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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 2017 and has been prepared to meet the requirements of:

— Section 150 of the Crown Entities Act 2004; and

— Public Trust's 2016 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 2016 to 30 June 2017.

Ian Fitzgerald

Chair
9 October 2017

Graham Naylor

Chair, Audit Committee

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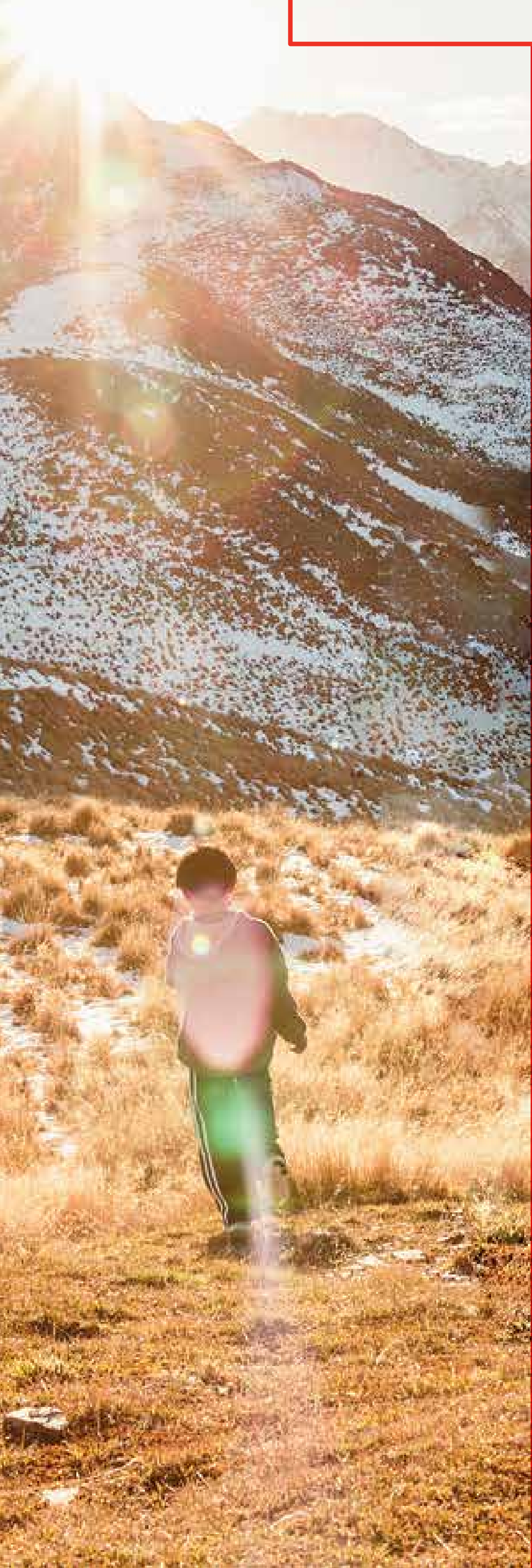


Report from the Chair and Chief Executive

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 2017.

Preparing for New Zealand's future

As New Zealand's most enduring trustee services provider, we are proud of our heritage, but this year we are prouder still of what we have done to prepare for our future.

We were established in 1873 to protect New Zealand families. Nearly 150 years later, the same protection is needed more than ever in an increasingly diverse society that's supporting an ageing population, more blended families, and a growing number of people who require extra help to maintain quality of life.

We've seen a significant shift in attitudes around the importance of retirement savings in the last ten years, yet while Kiwis are getting better at financial planning, estate planning isn't getting the same attention. When it comes to thinking about and planning what we want to happen at the end of our lives, there's a real need for us to support New Zealanders to do more.

We are now well positioned to take the lead on this conversation. Over the past three years, we've been putting in place foundations that will enable us to become a trusted adviser throughout the lifetime of our customers through advocacy, education and quality estate planning and management.

A technology leader in the trustee services industry: new technology platform

A key enabler of our desire to deliver more for New Zealanders was the introduction of our new core technology platform in late 2016. The new system means we can now start to embrace the digital world and provide our customers with more choice in how they interact with us. The modern platform also provides Public Trust with the flexibility to innovate more, and become more connected with our business partners.

Stronger financial security and reassurance: AA credit rating

Another important event for us this year was being awarded an independent long-term AA credit rating from independent ratings agency Fitch. The rating is only one notch below the New Zealand Government and is a higher rating than the senior unsecured long-term ratings of major banks in New Zealand. It's an outstanding symbol of confidence in our strong, growing and profitable business, and provides customers with an added degree of financial security and assurance.

Smooth transition to new regulatory environment: FMCA

Our Corporate Trustee Services business played an important role in helping our Financial Markets Authority supervised clients make

> We end this reporting period with a great sense of optimism as we see a pattern of growth and profitability become firmly established.

a successful transition to the new regulatory environment under the Financial Markets Conduct Act 2013 (FMCA), which came into full effect on 1 December 2016. The care and support the team provided has helped solidify our reputation as a leading corporate trustee services provider.

