment Opportunities (EEO) Trust and are committed to being a good employer. This is reflected in our EEO and Diversity Policy, Ethics Framework and Code of Conduct policy.

Culture and engagement

Our vision, purpose, promise, values and agreed behaviours help shape our culture. This is supported through our Culture Plan, internal communications, performance framework and rewards and recognition. We also conduct employee engagement surveys to identify specific areas we need to focus on.

Employee development and leadership

Our Performance Management Framework supports the management of individual employee's performance and development. Remuneration and development opportunities are linked to results. We capture and monitor key talent data which includes succession planning.

Developing and supporting our leaders is a priority and we're continuing to invest in them. This year all people leaders attended a three-day leadership development programme and our Executive Team participated in a number of externally facilitated sessions to support their learning and development.

Recruitment, selection and induction

Our recruitment strategy focuses on having a fast, thorough and targeted process that allows us to recruit the skills, capability and diversity needed to support the delivery of our Business Plan. We have recruitment policies in place to ensure we're using the best recruitment method, leveraging our in-house capability, and ultimately attracting the right people, in the most cost-effective way. We run an induction programme for all new employees.

Diversity and inclusion

We recognise a diverse workforce supports diverse thinking and thought processes. We are focused on eliminating bias in recruitment and selection, and actively seek out different skill and mind sets. We are committed to achieving a workforce that is as diverse as the communities we serve.

Flexibility and work design

We offer flexible working practices, balanced with our business priorities. Most employees can access their work email and phone from home. Part-time and flexible working hours are available to all who are interested, subject to the nature of their job. This particularly suits those returning to the workforce from parental leave, or who are preparing for retirement.

Harassment and bullying prevention

We maintain a zero tolerance policy towards bullying and harassment of any kind; this is reflected in a number of formal policies dealing with bullying, harassment and discrimination. We provide leader-led education to our people, supported by appropriate investigation and disciplinary action.

Health, safety and wellness at work

Our goal is to have a safe and healthy place of work and keep our employees, customers, visitors and contractors safe. We provide training and have clear procedures in place to support this. During the year we've updated our policies to reflect the Health and Safety at Work Act 2015 and these are helping to drive a culture of health, safety and wellness at Public Trust.

As part of our health, safety and wellness programme, which is led by our Board and Executive Team, we have a National Health and Safety Committee who provide governance and oversight of employee participation in health and safety. Each of our sites has a dedicated health, safety and wellness co-ordinator, a tailored site plan and emergency response guide. We provide our people with emergency kits, flu jabs and offer a subsidy for participation in sports events. We also have an employee helpline and assistance programme and offer access to discounted health insurance.

Risk Management

We have a Compliance and Risk Framework which uses risk assessment techniques to identify and control material risks in the business through policies, procedures and other controls, combined with control monitoring and regulatory analysis to ensure internal policies and external regulations are being complied with and are effective in managing risk.

How we're doing

Over the last two years we've been focused on addressing our business's under-performance and achieving our principal objective – to operate as an effective business.

In our 2015 Statement of Intent we outlined six strategic objectives and six business goals to enable us to achieve our overall goal to be a relevant and profitable business, delivering quality customer service. Through our annual business planning cycle we have further refined our focus and this is reflected in the Statement of Intent for the period 2016-2020. These new focus areas and associated goals are shown below.

Current reporting period

Objectives:

- be a simplified and focused business;
- be relevant and effective in how we attract and service customers;
- improve productivity and profitability and be commercially aware;
- streamline processes to improve efficiencies; and
- invest in IT and systems to de-risk the business and to allow more flexible and efficient service delivery.

Goals:

- **Corporate Trustee Services –** implement a growth and retention strategy to maximise opportunities;
- **culture –** build and support a customer centred, performance focused and commercially aware culture;
- **customer experience –** improve the quality of customer service delivery;
- **revenue –** ensure a stable revenue base for core profitability;
- **costs –** reduce the cost base and maintain a lower cost structure; and
- **Business Improvement Programme –** re-engineer the core business.

New reporting period for the 2016-2020 Statement of Intent

Strategic focus areas:

- culture and capability;
- revenue growth; and
- operational excellence.

Our goals:

- **market share –** provide trustee services to more New Zealanders;
- **productivity –** build a sustainable and profitable business by working smarter;
- **customer satisfaction –** make every customer interaction one worth sharing; and
- **business to business –** be a trusted partner of New Zealand businesses.

In the following section we take a closer look at how we've tracked against each of the goals (for the current reporting period), review the actions we've taken, measures for success and the outcome.

Our progress against our strategic goals

Culture

Current goal

Build and support a customer centred, performance focused and commercially aware culture.

Activity

Develop a culture change programme supported by communication and performance reporting. Develop a talent management programme.

Current strategic objective

Improve productivity and profitability and be commercially aware. Streamline processes to improve efficiencies.

The actions we've taken:

- redefined our culture and developed a Culture Plan;
- maintained a talent matrix to capture management and retention data;
- used our change and engagement survey results to identify three key focus areas to address through action planning; and
- introduced a strategy to use compliance and control monitoring to improve risk management.

Culture Plan

We've been on a journey of cultural transformation over the last few years to increase our customer focus and drive for higher performance.

This year we've built on the work done previously, developing a Culture Plan that assesses how our culture is currently positioned. We've redefined where our culture needs to be and we are moving towards a "customer intimate" culture that is based on employees embodying core behaviours around trust.

Changing our culture is fundamental to our success and achieving our Business Plan; our Culture Plan details the steps we need to take to re-align our culture over the next few years. We've started a programme of work to implement these changes and have made good progress this financial year.

We worked with our people to define our purpose and identity, and we've introduced new behaviours that reflect a customer intimate culture. These behaviours have been incorporated into our Performance Management Framework and every team across the business is in the process of discussing and agreeing how they will demonstrate these, ensuring accountability and engagement at all levels.

Talent management and retention

We've continued to use the talent management methodology we adopted in 2014 to ensure we have an organisational view of our key talent. We've introduced a talent matrix that captures key talent data including an assessment of performance, potential and successors for key leadership roles, development actions, and an assessment of turnover risk and potential impact on the business. This is presented, discussed and finalised at "talent round-tables" involving the Executive Team.

Employee engagement

We carried out Change and Employee Engagement surveys during the first quarter. The results of both surveys were positive, with our Employee Engagement score increasing for the first time in three years.

Almost all of the survey questions improved in score from our last survey in 2014, with significant gains in critical areas like clarity of vision, confidence in leadership, sense of common purpose, and communication.

Both surveys recognised the volume of change we've been through as an organisation and reflect that we've got a way to go when comparing ourselves against external benchmarks. We completed detailed action planning at a team and Executive level which helped us identify the year's three key focus areas for improvement – working together, high performance and communication.

Risk Management

To keep risk and compliance top of mind for our people we recently combined our enterprise risk management, regulatory compliance and risk assurance into a single function under the Head of Compliance and Risk.

This represents a coordinated strategy to use compliance and control monitoring insight to improve risk management, while giving the Board assurance that material risks and regulatory requirements are being appropriately managed. We will introduce a new internal controls framework during the 2017 financial year to drive greater integration and involvement of business units in compliance and risk management.

Measure	Outcome
Culture Plan – delivery of initiatives	The Executive Team attended a two-day targeted leadership development programme that focused on enabling them to effectively lead culture transformation within their teams and across the business. All 55 people leaders attended a three-day programme focused on the critical disciplines of being a leader. We conducted sessions around culture planning, change and transformation with the Executive Team and key leaders. We completed a re-launch of our vision, purpose and promise.
Level of turnover of high potential employees as measured through People and Culture reports to the Board (acceptable level of turnover 15%).	Turnover: 0%, for high potential employees in the business. Note: excludes changes to the Executive Team.
Employee engagement	83.1% of our people took part in the 2015 / 2016 engagement survey. We increased our engagement score from 29% (FY14) to 39% (FY16), which is lower than our projected target of 45%. This is attributed to the high volume of change and delays to the implementation of our technology platform.
Decrease in the total recordable injury rate, monitored through monthly reporting to the Executive.	The total recordable injury frequency rate for the year ended 30 June 2016 was 11.1. This is a decrease from a rate of 21.5 for the year ended June 2015 and is due to a reduction in medical treatment injuries.

Customer Experience

Current goal

Build and support a customer centred, performance focused and commercially aware culture.

Activity

Develop a culture change programme supported by communication and performance reporting. Develop a talent management programme.

Current strategic objective

Improve productivity and profitability and be commercially aware. Streamline processes to improve efficiencies.

The actions we've taken:

— restructured our business to enable the delivery of our strategic goals;

— increased our focus on customer feedback; and

— developed and implemented comprehensive learning pathways.

Our structure

This year we've been embedding the structural changes made to our Retail business to ensure accountability for decision making sits with our frontline people, as close to the customer as possible.

We reviewed and made some changes to our support functions to make sure our structure will assist the delivery of our strategic objectives. As a result, two new roles have been created; Head of Marketing and Partnerships and Head of Customer Experience.

Both report to the General Manager of Retail and have specific accountabilities which align to our Business Plan, focusing on educating and growing the trustee services market, and continuously improving the way our customers experience us across all channels.

We introduced a Service Quality role which reports to the Head of Customer Experience and focuses on using employee and customer feedback, complaints and research to identify product and process improvement opportunities.

We also reorganised our Legal and Risk, Finance and Executive teams to better connect our support functions to our customer facing business units, and formed a new Culture, Change and Capability business unit to help our people deliver on our Business Plan.

Research programme

We have refreshed our approach to measuring customer satisfaction and are now undertaking quarterly surveys of customers who have interacted with us during the previous quarter to ensure we are continuously improving our service based on direct feedback.

Learning, development and capability

In addition to our focus on creating a customer-intimate culture to increase accountability for customer outcomes, a key priority this year has been giving our people the technical skills to do their job and improve our customers' experience.

We've identified and addressed technical skill gaps within Retail through the development and implementation of comprehensive learning pathways. These are focusing on our core products and services and will ensure our people have the skills and experience required to meet our customers' needs. Trusts and Wills training has been delivered to over 120 employees to build capability and competence in relation to the products.

Measure	Outcome
Customer satisfaction measured through independent survey.	Our overall Customer Satisfaction result for the year was 87% which was over our target for the period of 84%[1]. This is a reduction on the 2015 result of 91%.
Reduction in number and level of complaints, as measured by the General Manager Retail's complaints log.	For the year ended 30 June 2016 we received 269 complaints, this is a decrease when compared with the 366 complaints received the year ended 30 June 2015. During the year 18 complaints were escalated to Financial Services Complaints Limited for mediation, an increase on the 11 complaints escalated during the previous year.

1. Independent survey of 779 respondents conducted by TNS.

Revenue

Current goal

Ensure a stable revenue base for core profitability.

Activity

Grow revenue through increasing market share and targeting profitable segments, improving awareness, and neutralising declining fees.

Current strategic objective

Improve productivity and profitability and be commercially aware. Streamline processes to improve efficiencies.
Be a simplified and focused business.
Be relevant and effective in how we attract and service customers.

The actions we've taken:

— leveraged our brand and marketing activity to reach more people;

— introduced new partnerships; and

— reviewed our key products, services and charges.

Brand and marketing activity

We've increased our brand and marketing activity this year, building on the momentum of last year to increase our brand awareness and revenue through print and digital advertising and advertorials.

We've attended and presented at a number of events including the Funeral Directors Expo and Annual Conference, New Zealand Law Society's Elder Law Intensive, Alzheimers New Zealand Conference, Northland Field Days and the Independent Tertiary Education New Zealand Annual Conference.

We worked with NZME and Ogilvy on "The Rightful Owners", a six week brand campaign which saw us engage with customers through digital media for the first time.

Partnerships and business-to-business

This year we've used our partnership with Plunket as a platform to provide and educate families on estate planning. We signed a three-year partnership with Alzheimers New Zealand that enables us to support individuals with dementia (and their families), by providing a free half hour consultation where they can access independent third party advice to help them protect and manage their interests and assets. We formalised our relationship with Bupa, becoming their provider of choice for estate planning. Bupa is a leading global health and care provider and is New Zealand's largest aged care provider.

We've identified business-to-business and partnerships as key areas where we can grow our revenue; this is reflected in our 2016 Business Plan and the creation of our new Head of Marketing and Partnerships role.

Product and pricing review

Following a review of our hourly rates, these were increased for the first time in six years. We also changed how we present these rates to the industry standard of exclusive of GST. This has made it easier for our customers to compare our prices with other trustee and legal service providers.

During the year we engaged an independent expert to conduct a comprehensive review of our investment programme, which found we are meeting our customer's needs well. Following the review we've rolled out some improvements to ensure our investment programme continues to meet industry best practice and remains an appealing service for our customers.

We completed a review of our Executor Assist product. As a result we have identified a number of enhancements to enable us to provide this service to more New Zealanders whether it's direct to individuals or by working with lawyers. These will be implemented during the new financial year.

Measure	Outcome
Market Share of Wills, EPAs and Estates	As at 30 June 2016, Probate Market Share is 10.8% and Wills Market Share is 16%. Based on TNS research undertaken quarterly.
Satisfactory progress towards achieving milestones and targets in product development projects.	Achieved. Pricing review and roll out of hourly rates increase completed. Improvements identified and implemented to our Investment Programme and designed the next phase of Executor Assist.
Financial measures	Refer to 'Financial Outcomes' on page 21.

Costs

Current goal

Reduce the cost base and maintain a lower cost structure.

Activity

Reduce and contain costs through improved efficiency and productivity. Implement premises and workforce plans.

Current strategic objective

Improve productivity and profitability and be commercially aware. Be a simplified and focused business.

The actions we've taken:

— increased productivity through better time management;

— reviewed and made changes to our premises; and

— shifted accountability for costs closer to the frontline.

Productivity

We introduced a number of initiatives to improve efficiencies and productivity. Our Retail business adopted the Weekly Rapid Action Planning System. This involves using visual management, problem solving and collaboration to increase team effectiveness, and is a system used by many high performing companies. We made process and policy improvements to increase consistency in how we record and charge time. This has seen us instigate smarter, more efficient ways of working and reduce our time spent on administrative tasks, resulting in an increase in productivity across our Retail business.

Premises

Our focus has been on ensuring that our premises are cost effective and meet our seismic and security policies.

This has seen us make deliberate moves away from ground floor locations and to higher grade buildings.

We made changes to our Henderson, Dunedin, Hamilton, Takapuna, Wanganui and Tauranga Customer Centre locations during the year. This included relocations, upsizing, downsizing and changing from full-time to appointment only sites.

Accountability for costs

As part of the restructure of our Retail business to ensure accountability for decision making sits with our frontline, we decentralised our profit centres. These were then split by region, putting accountability for costs back in the hands of our leaders locally.

This has provided greater transparency and awareness of costs at a local level and has been supported by regular visits to our Customer Centres from our Executive Team. These visits have also been an opportunity for the Chief Executive, General Manager of Retail and Chief Financial Officer to provide formal business mentoring with a focus on increasing financial acumen.

Measure	Outcome
Retail productivity	Retail productivity was 36.7% productivity at the beginning of the reporting period, with the year ending at 48.5%. This resulted in an 11.8% increase in productivity.
Satisfactory progress towards achieving milestones and targets in premises and workforce plans.	Satisfactory progress has been made. Premises plan: Due to the number of relocations we had this year we have increased our expenditure; however we've reduced our on-going rental costs as a result. Workforce plan: Overall workforce numbers were managed well and within budget throughout the year.
Financial measures	Refer to 'Financial Outcomes' on page 21.

Corporate Trustee Services

Current goal

Implement a growth and retention strategy to maximise opportunities.

Activity

Pursue growth opportunities. Continue to retain and increase market share. Address revenue risks.

Current strategic objective

Improve productivity and profitability and be commercially aware. Streamline processes to improve efficiencies.
Be a simplified and focused business.
Be relevant and effective in how we attract and service customers.

The actions we've taken:

— increased client engagement and enhanced reporting;

— focussed on training and growing capability; and

— rolled out process improvements.

Client engagement and reporting

During the year we've continued to concentrate on improving our service to our clients. We've grown the team and increased expertise, strengthened our client engagement and enhanced reporting, particularly around the communication of monitoring plans.

Training and capability

There have been a number of regulatory changes to our industry over the last few years.

Making sure our people have the capability and training they need to operate in this environment has remained a priority.

This has been enabled by weekly team meetings, increased interaction across the business and training through external providers.

Process improvements

We've updated a number of core processes to increase efficiencies as part of our preparation for the implementation of our new technology platform. We've also created process improvement streams across operations, business analysis and client management to align our products and services to meet increased regulatory requirements.

Measure	Outcome
Financial measures	Refer to 'Financial Outcomes' on page 21.
Satisfactory progress towards achieving milestones in implementing the Corporate Trustee Services growth and retention strategy.	Satisfactory progress was made during the year in terms of growth and retention strategy, regular business unit updates were provided to the Chief Executive and Board.

Business Improvement Programme

Current goal

Re-engineer the core business.

Activity

Implement the Target Operating Model and build a platform to profitably scale the business.

Current strategic objective

Improve productivity and profitability and be commercially aware. Streamline processes to improve efficiencies. Be a simplified and focused business. Be relevant and effective in how we attract and service customers. Invest in IT and systems to de-risk the business and to allow more flexible and efficient service delivery.

The actions we've taken:

- delivered Business Improvement Programme initiatives;
- prepared for the launch our new technology platform;
- delivered systems training to our people; and
- simplified our business.

Delivered Business Improvement Programme initiatives

During the year we've implemented the majority of our Business Improvement Programme (BIP) initiatives outlined in our 2015 Statement of Intent. As a result BIP's sole focus is now on launching our new technology platform. Further operating improvements unrelated to this are now the responsibility of individual business units as detailed in our 2016 Statement of Intent.

Preparing to launch our new technology platform

Our new technology platform replaces many core business applications and systems that haven't been updated in 25 years. During the year the process of migrating historical and complex data proved challenging.

As a result we temporarily delayed the implementation of our new technology platform, until we could be confident quality standards were met. Go-live is now scheduled to take place during quarter two of the new financial year.

Systems training

This year a key area of focus has been implementing Systems Training to our people in preparation for the launch of our new technology platform. This has included launching a Learning Management System as well as the analysis, design, development and delivery of training on 25 topics.

We've used a range of learning techniques to prepare our people, including live and pre-recorded online, eLearning modules, quick reference guides, assessments, practice activities using a training environment and face to face workshops.

Simplifying our business

We've continued to focus on simplifying our business, selling our home loans business to Avanti Finance and closing on-call accounts for overseas customers. This follows on from changes made previously; we have closed our Term Deposit book to new customers, ceased new mortgage lending and stopped accepting new deposits from existing customers.

Measure	Outcome
Systems training	237 frontline employees completed training on how to use the new technology platform when it launches.
Satisfactory progress towards achieving milestones in: Process workstream and Technology workstream, including funding stage gates.	Not achieved due to the delay to the implementation of our new technology platform. Milestones have been reset to reflect this.
Satisfactory progress towards achieving milestones in Target operating model workstream (includes capability and footprint as measured through BIP progress reports to the Board).	Achieved. We've embedded the changes made to the structure of our Retail business as measured in progress updates to the Board.
Board satisfaction in level of reporting and quality of governance of BIP. This will include independent review of BIP programme management.	Independent Quality Assurance of BIP continued throughout the year. Due to the delay to the implementation of our new technology platform the Board has formed a subcommittee to strengthen its oversight of the delivery of the new technology platform.

Financial outcomes

	2015 ACTUAL $000	2016 ACTUAL $000	2016 TARGET $000	2017 TARGET[4] $000
Ownership perspective				
Profit (Loss) after tax for the year	(2,875)	6,152	1,476	4,600
Return on equity[1]	(7.0%)	14.5%	3.7%	10.7%
Capital ratio[2]	10.9%	10.2%	>11%	>11%
Efficiency and effectiveness perspective				
Cost to income ratio[3]	96.2%	83.3%	91%	92%

1. Return on equity is surplus (deficit) (including investment gains ((losses)) after tax divided by the average of opening and closing equity. This ratio includes the benefit of tax losses.

2. Capital ratio is calculated in accordance with the Non-Bank Deposit Takers' Regulations.

3. Cost to income ratio is total expenses (including mortgage losses and excluding strategic change costs) divided by revenue (excluding investment gains ((losses)).

4. Source: Statement of Intent 2015 – 2018.

Statement of Performance

as at 30 June 2016

Public Trust and the Crown (acting through the Minister of Justice) have a Services Agreement under which the Crown purchases a range of non-commercial protective fiduciary services to ensure that all New Zealanders have access to estate and personal management services.

As a result Public Trust has one reportable output under section 149E(1)(a) of the Crown Entities Act that contributes to the Ministry of Justice outcomes of enabling access to justice for all, by providing quality fiduciary services.

Measuring the services we provide

Service	Measure	Achievement
Providing Protection of Personal Property Rights Act 1988 administration, audit and advice services to incapacitated persons, or under Public Trust agencies.	Number of actions undertaken for individuals who have Protection of Personal Property Rights.	5,422 actions undertaken (5,744 forecast)
Administration of small and/or complex estates and trusts, including providing advice and assistance to deal with assets that do not warrant formal administration, whether or not a Will has been made.	Hours to manage and advise on small estates and trusts	4,057 hours (3,969 forecast)

Revenue and expenses

Expected	Actual
Revenue $1.959 million Expenses $1.912 million	Revenue $1.723 million Expenses $1.723 million

Measuring our performance

The quality and impact of the services we provide and their contribution to Ministry of Justice outcomes are outlined in our **2015 Statement of Performance Expectations** these are measured below.

Outcome	Measure	Achievement
Access to quality justice services is known and available.	Nationwide network of Public Trust offices available during business hours.	We continue to maintain a mix of channels where the public can easily access our services: — we operate out of 25 dedicated and 16 appointment-only sites across New Zealand; — our Contact Centre is available between 8am and 5:30pm, Monday to Friday, through our 0800 number. Outages for the 2015/16 period totalled 0 hours; and — our website allows customers to get in touch online. Outages for the 2015/16 period totalled 8.25 hours.

Outcome	Measure	Achievement
Individual's rights are explained and defined.	All services comply with Court Orders, PPPR Legislation.	All services complied with Court Orders, PPPR Legislation.
The rights of represented individuals are protected and acted upon.	All services provided at an appropriate quality in a timely manner.	All services to the Crown were provided at an appropriate quality in a timely manner. This is reflected in our overall customer satisfaction score detailed below.
	All formal complaints are dealt with under the established Public Trust complaints procedure.	No formal complaints relating the non-commercial protective fiduciary services supplied to the Crown were received during the reporting period.

Additional measures relating to our contribution to the Ministry of Justice outcomes are outlined in our **2015 Statement of Intent;** and defined and measured below.

Outcome	We know we are delivering this outcome when:
Individual's rights are explained and defined.	— we have policies, systems and processes in place to support the delivery of high quality and consistent advice, and our internal quality assurance processes indicate these are working well; and — we receive enquiries from organisations and other professionals because we are recognised as being an authoritative source of advice.
The rights of represented individuals are protected and acted upon.	— by the number of people whose rights we actively protect; — by the number of people we help to protect indirectly through PPPR manager audits; and — by providing the Courts with guidelines aimed at ensuring the quality of PPPR managers.

Outcome	Measure	Achievement
Access to quality justice services is known and available.	Customer Satisfaction, measured through independent survey.	87% overall customer satisfaction. For further detail refer page 16 as measured in Customer Experience outcomes.
	Satisfactory progress towards achieving milestones in processes workstream and technology workstream of BIP, measured through BIP progress reports to Board.	Not achieved due to the delay to the implementation of our new technology platform.
	Reduction in number and level of complaints, as measured by General Manager of Retail complaints log.	Achieved. Complaints reduced during the year. For further detail refer page 16 as measured in Customer Experience outcomes.

Financial Information

Contents

Funds under Management

as at 30 June 2016

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

	2014 ACTUAL $M	2015 ACTUAL $M	2016 ACTUAL $M
Fiduciary assets			
Funds under management			
Common Fund	497	516	474
Managed Funds	371	379	554
Assets under management	2,971	2,666	2,575
Funds under supervision	46,058	53,145	50,231

Statement of Responsibility

for the year ended 30 June 2016

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

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

In the opinion of the Board of Public Trust, the financial statements and Statement of Performance for the year ended 30 June 2016 fairly reflect the financial position, results of operations and cash flows of Public Trust.

Sarah Roberts
Chair

Dinu Harry
Chair, Audit Committee

7 October 2016

Consolidated Statement of Financial Position

as at 30 June 2016

	NOTES	ACTUAL 2016 $000	UNAUDITED BUDGET 2016 $000	ACTUAL 2015 $000
Assets				
Cash and cash equivalents	5	18,465	26,000	10,000
Investment securities	6	465,514	414,337	492,585
Derivative financial instruments	7	-	-	68
Advances to clients		2,673	3,794	2,015
Trade receivables & work in progress	8	8,734	6,947	6,564
Advances secured by mortgage	9	1,694	31,529	45,692
Total financial assets		**497,080**	**482,607**	**556,924**
Sundry receivables		42	65	314
Prepayments		789	771	655
Current tax		171	244	415
Property, plant & equipment		3,620	4,539	3,948
Intangible assets	11	22,932	17,174	13,732
Total assets		**524,634**	**505,400**	**575,988**
Liabilities				
Liabilities to clients – at call or short term		414,836	396,382	445,813
Liabilities to clients – term deposits		51,157	53,932	70,538
Prepaid estate administration		361	400	387
Total liabilities to clients		**466,354**	**450,714**	**516,738**
Trade payables		3,572	2,898	3,822
Other payables	14	1,345	976	1,719
Derivative financial instruments	7	2,960	3,399	5,559
Prepaid income		46	350	68
Employee benefits	15	3,263	4,029	3,911
Provisions	16	1,522	690	4,958
Total liabilities		**479,062**	**463,056**	**536,775**
Equity				
Contributed equity		90,174	90,174	90,174
Cash flow hedging reserve		(108)	(1,251)	(315)
Retained earnings		(44,494)	(46,579)	(50,646)
Total equity	17	**45,572**	**42,344**	**39,213**
Total liabilities plus equity		**524,634**	**505,400**	**575,988**

For and on behalf of the Board, who authorised the issue of the financial statements on 7 October 2016.

The Notes to the financial statements form part of this financial statement.

Sarah Roberts
Chair

Dinu Harry
Chair, Audit Committee

Consolidated Statement of Changes in Equity

for the year ended 30 June 2016

	NOTES	**ACTUAL 2016** $000	UNAUDITED **BUDGET 2016** $000	**ACTUAL 2015** $000
Equity at the start of the year		39,213	41,732	42,855
Comprehensive income				
Other comprehensive income				
– movement in cash flow hedging reserve		207	310	(767)
Profit (loss) after tax		6,152	302	(2,875)
Total comprehensive income (loss) for the year		**6,359**	**612**	**(3,642)**
Equity at the end of the year	17	**45,572**	**42,344**	**39,213**

The Notes to the financial statements form part of this financial statement.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2016

	NOTES	ACTUAL 2016 $000	UNAUDITED BUDGET 2016 $000	ACTUAL 2015 $000
Revenue				
Revenue from financial instruments				
Interest from interest bearing securities		17,032	18,867	20,245
Interest from advances secured by mortgage		2,517	2,721	3,874
		19,549	21,588	24,119
Less: Interest expense		(7,566)	(10,590)	(12,155)
		11,983	10,998	11,964
Fees and commission revenue	25	44,276	45,541	41,208
Less: Fees and commission expense		(2,864)	(2,734)	(2,699)
Other revenue		252	50	80
Revenue from the Crown	27	1,723	1,959	2,627
Net Revenue		**55,370**	**55,814**	**53,180**
Expenses				
Employee benefits		31,123	32,700	35,074
Operating lease costs		3,014	3,188	3,545
Depreciation		1,324	1,604	2,822
Amortisation of intangible assets	11	645	1,867	792
Net (gains) losses on disposals of property, plant & equipment and intangible assets		(126)	100	(2)
Impairment on property, plant & equipment and intangible assets		-	-	79
Impairment (recoveries) losses on advances secured by mortgage		(494)	218	(1,015)
Other expenses	25	13,315	15,835	14,591
Total expenses		**48,801**	**55,512**	**55,886**
Net losses on financial instruments		(417)	-	(169)
Profit (loss) before tax for the year		**6,152**	**302**	**(2,875)**
Tax expense	10	-	-	-
Profit (loss) after tax for the year		**6,152**	**302**	**(2,875)**
Other comprehensive income				
Items that may be reclassified or profit or loss:				
Movement in cash flow hedging reserve	17	207	310	(767)
Total comprehensive income (loss) for the year		**6,359**	**612**	**(3,642)**

The Notes to the financial statements form part of this financial statement.

Consolidated Statement of Cash Flows

for the year ended 30 June 2016

	NOTES	**ACTUAL 2016** $000	UNAUDITED **BUDGET 2016** $000	**ACTUAL 2015** $000
Cash flows from operating activities				
Fees and other revenue		44,505	48,230	44,928
Interest revenue		25,462	21,588	30,241
Taxation paid		243	-	(170)
Payments to suppliers and employees		(55,629)	(54,285)	(51,485)
Interest paid		(11,615)	(10,590)	(18,012)
Net GST		(405)	(532)	(460)
Net cash flows from operating activities	26	**2,561**	**4,411**	**5,042**
Cash flows from investing activities				
Net flows from non-trading investments		66,611	33,321	(31,489)
Sale of property, plant & equipment		8	-	2
Purchase of property, plant & equipment		(957)	(1,430)	(857)
Purchase of intangible assets		(9,618)	(4,936)	(8,008)
Net cash flows from investing activities		**56,044**	**26,955**	**(40,352)**
Cash flows from financing activities				
Net (payments to) receipts from clients		(50,140)	(30,366)	19,639
Net cash flows from financing activities		**(50,140)**	**(30,366)**	**19,639**
Net increase (decrease) in cash and cash equivalents		**8,465**	**1,000**	**(15,671)**
Cash and cash equivalents at the beginning of the year		10,000	25,000	25,671
Cash and cash equivalents at the end of the year	5	**18,465**	**26,000**	**10,000**

The Notes to the financial statements form part of this financial statement.

Notes to the Financial Statements

1. GENERAL INFORMATION

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

Public Trust is a Crown Entity for the purposes of the Crown Entities Act 2004 and is domiciled in New Zealand. Public Trust's ultimate parent is the New Zealand Crown. Public Trust became a licensed supervisor on 10 April 2015 and is therefore deemed an FMC Reporting Entity for the purposes of the Financial Markets Conduct Act 2013 effective 1 April 2014.

2. BASIS OF PREPARATION

These financial statements are for the year ended 30 June 2016. They have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for profit-oriented entities. The financial statements also comply with International Financial Reporting Standards.

Comparatives

The comparatives presented are for the year ended 30 June 2015.

Certain immaterial comparative figures within the financial statements have been re-classified to align with the current period presentation.

Measurement basis

The financial statements have been prepared on a historical cost basis except for certain financial assets and financial liabilities which have been measured at fair value as outlined in Note 3.

Functional and presentation currency

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

Budget

The budget figures are not audited and are those included in the Statement of Performance Expectations for the 2016 year.

Use of judgements and estimates

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

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

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

Note 9 – Advances secured by mortgage

Note 10 – Non recognition of deferred tax assets

Note 11 – Intangible assets

Note 13 – Prepaid estate administration

Note 16 – Provisions

Note 21 – Credit risk

Note 23 – Fair value

Notes to the Financial Statements

3. ACCOUNTING POLICIES

New or amended financial reporting standards and interpretations adopted during the period

The Group applied, for the first time, certain amendments to standards. The nature and the impact of the amendments are described below:

2014 Omnibus amendments to NZ IFRS's

These amendments are effective for annual periods beginning after 1 April 2015. Amendments clarify minor points, align terminology with legislation and update editorial changes for various accounting standards, including NZ IFRS 7, NZ IFRS 10, NZ IAS 28 and FRS-44.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Public Trust and its subsidiaries as at and for the year ended 30 June 2016.

Subsidiaries are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of the subsidiaries are included in the consolidated financial statements from the date on which control commences until the date control ceases.

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any other components of equity. Any interest in the former subsidiary is measured at fair value when control is lost.

In preparing the consolidated financial statements, all intra-group balances and transactions, and unrealised income and expenses resulting from intra-group transactions, are eliminated. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Business combinations are accounted for using the acquisition method as at the acquisition date – i.e. when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

Financial instruments

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

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

Offsetting financial instruments

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

Recognition and derecognition

Purchases and disposals of financial instruments are accounted for on a trade date basis.

Financial assets are derecognised when the Group neither retains the risks and rewards of ownership nor controls the contractual rights to the cash flows arising from them. Financial liabilities are derecognised when the contractual obligations are discharged, cancelled or expired.

Effective interest rate method

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

Financial assets at fair value through profit or loss

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

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

Notes to the Financial Statements

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

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

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

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

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

Derivative financial instruments

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

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

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

Derivative financial instruments are valued on the basis of the mid-price of the bid/offer spread for the relevant interest rates. Any related revaluation of a hedged item is similarly valued on the same basis.

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

Derivative financial instruments designated as hedging instruments – cash flow hedges

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

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

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

Derivative financial instruments designated as hedging items – fair value hedges

Term deposit assets 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.

Derivative financial instruments, whose purpose is to match the changes in fair value of long-dated term deposit assets as interest rates change, are designated as fair value hedges. For designated and qualifying fair value hedges, the cumulative change in the fair value of a hedging derivative is recognised in profit or loss. Meanwhile, the cumulative change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item in the Statement of Financial Position and is also recognised in profit or loss.

Notes to the Financial Statements

Loans and receivables

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

Financial assets in this category include:

— cash and cash equivalents;

— term deposits;

— advances to clients;

— trade receivables;

— work in progress; and

— advances secured by mortgage.

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

Cash and cash equivalents

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

Investment securities

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

Advances to clients

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

Trade receivables

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

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

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

Work in progress

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

Advances secured by mortgage

Advances secured by mortgage are initially recognised at fair value plus any transaction costs that are directly attributable to the issue of the advance. Initial fair value is measured as the cost of the advance including origination fees as this is considered to best represent an exit price at the acquisition date.

Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by amortising advances secured by mortgage including fees and costs to profit or loss over the expected term of the advance.

Impairment of loans and receivables (other than advances secured by mortgage)

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

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

Impairment of advances secured by mortgage

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

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

Notes to the Financial Statements

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

Financial liabilities at fair value through profit or loss

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

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

Term deposit liabilities

Term deposits liabilities are carried at amortised cost.

Other financial liabilities include:

— liabilities to clients; and

— trade payables.

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

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

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

Foreign currency transactions

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

Intangible assets

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

Goodwill

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

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

Intangible IT assets

Intangible IT assets comprise computer software that is not integral to the operating systems of computer and server equipment. They 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. Costs incurred in developing internally generated software are recognised where the software qualifies for recognition as an intangible asset. Costs are accumulated as capital work in progress until the intangible IT asset is in a functional condition. They are then capitalised and amortised over the asset's estimated useful life of three to ten years using the straight-line method.

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

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

Notes to the Financial Statements

Impairment of non–financial assets other than goodwill

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

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

Any impairment losses are recognised in profit or loss.

Impairment of goodwill

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

Goodwill has been allocated to the Corporate Trustee Services cash generating unit (CGU), being the lowest level of asset group for which there are separately identifiable cash inflows. Impairment testing is done using a discounted cash flows model. Further details on the methodology and assumptions used are outlined in Note 11.

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 contracting party. The liability to these contracting parties is valued at the net present value of the estimated cost necessary to complete the contract, determined in accordance with the probabilities associated with life expectancy.

Employee benefits

Annual leave

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

Sick leave

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

Long-service leave

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

Notes to the Financial Statements

Leases

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

Lease incentives

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

Tax

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

Current tax

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

Deferred tax

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

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

Goods and services tax

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

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

Receivables and payables are recognised inclusive of any applicable GST.

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

Fee revenue

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

Fees

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

Revenue from the Crown

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

Notes to the Financial Statements

Presentation of cash flows

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

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

Commitments

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

New financial reporting standards approved but not yet effective

The following new or amended standards and interpretations, which are applicable to the Group, are not yet effective for the year ended 30 June 2016, and have not been applied in preparing these financial statements:

NZ IFRS 9 Financial Instruments

In September 2014, the New Zealand Accounting Standards Board (NZASB) issued the final version of NZ IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces NZ IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of NZ IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. NZ IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The standard aligns hedge accounting more closely with common risk management practices. Changes in own credit risk in respect of liabilities designated at fair value through profit or loss can be presented within Other Comprehensive Income. The new impairment model is based on expected credit losses, which is likely to result in earlier recognition of impairment losses. The Group is assessing the impact of NZ IFRS 9 and plans to adopt the new standard on the required effective date.

NZ IFRS 15 Revenue from Contracts with Customers

NZ IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under NZ IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in NZ IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard will supersede all current revenue recognition requirements under NZ IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Group is currently assessing the impact of NZ IFRS 15 and plans to adopt the new standard on the required effective date.

NZ IFRS 16 Leases

NZ IFRS 16 requires a lessee to recognise a lease liability reflecting future lease payments and a "right-of-use asset" for virtually all lease contracts. This standard applies from periods commencing on or after 1 January 2019, however early adoption is permitted, but only in conjunction with NZ IFRS 15, Revenue from Contracts with Customers. The Group is assessing the impact of NZ IFRS 16 and plans to adopt the new standard on the required effective date.

4. SUPPLEMENTARY INFORMATION

Crown guarantee

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

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

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

Notes to the Financial Statements

5. CASH AND CASH EQUIVALENTS

	2016 $000	2015 $000
Cash at banks	6,188	3,075
Money market deposits at call	12,277	6,925
	18,465	**10,000**

6. INVESTMENT SECURITIES

	2016 $000	2015 $000
Designated at fair value through profit or loss		
Interest bearing securities		
State owned enterprises	-	3,976
Mortgage backed securities	1,547	2,060
Corporates	133,247	79,117
	134,794	85,153
Loans and receivables		
Term deposits subject to fair value hedges		
Banks	86,740	56,848
State owned enterprises	16,470	16,460
Corporates	-	14,294
Term deposits		
Banks	190,503	276,068
State owned enterprises	37,007	43,762
	330,720	407,432
	465,514	**492,585**

Notes to the Financial Statements

7. DERIVATIVE FINANCIAL INSTRUMENTS

	2016 $000	2015 $000
Assets		
Interest rate swaps		
Cash flow hedge accounted	-	68
	-	**68**
Liabilities		
Interest rate swaps		
Cash flow hedge accounted	1,987	4,480
Fair value hedge accounted	973	1,079
	2,960	**5,559**

8. TRADE RECEIVABLES & WORK IN PROGRESS

	2016 $000	2015 $000
Accrued interest	35	48
Fees receivable from the Crown	164	-
Receivables of uncertain timing	2,804	2,522
Less: Collective impairment allowance	(250)	(354)
Fees receivable	2,179	1,653
Less: Collective impairment allowance	(128)	(248)
Work in progress	3,929	2,942
Other	1	1
	8,734	**6,564**
Collective impairment allowance – Receivables of uncertain timing		
Opening balance	(354)	(858)
Charge for year	104	504
	(250)	**(354)**
Collective impairment allowance – Fees receivable		
Opening balance	(248)	(104)
Charge for year	120	(144)
	(128)	**(248)**

For significant judgements, estimates and assumptions applied refer to Note 21 Credit risk.

Notes to the Financial Statements

9. ADVANCES SECURED BY MORTGAGE

	2016 $000	2015 $000
Gross value	2,111	47,971
Less: Individual impairment allowance	(417)	(2,279)
Less: Collective impairment allowance	-	-
	1,694	**45,692**
Individual impairment allowance		
Opening balance	(2,279)	(2,783)
Charge for the period	-	(574)
Allowance utilised	1,305	48
Unused allowance reversed	557	1,030
Closing balance	**(417)**	**(2,279)**
Collective impairment allowance		
Opening balance	-	(570)
Unused allowance reversed	-	570
Closing balance	**-**	**-**

For significant judgements, estimates and assumptions applied refer to Note 19 Interest rate risk and Note 21 Credit risk.

10. INCOME TAX

Reconciliation of tax expense and the accounting profit:

	2016 $000	2015 $000
Profit (loss) before tax	6,152	(2,875)
Income tax at 28%	1,723	(805)
Non-deductible expenses for tax purposes	9	25
Adjustments in respect of current income tax of previous years	-	(92)
Adjustments in respect of temporary differences	(1,880)	1,307
Utilisation of previously unrecognised tax losses	148	(435)
Tax expense	**-**	**-**

The Group has tax losses of $51,806,549 (2015:$ 51,565,783) that are available indefinitely for offsetting against future taxable profits of the Group.

Deferred tax assets have not been recognised in respect of these losses as the recent history of operating losses and the timing of future operating profits means there is insufficient certainty to justify carrying a deferred tax asset (2015: $nil). If the Group were able to recognise all unrecognised deferred tax assets, the profit would increase by $17,409,634 (2015: $18,947,875).

Notes to the Financial Statements

11. INTANGIBLE ASSETS

	2016 $000	2015 $000
Intangible IT assets		
Cost		
Opening balance	12,277	11,663
Additions	26	11
Transfers from Intangible assets in development	904	603
Disposals	(2,294)	-
Closing balance	10,913	12,277
Accumulated amortisation & impairment		
Opening balance	(11,103)	(10,311)
Amortisation for the year	(645)	(792)
Disposals	2,294	-
Closing balance	(9,454)	(11,103)
Net carrying value	**1,459**	**1,174**
Intangible assets in development		
Opening balance	10,053	1,068
Additions	9,819	8,985
Transfers from property plant & equipment	-	603
Transfers to intangible IT assets	(904)	(603)
Closing balance	18,968	10,053
Goodwill arising on acquisition		
Opening and closing balance	2,505	2,505
Carrying value of intangible assets	**22,932**	**13,732**

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

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

— the recoverable amount of the CGU was $54.64 million (2015: $40.4 million) calculated on the basis of value in use, using a discounted cash flows model;

— future cash flows were projected out five years, based on the approved business plans for the years ending 30 June 2017 to 30 June 2021, with key assumptions being funds under supervision, business development initiatives, and operating costs. Key assumptions reflect past experience;

— fee revenue was assumed to remain consistent with the 2016 fee revenue adjusted for changes in funds under supervision over the projected period. Management determined budgeted contribution margin based on past performance and its expectations of market development;

— growth assumptions taking into account the competitive nature of the market have been applied;

— a terminal growth rate of 1.5% was applied (2015: 1.5%); and

— a pre-tax discount rate of 10.6% (2015: 11.3%) was applied to compute present value.

Notes to the Financial Statements

The prior year comparatives have been restated to reflect current year methodology.

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

12. INVESTMENTS IN SUBSIDIARIES

Public Trust by nature of its business has interests in a number of different entities.

Consolidated Subsidiaries

- Trading subsidiary – New Zealand Permanent Trustees Limited (NZPT) – licensed trustee.
- Non-trading companies – subsidiaries are non-trading and have no assets or liabilities.
- Nominee companies – subsidiaries are nominee companies established to undertake business either on behalf of corporate trustee clients in a fiduciary capacity or Public Trust for its managed funds operation. The assets and liabilities are held under trust and there is no impact on the Group's financial performance, financial position or cash flows.

All subsidiaries are 100% owned.

Unconsolidated Structured Entities

- Managed funds – as part of its service offering to customers, the Public Trust Group operates a number of group investment funds, established under the Public Trust Act 2001, to meet investment management needs of customers. At balance date there were 5 funds in operation (excluding the Funeral Trust Cash Fund) with unit holders' funds of $554m. Risk lies with the unit holders of the funds. The Group receives management and administration fees under the terms of the trust deeds as set out in Note 27 – Related parties. The Group does not hold units in the funds.
- Special purpose vehicles – unconsolidated entities wholly owned by the Public Trust Group. The shareholdings in these entities are held in a fiduciary capacity on behalf of the beneficial owners. These entities are incorporated for a narrow, well defined objective and operate within contractual financial and operating policies that the Group does not have power to alter. Risk lies with the beneficial owner. The Group receives a predetermined fixed fee directly from the beneficial owner for the fiduciary services provided.

The Group has not provided financial support to the funds and special purpose vehicles during the year and has no intention to provide support in the future.

13. PREPAID ESTATE ADMINISTRATION

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

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

The inflation rate used in the estimation of the liability, in excess of the amount included in the Common Fund, is consistent with the annual CPI inflation rate. This was 1.54% as at 30 June 2016 (2015: 1.63%). The estimated future cash flows are discounted at the 10 year rate of the New Zealand Government Bond yield curve of 2.6% at 30 June 2016 (2015: 3.7%). The discounted liability is included in other payables.

Notes to the Financial Statements

14. OTHER PAYABLES

	2016 $000	2015 $000
Employees and employee related	891	1,106
Other	454	613
	1,345	**1,719**

15. EMPLOYEE BENEFITS

	2016 $000	2015 $000
Annual leave	1,362	1,570
Sick leave	29	30
Long-service leave	1,571	1,966
Performance incentive payments	301	345
	3,263	**3,911**

The calculation of long-service leave assumed a salary increase of 2.5% (2015: 3.0%). An additional 1% increase in salary would increase the provision by $130,000 (2015: $142,000).

Notes to the Financial Statements

16. PROVISIONS

	Restructuring	Remedial work and litigation	Onerous leases	Make good	Total
	2016 $000	**2016** $000	**2016** $000	**2016** $000	**2016** $000
Opening balance	2,927	1,180	305	546	4,958
Additional provisions made	785	47	21	76	929
Amounts used	(2,661)	(324)	(24)	(130)	(3,139)
Unused amounts reversed	(452)	(385)	(297)	(92)	(1,226)
Closing balance	**599**	**518**	**5**	**400**	**1,522**
	2015 $000	**2015** $000	**2015** $000	**2015** $000	**2015** $000
Opening balance	370	720	-	-	1,090
Additional provisions made	3,902	1,127	305	546	5,880
Amounts used	(1,337)	-	-	-	(1,337)
Unused amounts reversed	(8)	(667)	-	-	(675)
Closing balance	**2,927**	**1,180**	**305**	**546**	**4,958**

Restructuring

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

Where the Group assesses that a present obligation exists in any such matter, a provision is recognised and is carried at the estimated amount of cash necessary to settle the obligation. Where it is expected that some or all of the 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. No insurance reimbursements expected upon the final resolution of some of these matters have been recognised within sundry receivables (2015: $nil).

Onerous leases

The provision for onerous leases arises from one non-cancellable contract where the unavoidable costs of meeting the contract exceed the economic benefits to be received from them.

Make good

The make-good provision relates to contractual obligations resulting from the Group entering into lease contracts. The lease obligations require the Group to make good the condition of the buildings upon terminating the lease and vacating the premises.

Notes to the Financial Statements

17. EQUITY

	2016 $000	2015 $000
Contributed Equity		
Opening and closing balance	**90,174**	**90,174**
Retained earnings		
Opening balance	(50,646)	(47,039)
Transfer from cash flow hedging reserve	-	(732)
Profit (loss) after tax	6,152	(2,875)
Closing balance	**(44,494)**	**(50,646)**
Cash flow hedging reserve		
Opening balance	(315)	(280)
Transfer to retained earnings	-	732
Net gains (losses) from changes in fair value	207	(774)
Less: Tax effect of above movement	-	-
Transferred to profit or loss	-	7
Less: Tax effect of above movement	-	-
Movement in cash flow hedging reserve	207	(35)
Closing balance	**(108)**	**(315)**
Equity at the end of the year	**45,572**	**39,213**

Capital management

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

— protect the interests of depositors and creditors;

— protect the interests of the Crown;

— ensure the safety of the capital position; and

— ensure the capital base supports the strategic business objectives and the agreed risk appetite.

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

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

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

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

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

Cash flow hedging reserve

The cash flow hedging reserve comprises the effective portion of the cumulative fair value of the interest rate swaps related to the on call client liabilities and floating rate mortgages, together with the related tax. The transfer to profit or loss is included within interest from interest bearing securities.

The ineffective portion of cash flow hedges recognised in net gains (losses) on financial instruments within profit or loss is a $4,987 loss (2015: $37,084 gain).

Notes to the Financial Statements

18. 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 22 Liquidity risk.

	Statement of financial position	Less than 12 Months	Greater than 12 Months	Statement of financial position	Less than 12 Months	Greater than 12 Months
	2016 $000	**2016** $000	**2016** $000	**2015** $000	**2015** $000	**2015** $000
Assets						
Cash and cash equivalents	18,465	18,465	-	10,000	10,000	-
Investment securities	465,514	335,194	130,320	492,585	343,471	149,114
Derivative financial instruments	-	-	-	68	52	16
Advances to clients	2,673	686	1,987	2,015	1,513	502
Trade receivables	8,734	5,680	3,054	6,564	4,096	2,468
Advances secured by mortgage	1,694	1,694	-	45,692	5,015	40,677
Total financial assets	**497,080**	**361,719**	**135,361**	**556,924**	**364,147**	**192,777**
Sundry receivables	42	42	-	314	314	-
Current tax	171	171	-	415	415	-
Total assets	**497,293**	**361,932**	**135,361**	**557,653**	**364,876**	**192,777**
Liabilities						
Liabilities to clients – at call or short term	414,836	414,836	-	445,813	445,813	-
Liabilities to clients – term deposits	51,157	47,106	4,051	70,538	62,758	7,780
Total liabilities to clients	**465,993**	**461,942**	**4,051**	**516,351**	**508,571**	**7,780**
Trade payables	3,572	3,572	-	3,822	3,822	-
Other payables	1,345	1,282	63	1,719	1,719	-
Derivative financial instruments	2,960	2,360	600	5,559	4,215	1,344
Total liabilities	**473,870**	**469,156**	**4,714**	**527,451**	**518,327**	**9,124**

Notes to the Financial Statements

19. INTEREST RATE RISK

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

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

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

Cash flow hedging

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

The periods in which the cash flows are expected to occur and in which they are expected to affect profit or loss is shown in Note 22 Liquidity risk.

Financial risk assessment

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

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

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

	2016 $000	**2015** $000
1 year Value-at-Risk at 95% confidence level	211	166

Notes to the Financial Statements

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

— A 1-year holding period assumes that it is possible to hedge or dispose of positions within that period. This may not be the case for certain highly illiquid assets or in situations in which there is severe general market illiquidity.

— A 95% confidence level does not reflect losses that may occur beyond this level. Even within the VaR model used there is a 5% probability that losses could exceed the VaR.

— VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the day.

— The use of historical data as a basis for determining the possible range of future outcomes may not always cover all scenarios, especially those of an exceptional nature.

— The VaR measure is dependent upon the Group's position and the volatility of market prices. The VaR of an unchanged position reduces if market price volatility declines and vice versa.

— VaR does not include the impact of changes in the weighted average life of Mortgage Backed Securities (MBS). It reflects potential VaR arising from interest rate and credit spread movements.

20. 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.

Public Trust's investment policy does not permit investment in foreign currency denominated securities.

Some supplier contracts, generally in relation to software licence agreements, are denominated in foreign currencies. These contracts are generally for non-material amounts and consequently no attempt is made to hedge the foreign currency risk.

Notes to the Financial Statements

21. CREDIT RISK

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

The carrying amounts of financial assets of $497.1 million (2015: $556.9 million) represent the maximum credit exposure.

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

	Advances to clients 2016 $000	Trade receivables and work in progress 2016 $000	Advances secured by mortgage 2016 $000	Advances to clients 2015 $000	Trade receivables and work in progress 2015 $000	Advances secured by mortgage 2015 $000
Work in progress	-	3,930	-	-	2,942	-
Neither past due nor impaired	2,673	3,827	-	2,015	2,872	39,607
Past due but not impaired	-	977	796	-	750	889
Impaired	209	378	1,315	1,485	602	7,475
Gross	2,882	9,112	2,111	3,500	7,166	47,971
Less: Allowance for impairment	(209)	(378)	(417)	(1,485)	(602)	(2,279)
Net	**2,673**	**8,734**	**1,694**	**2,015**	**6,564**	**45,692**

Advances to clients

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

The credit quality of advances to clients that are neither past due nor impaired is considered to be high as Public Trust is trustee and administrator of the debtor clients and generally has first call over the funds of that debtor. There has been no renegotiation of amounts that would be past due or impaired in 2016 (2015: nil).

Client overdrafts

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

Advances to client beneficiaries

Advances to client beneficiaries are repayable on demand and secured by statutory charge supplemented by an assignment of their interest in the relevant estate.

Advances to client estates are secured by statutory charge which may, where estate assets are not vested in the Group, be supplemented by registered charge.

To mitigate the risk:

— restrictions exist on when advances can be made;

— advances are limited to two thirds the value of the beneficiary's share in the estate;

— the Group administers the estate of these clients and has title to or security over their assets; and

— approval and review of the advance or overdraft requires delegated authority.

Trade receivables and work in progress

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

Notes to the Financial Statements

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

	2016 $000	2015 $000
Past due 1-30 days	194	140
Past due 31-60 days	136	186
Past due 61-90 days	96	58
Past due more than 90 days	551	366
Total	**977**	**750**

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

The following table provides an analysis of work in progress:

	2016 $000	2015 $000
Work in Progress	4,257	3,394
Discounts provided	(327)	(452)
Total	**3,930**	**2,942**

Receivables of uncertain timing

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

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

Advances secured by mortgage

The Group has policies and procedures to manage the credit risk of advances secured by mortgage. The primary objective is to continue to de-risk and to run off the current portfolio. New lending has now ceased and the majority of the portfolio was sold during the year with no gain or loss on disposal.

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

Notes to the Financial Statements

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

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

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

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

	2016 $000	**2015** $000
A	796	32,494
B	-	5,831
C	-	5,194
	796	**43,519**

The carrying amount of advances secured by mortgage that would otherwise be past due or impaired whose terms have been renegotiated is nil (2015: nil).

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

	Gross value **2016** $000	Impairment **2016** $000	Net value **2016** $000	Gross value **2015** $000	Impairment **2015** $000	Net value **2015** $000
Residential & residential investment	-	-	-	3,126	(1,406)	1,720
Commercial & development	1,315	(417)	898	4,349	(873)	3,476
	1,315	**(417)**	**898**	**7,475**	**(2,279)**	**5,196**

Notes to the Financial Statements

Investment securities and derivatives

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

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

Interest rate derivative counterparty credit risk is managed by:

— undertaking derivative transactions only with banks with a minimum long term credit rating of AA- (Standard & Poors or equivalent);

— including the market value of derivative exposure in the calculations of the credit exposure to that particular bank, which in turn is governed by credit limits; and

— acquiring derivatives with several different banks, thereby diversifying the counterparty exposure.

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

Credit ratings

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

	2016 $000	**2015** $000
Long-term credit rating		
AAA	1,547	2,060
AA	7,473	-
AA-	66,519	102,119
A+	37,034	24,227
A	10,004	14,978
A-	13,535	6,058
	136,112	**149,442**
Short-term credit rating		
A1+	268,765	299,183
A1	55,714	54,027
A2	23,387	-
	347,866	353,210
Unrated – other financial assets	13,102	54,272
Total financial assets	**497,080**	**556,924**

Notes to the Financial Statements

Offsetting financial assets and financial liabilities

The only entity within the Group to enter into offsetting agreements is the Parent who has entered into offsetting agreements with various NZ registered bank counterparties in relation to its transactional bank accounts and derivative transactions.

Cash and cash equivalents

Public Trust's transactional bank accounts are subject to an offset agreement that allows accounts with credit and debit balances to be offset for the purposes of clearing transactions and determining net interest on outstanding balances.

Individual accounts are subject to maximum overdraft limits within a maximum daily withdrawal limit of $45.0 million.

Derivatives

All derivative transactions entered into by the Parent are covered by the provisions of an ISDA Master Netting Agreement. A separate agreement is held with each counterparty although the agreements have common terms and conditions:

— Derivative transactions in the same currency and maturing on the same day with the same counterparty are intended to settle net.

— A defined default or termination event by either the Parent or by the counterparty gives the other party the right to demand the simultaneous net settlement of all outstanding derivative contracts between those parties.

— Frustrations to ordinary course of business settlements caused by circumstances such as natural or man-made disasters, clearance system failure, armed conflict or terrorism do not constitute default events and do not give rise to simultaneous net settlement rights.

— The agreements cover derivative transactions only. However, if a simultaneous net settlement right is triggered, the party with the net payment obligation has the right to draw any other non-derivative assets it holds with the other party into the Agreement and offset those against the net settlement obligation.

Investment securities

Under the provisions of the ISDA Master Netting Agreements, the investment securities held with each counterparty are available to offset any required simultaneous settlement obligation.

In the event of a default or termination event the Parent has sufficient cash and cash equivalents and investment securities assets with each counterparty to cover its net derivative positions.

Gross and net exposures together with the offsetting amounts available for each counterparty are disclosed in the following tables.

The disclosures set out in the tables include financial assets and financial liabilities that:

— are offset in the Group's financial statements; and

— are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the Statement of Financial Position.

Notes to the Financial Statements

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

2016	Gross amounts of recognised financial assets not subject to offset arrangements $000	Gross amounts of recognised financial assets subject to offset arrangements $000	Gross amounts of recognised financial liabilities set-off in the statement of financial position $000	Net amounts of financial assets presented in the statement of financial position $000
Cash and cash equivalents	12,697	16,750	(10,982)	18,465
Investment securities	231,143	234,371	-	465,514
Total financial assets subject to offsetting	**243,840**	**251,121**	**(10,982)**	**483,979**

		Amounts included in gross financial assets subject to offset that are not set-off in the statement of financial position		
2016	Net amounts of financial assets presented in the statement of financial position $000	Financial instruments $000	Cash collateral pledged $000	Net amount $000
Counterparty A	78,412	-	-	78,412
Counterparty B	72,512	-	-	72,512
Counterparty C	16,908	-	-	16,908
Counterparty D	72,309	-	-	72,309
Counterparties without offset arrangements	243,838	-	-	243,838
Total	**483,979**	**-**	**-**	**483,979**

Notes to the Financial Statements

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

2016	Gross amounts of recognised financial liabilities not subject to offset arrangements $000	Gross amounts of recognised financial liabilities subject to offset arrangements $000	Gross amounts of recognised financial assets set off in the statement of financial position $000	Net amounts of financial liabilities presented in the statement of financial position $000
Cash and cash equivalents	-	10,982	(10,982)	-
Derivative liabilities	-	2,960	-	2,960
Total financial liabilities subject to offsetting	**-**	**13,942**	**(10,982)**	**2,960**

		Amounts included in gross financial liabilities subject to offset that are not set-off in the statement of financial position		
2016	Net amounts of financial liabilities presented in the statement of financial position $000	Financial instruments $000	Cash collateral received $000	Net amount $000
Counterparty A	525	(525)	-	-
Counterparty B	335	(335)	-	-
Counterparty C	1,984	(1,984)	-	-
Counterparty D	116	(116)	-	-
Counterparties without offset arrangements	-	-	-	-
Total	**2,960**	**(2,960)**	**-**	**-**

Notes to the Financial Statements

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

2015	Gross amounts of recognised financial assets not subject to offset arrangements $000	Gross amounts of recognised financial assets subject to offset arrangements $000	Gross amounts of recognised financial liabilities set-off in the statement of financial position $000	Net amounts of financial assets presented in the statement of financial position $000
Cash and cash equivalents	7,274	9,955	(7,229)	10,000
Investment securities	246,620	245,965	-	492,585
Derivative assets	-	68	-	68
Total financial assets	**253,894**	**255,988**	**(7,229)**	**502,653**

		Amounts included in gross financial assets subject to offset that are not set-off in the statement of financial position		
2015	Net amounts of financial assets presented in the statement of financial position $000	Financial instruments $000	Cash collateral pledged $000	Net amount $000
Counterparty A	29,208	(711)	-	28,497
Counterparty B	108,395	(3,341)	-	105,054
Counterparty C	6,009	(1,318)	-	4,691
Counterparty D	105,492	(189)	-	105,303
Counterparties without offset arrangements	253,549	-	-	253,549
Total	**502,653**	**(5,559)**	**-**	**497,094**

Notes to the Financial Statements

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

2015	Gross amounts of recognised financial liabilities not subject to offset arrangements $000	Gross amounts of recognised financial liabilities subject to offset arrangements $000	Gross amounts of recognised financial assets set off in the statement of financial position $000	Net amounts of financial liabilities presented in the statement of financial position $000
Cash and cash equivalents	-	7,229	(7,229)	-
Derivative liabilities	-	5,559	-	5,559
Total financial liabilities	**-**	**12,788**	**(7,229)**	**5,559**

2015	Net amounts of financial liabilities presented in the statement of financial position $000	Amounts included in gross financial liabilities subject to offset that are not set-off in the statement of financial position: Financial instruments $000	Cash collateral received $000	Net amount $000
Counterparty A	711	(711)	-	-
Counterparty B	3,341	(3,341)	-	-
Counterparty C	1,318	(1,318)	-	-
Counterparty D	189	(189)	-	-
Counterparties without offset arrangements	-	-	-	-
Total	**5,559**	**(5,559)**	**-**	**-**

Notes to the Financial Statements

Further information on offset tables

Amounts included in gross financial assets/liabilities subject to offset that are not set-off in the Statement of Financial Position

These are amounts available to offset against the respective asset or liability that are not offset in the Statement of Financial Position because they do not meet the conditions required for offset at the reporting date. Either, the assets and liabilities subject to primary offset have differing maturity dates and are therefore not intended to settle net, or the conditions that would trigger a simultaneous net settlement do not currently exist.

Net amounts for each counterparty

For financial assets the net amount represents any residual assets available after all possible offset obligations have been satisfied.

For financial liabilities the net amount represents any residual obligations after all available assets subject to offset arrangement have been applied.

Measurement differences

A mismatch in the measurement base exists between derivative liabilities (measured at fair value) and the non-derivative assets available to offset.

The gross amounts of financial assets and financial liabilities and their net amounts disclosed in the above tables have been measured in the Statement of Financial Position on the following bases:

- cash and cash equivalents – cash settlement value;
- derivative assets and liabilities – fair value; and
- investment securities – fair value and amortised cost.

22. LIQUIDITY RISK

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

Public Trust administers trusts and estates on behalf of fiduciary beneficiaries. As part of its trustee functions Public Trust invests the assets of the trusts and estates on behalf of its clients. This is the principal source of Public Trust's liability deposits. Since Public Trust is the decision maker of these deposits, the risk of a sudden substantial withdrawal of deposits is deemed remote. Historically, the withdrawal of deposits arising from trusts and estates being wound up is largely offset by new deposits arising from the administration of new trusts and estates.

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

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

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

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

Non-derivative financial assets include:

- advances to clients repayable on demand, a portion of which collection is expected to be received after one year; and
- trade receivables of uncertain timing. Where collection is expected beyond 12 months, it is assumed they will be collected more than five years from the reporting date.

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

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

Notes to the Financial Statements

2016	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
Liabilities to clients – at call or short term	414,836	414,836	414,836	-	-	-	-
Liabilities to clients – term deposits	51,157	51,582	47,394	2,377	1,146	665	-
Trade payables	3,572	3,572	3,572	-	-	-	-
Other payables	1,345	1,345	1,282	63	-	-	-
Total non-derivative financial liabilities	470,910	471,335	467,084	2,440	1,146	665	-
Interest rate swaps							
Cash flow hedge accounted	1,987	129	129	-	-	-	-
Fair value hedge accounted	973	799	701	98	-	-	-
Total derivative financial liabilities	2,960	928	830	98	-	-	-
Total financial liabilities	**473,870**	**472,263**	**467,914**	**2,538**	**1,146**	**665**	**-**

Notes to the Financial Statements

2015	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
Liabilities to clients – at call or short term	445,813	445,813	445,813	-	-	-	-
Liabilities to clients – term deposits	70,538	71,647	63,550	5,668	1,678	751	-
Trade payables	3,822	3,822	3,822	-	-	-	-
Other payables	1,719	1,719	1,719	-	-	-	-
Total non-derivative financial liabilities	521,892	523,001	514,904	5,668	1,678	751	-
Interest rate swaps							
Cash flow hedge accounted	4,480	508	(343)	851	-	-	-
Fair value hedge accounted	1,079	1,815	1,141	591	83	-	-
Total derivative financial liabilities	5,559	2,323	798	1,442	83	-	-
Total financial liabilities	**527,451**	**525,324**	**515,702**	**7,110**	**1,761**	**751**	**-**

Notes to the Financial Statements

23. FAIR VALUE

Cash and cash equivalents, Advances to clients, Trade receivables, Trade payables

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.

Investment securities

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

The fair value hierarchy is as follows:

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

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

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

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

Advances secured by mortgage

Advances secured by mortgage are valued on the following basis (excluding mortgages subject to impairment):

— 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 carrying amount 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 liquidity.

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 subject to fair value hedges

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

— Deposits are aggregated into convenient groupings by month.

— The cash flows of each group are determined and then discounted at the relevant benchmark interest rate prevailing at balance date.

Derivatives

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

Notes to the Financial Statements

Recurring fair value measurement – Level 1 and Level 2

	Carrying value **2016** $000	Fair value **2016** $000	Carrying value **2015** $000	Fair value **2015** $000
Level 1	-	-	-	-
Total for level 1 assets	**-**	**-**	**-**	**-**
Level 2				
Financial assets measured at fair value through profit or loss				
Interest bearing securities				
State owned enterprises	-	-	3,976	3,976
Corporates	133,247	133,247	79,117	79,117
Derivative financial instruments				
Interest rate swaps				
Cash flow hedge accounted	-	-	68	68
Loans and receivables				
Term deposits subject to fair value hedges				
Banks	86,740	86,740	56,848	56,848
State owned enterprises	16,470	16,470	16,460	16,460
Corporates	-	-	14,294	14,294
Term deposits				
Banks	190,503	196,670	276,068	296,509
State owned enterprises	37,007	38,317	43,762	27,719
Total for level 2 assets	**463,967**	**471,444**	**490,593**	**494,991**
Liabilities at fair value through profit or less				
Derivative financial instruments				
Interest rate swaps				
Cash flow hedge accounted	1,987	1,987	4,480	4,480
Fair value hedge accounted	973	973	1,079	1,079
Total for level 2 liabilities	**2,960**	**2,960**	**5,559**	**5,559**

Notes to the Financial Statements

Recurring fair value measurement – Level 3

	Carrying value **2016** $000	Fair value **2016** $000	Carrying value **2015** $000	Fair value **2015** $000
Level 3				
Financial assets measured at fair value through profit or loss				
Interest bearing securities				
Mortgage backed securities	1,547	1,547	2,060	2,060
Loans and receivables				
Advances secured by mortgage	1,694	1,694	45,692	45,688
Total for level 3 assets	**3,241**	**3,241**	**47,752**	**47,748**

	2016 $000	**2015** $000
Level 3 reconciliation of financial assets measured at fair value through profit or loss		
Opening balance	2,060	2,707
Movements through profit or loss		
Net (losses) gains on financial assets/liabilities at fair value	(61)	23
Movement in accrued interest	(2)	(3)
Sales	(450)	(667)
Closing balance	**1,547**	**2,060**

Notes to the Financial Statements

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

	2016 $000	**2015** $000
100 point increase in credit margin	2,082	1,255
90 days increase in weighted average life (Mortgage Backed Securities)	5	2

24. OTHER PRICE RISK

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

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

Credit spreads

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

	2016 $000	**2015** $000
Banks	1,737	686
State owned enterprises	-	7
Mortgage backed securities	72	93
Corporates	273	469
	2,082	**1,255**

Notes to the Financial Statements

25. REVENUES ARISING AND EXPENSES INCURRED IN ARRIVING AT PROFIT OR LOSS

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

	2016 $000	2015 $000
Fees and other revenue		
Fees from trust and other fiduciary activities	40,985	40,231
Fees from other services	2,027	3,588

Other expenses include the balances in the table below.

	2016 $000	2015 $000
Audit fees	343	320
Audit fees for non-consolidated managed funds	51	113
Other fees paid to auditors	9	45
Donations	-	-
Contribution to defined contribution plans	734	874
Fees on trust and other fiduciary activities	3,144	3,068

Other fees to auditors comprise fees for remuneration benchmarking services.

Notes to the Financial Statements

Employee remuneration

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

	Number of employees 2016	Number of employees 2015
$100,000 to $109,999	12	13
$110,000 to $119,999	16	19
$120,000 to $129,999	10	12
$130,000 to $139,999	5	6
$140,000 to $149,999	4	1
$150,000 to $159,999	6	7
$160,000 to $169,999	3	3
$170,000 to $179,999	2	1
$180,000 to $189,999	1	3
$190,000 to $199,999	1	4
$220,000 to $229,999	1	1
$230,000 to $239,999	1	1
$260,000 to $269,999	-	1
$270,000 to $279,999	2	-
$280,000 to $289,999	1	1
$290,000 to $299,999	-	1
$300,000 to $309,999	-	1
$310,000 to $319,999	1	-
$330,000 to $339,999	2	-
$460,000 to $469,999	-	1
$480,000 to $489,999	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.

Notes to the Financial Statements

Key management personnel

Key management personnel comprises members of the Board, the Chief Executive, permanent, seconded or contracted members of the Executive. Key management personnel compensation comprises:

	2016 $000	**2015** $000
Short-term employee benefits	2,484	2,002
Short-term contractor benefits	37	656
Post-employment benefits	51	69
Termination benefits	200	-
	2,772	**2,727**

Employment cessation payments

During the year, 50 employees received or will receive collectively $2,660,767 (2015: 70 employees received a total of $3,893,894) relating to the cessation of their employment with Public Trust.

Board member remuneration

	Board **2016** $000	Sub-committee **2016** $000	Board **2015** $000	Sub-committee **2015** $000
Remuneration paid or payable to Board members:				
Sarah Roberts	56	-	56	-
Fiona Oliver	35	6	35	6
Dinu Harry	28	4	28	5
Sue McCormack (resigned 30 April 2016)	27	3	28	5
Diana Puketapu	28	1	28	2
David Tapsell (resigned 31 October 2015)	9	1	28	4
Lyn Lim (appointed 23 July 2014)	28	4	27	-
Michelle van Gaalen (appointed 23 July 2014, – resigned 31 August 2014)	-	-	3	-
Simon Craddock (appointed 1 November 2015)	18	2	-	-
John Duncan (appointed 1 November 2015)	18	2	-	-
	247	**23**	**233**	**22**

Insurance and indemnities

Public Trust effects Board member and officers' liability, statutory liability and professional indemnity insurance cover in respect of liability for loss or costs incurred by a member of the Board or an employee of Public Trust (or any of its subsidiaries) in the course of their duties to Public Trust. Public Trust indemnifies certain employees in accordance with the Crown Entities Act 2004.

Notes to the Financial Statements

26. RECONCILIATION OF PROFIT (LOSS) AFTER TAX TO NET CASH FLOW FROM OPERATING ACTIVITIES

	2016 $000	2015 $000
Profit (loss) after tax	**6,152**	**(2,875)**
Items relating to property, plant & equipment		
Depreciation	1,324	2,822
Gains on disposal of property, plant & equipment	(106)	(2)
Items relating to intangible assets		
Amortisation	645	792
Gains on disposal of intangible assets	(20)	-
Impairment of intangible assets	-	79
Movement in accrued purchases of intangible assets	(151)	-
Items relating to non-trading financial assets and financial liabilities		
Realised (gains) losses on disposal	(61)	323
Unrealised losses (gains)	477	(154)
Amortisation of premiums and discounts	25	195
Movement in accrued interest	1,947	50
Movement in impairment in advances to clients	(1,153)	-
Movement in mortgage impairment allowances	(1,862)	(1,074)
Write off of advances secured by mortgage	1,862	1,078
Other items		
(Increase) decrease in trade receivables and WIP	(2,170)	1,980
Decrease (increase) in sundry receivables	272	(132)
Increase in prepayments	(134)	(10)
Decrease (increase) in current tax	244	(172)
Decrease in trade payables	(250)	(670)
Decrease in other payables	(374)	(173)
Decrease in prepaid income	(22)	(22)
Decrease in employee benefits	(648)	(352)
(Decrease) increase in provisions	(3,436)	3,359
Net cash flows from operating activities	**2,561**	**5,042**

Notes to the Financial Statements

27. RELATED PARTIES

Crown related parties

All significant transactions with Crown related entities are disclosed below.

Revenue

Revenue from the Crown mainly arises from an output agreement between the Public Trust and the Minister of Justice (with the agreement of the Minister of Finance). The agreement covers certain non-commercial services that are either paid for or subsidised by the Crown to ensure that, among other things, reasons of affordability do not prevent or preclude New Zealanders from obtaining key services relating to the management of their estates and personal affairs.

	2016 $000	**2015** $000
Revenue from Crown	1,723	2,627
Crown Receivable	164	-

Taxes and levies

In conducting its business activities, Public Trust is required to pay various taxes and levies to the IRD, ACC and other organisations related to the Crown (such as GST, FBT, PAYE and ACC). The payment of these taxes and levies is based on standard terms and conditions that apply to all tax and levy payers.

Significant investment transactions with Crown

Significant investment transactions with Crown related entities are summarised below.

	Net interest revenue	Purchases	Sales/ maturities	Holdings at Year end
2016	$000	$000	$000	$000
State owned enterprises	3,391	71,500	81,965	53,477
NZ Government mixed ownership	-	-	-	-
	3,391	**71,500**	**81,965**	**53,477**
2015	$000	$000	$000	$000
State owned enterprises	2,285	82,918	69,883	64,198
NZ Government mixed ownership	-	-	3,993	-
	2,285	**82,918**	**73,876**	**64,198**

Notes to the Financial Statements

Group Investment Funds

Public Trust manages 5 (2015: 11) Group Investment Funds, including the Funeral Trust Cash Fund. The following transactions took place in relation to Group Investment Funds during the year.

	2016 $000	**2015** $000
Reimbursement of expenses	-	77
Management fee received	3,894	3,904
Advice and service fee	979	1,052

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

Funeral Trust Cash Fund

The Funeral Trust Cash Fund (the Fund) is a Portfolio Investment Entity (PIE) managed fund structure. Funds invested are protected by the Crown guarantee on capital and interest because fund balances are all held within the Common Fund (including revenue earned, investment and cash balances). Public Trust has significant influence over the Fund as it acts as the trustee, manager and administrator of the Fund. Transactions that took place during the year in relation to the Fund include the following.

	2016 $000	**2015** $000
Interest paid	322	558
Total balances with the Common Fund at end of the year	30,022	31,366

Notes to the Financial Statements

New Zealand Permanent Trustees Limited

New Zealand Permanent Trustees Limited is a wholly owned subsidiary and the Parent receives a management fee from New Zealand Permanent Trustees Limited for services provided. All transactions between the Parent and New Zealand Permanent Trustees Limited were on normal terms and conditions. All intercompany balances are fully eliminated on consolidation. No outstanding amounts have been written down or provided for, as they are considered fully collectible.

	2016 $000	**2015** $000
Management fee	612	728
Due from subsidiary	128	197
Investment in subsidiary	4,654	4,654
Loan from subsidiary	9,659	9,488

Key management personnel

No key management personnel have disclosed that they or their immediate relative or professional associate has any dealing with Public Trust 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 Public Trust.

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

Notes to the Financial Statements

28. COMMITMENTS AND CONTINGENCIES

	2016 $000	2015 $000
Operating lease commitments		
Premises	7,338	8,686
Vehicles	484	506
	7,822	**9,192**
Analysis of operating lease commitments		
Payable within 1 year	2,560	2,984
Payable after 1 year and within 5 years	5,125	5,957
Payable after 5 years	137	251
	7,822	**9,192**

	2016 $000	2015 $000
Capital commitments		
Purchase of property, plant & equipment	237	2
Purchase of intangible IT assets	786	2,175
	1,023	**2,177**
Analysis of capital commitments		
Payable within 1 year	1,023	2,177
	1,023	**2,177**

Public Trust has non-cancellable capital commitments for services contracted to its Business Improvement Platform.

In the prior year, Public Trust, in connection with its mortgage lending activities, had commitments to a value of $4.7 million to provide funding under undrawn revolving credit facilities and approved but undrawn applications. As the majority of the mortgage portfolio was sold during the 2016 year, there is no remaining commitment at year end.

Contingent Liabilities

The Group had no contingent liabilities at 30 June 2016 (2015: $nil).

Notes to the Financial Statements

29. COMPARISON OF BUDGET TO ACTUAL

Assets and liabilities

Financial asset increased by $14.5 million compared to budget due to increased investment securities partially offset by the sale of advances secured by mortgage.

Intangible assets increased by $5.8 million compared to budget with additional investment in Public Trust's new operating platform.

Liabilities to clients increased by $15.6 million compared to budget due to higher client deposits, notably from Private Training Establishments for student fees.

Equity increased to $45.6 million compared to budget of $42.3 million due to a higher profit after tax.

Revenue

Net revenue was $0.4 million lower than budget due to:

1. Higher volume of Common Fund deposit liabilities, notably from Private Training Establishments for student fees, and
2. Lower rate of fee revenue growth.

Expenses

Expenses were $6.7 million below budget. This can mainly be explained by the following:

1. Employee benefits were $1.6 million lower than budget due to improved operational efficiency and lower redundancy costs;
2. Impaired loans have been repaid allowing for the release of $0.7 million impairment provision;
3. Amortisation of intangible assets was $1.2 million lower than budget due to the temporarily delayed implementation of Public Trust's new operating platform.

Cash flows

Net increase in cash was $8.5 million, $7.5 million better than budget. This has resulted from higher volume of Common Fund deposit liabilities offset by additional investment in Public Trust's new operating platform.

30. EVENTS AFTER THE REPORTING PERIOD

There were no significant events after balance date.

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INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF PUBLIC TRUST GROUP'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2016

The Auditor-General is the auditor of Public Trust Group (the Group). The Auditor-General has appointed me, Stuart Mutch, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements and the performance information, including the performance information for an appropriation, of the group consisting of Public Trust and its subsidiaries (collectively referred to as 'the Group'), on her behalf.

Opinion on the financial statements and the performance information

We have audited:

— the financial statements of the Group on pages 27 to 74, that comprise the statement of financial position as at 30 June 2016, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and

— the performance information of the Group on pages 14 to 23.

In our opinion:

— the financial statements of the Group:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2016; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards.

— the performance information:
  - presents fairly, in all material respects, the Group's performance for the year ended 30 June 2016, including:
    - for each class of reportable outputs:
      - its standards of performance achieved as compared with forecasts included in the statement of performance expectations for the financial year;
      - its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year;
    - what has been achieved with the appropriation; and
    - the actual expenses incurred compared with the appropriated or forecast expenses.
  - complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 7 October 2016. This is the date at which our opinion is expressed.

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

Basis of opinion

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

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and the performance information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Group's financial statements and performance information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

An audit also involves evaluating:

— the appropriateness of accounting policies used and whether they have been consistently applied;

— the reasonableness of the significant accounting estimates and judgements made by the Board;

— the appropriateness of the reported performance information within Public Trust's framework for reporting performance;

— the adequacy of the disclosures in the financial statements and the performance information; and

— the overall presentation of the financial statements and the performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and the performance information. Also, we did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board

The Board is responsible for preparing financial statements and performance information that:

— comply with generally accepted accounting practice in New Zealand;

— present fairly the Group's financial position, financial performance and cash flows; and

— present fairly the Group's performance.

The Board's responsibilities arise from the Crown Entities Act 2004, the Public Trust Act 2001 and the Financial Markets Conduct Act 2013.

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

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and the performance information and reporting that opinion to you based on our audit. Our responsibility arises from the Public Audit Act 2001.

Independence

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

In addition to the audit we have carried out an audit of Public Trusts Managed Funds and provided market based salary benchmark information to Public Trust which are compatible with those independence requirements. Other than the audit and these assignments, we have no relationship with or interests in the Group.

Stuart Mutch

Ernst & Young
On behalf of the Auditor-General
Wellington, New Zealand

with you for
generations
to come

Public Trust

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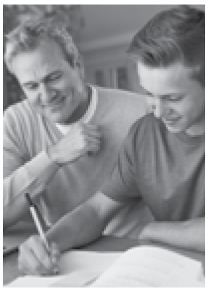









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ISSN 2253-4164 (Print) | ISSN 2253-4172 (Online)