Investing in our people

Being a service-based organisation means that the expertise and empathy of our people is critical. Over the past year, we've become much more deliberate in our efforts to continually improve a culture that is based on our people embodying core behaviours around trust. This has been complemented by the development of a capability framework for our Retail business network, which will help ensure that our trustees have the best skills, knowledge and behaviours needed to tailor quality estate planning solutions for customers.

Heading in the right direction

We end this reporting period with a great sense of optimism as we see a pattern of growth and profitability become firmly established. We saw revenue increase by 7% in our Retail business and 4% in our Corporate Trustee business this year, and were delighted to see our main customer measure, the Net Promoter Score, hold strong through the implementation of our new core technology platform.

With the vast majority of our transformation complete, our future focus is now clearly on our core trustee marketplace. After several years of significant change and investment, we close out the year confident that we have the right foundations, vision and plan in place to earn the enduring trust of more New Zealanders.

We wouldn't be in this position without the hard work and dedication of our people – and would like to take this opportunity to thank all of our employees for their valued contribution over this time.

We'd also like to recognise the support and significant contribution of departing Board members Diana Puketapu, Dinu Harry, Lyn Lim, and in particular, the exceptional governance of our Chair of four years, Sarah Roberts. A Public Trust Board member for 10 years, Sarah's commitment and guidance over our time of transformation has been significant and most appreciated.

Ian Fitzgerald
Chair

Bob Smith
Chief Executive

Our Board

Our Board is currently made up of seven members who have backgrounds in law, commerce, economics, engineering, accounting and science.

Chaired by Ian Fitzgerald, the Board comprises Fiona Oliver (Deputy Chair), Simon Craddock, John Duncan, Dianne McAteer, Bevan Killick and Graham Naylor.

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.

Bevan Killick
Member Investment 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 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/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 (which has been delegated to the Associate 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 on a regular basis. To help develop our Board and enable them to deliver market-leading Board of Director services, a Board performance assessment is facilitated regularly.

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, Investment Committee, Human Resources and Remuneration Committee and the Due Diligence Committee. The Due Diligence Committee was disestablished in December 2016 following the transition of all relevant schemes to the FMCA regime.

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/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.

— 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 the integrity of our financial reporting by overseeing and providing advice to the Board on Public Trust's financial statements.

We have internal controls in place that support 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 consults 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. At each Board meeting, the Board receives an enterprise risk update 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 appointed Stuart Mutch of Ernst & Young to carry this out for the 2016 financial year and Emma Winsloe of Ernst & Young to carry this out for the 2017 and 2018 financial years.

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 Associate 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 and Information Officer meet with Treasury officials each month.

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.

Getting started – estate planning

We write Wills and set up Enduring Powers of Attorney (EPAs) and 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.

Living smart – estate maintenance

We maintain and review customers' estate plans based on life events to ensure the appropriateness of their solutions, and 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 manage lots of different asset types, including one of New Zealand's largest training farms, Smedley Station. We also safeguard student fees on behalf of private training establishments through our Fee Protect service.

Personal Assist
We offer a tailored personal management service called Personal Assist where 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.

PPPR
We provide personal management services under the Protection of Personal and Property Rights Act 1988 (PPPR). This involves Public Trust being appointed by court order as the property manager for customers that no longer have mental capacity to manage their own affairs.

Leaving well – estate administration

We administer and manage approximately 7,200 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 completely manage estates on behalf of executors if required.

Investment services for fiduciary customers

We provide investment management services to a range of customers ensuring they can access effective and appropriate advice. We offer an on-call deposit account to meet customers' short-term savings needs, and an investment service to meet customers' long-term investing needs. Our Common Fund is subject to strict investment guidelines, and contains Trust accounts for fiduciary customers.

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.

What we do – Corporate Trustee Services

Corporate Trustee Services is a leading specialist corporate trustee, with more than NZ$70 billion under supervision. We provide specialist trustee services and leading prudential independent supervisory oversight to the New Zealand corporate market.

As a supervisor licensed under the Financial Markets Supervisors Act, we monitor and represent the collective interests of investors in KiwiSaver schemes, managed investment schemes, superannuation schemes, public debt issues, and act as a licensed statutory supervisor for retirement villages.

We also act as trustee in a number of structured finance arrangements, securitisation of assets and wholesale funds and a custodian by holding assets in trust in accordance with trust deeds.

Our role in protecting New Zealand's retirement savings

Public Trust supervises seven KiwiSaver providers with approximately $13.5 billion of assets under management.

Who we are

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

Led by our Chief Executive Bob Smith, the team comprises: John Ross – General Manager Corporate Trustee Services, Karen Hutson – General Manager Culture, Capability and Change, Matt Sale – General Manager Retail, Liz Style – General Manager Legal and Risk, and Angela Dixon – Chief Financial and Information Officer.

During the financial year Simeon Wright resigned as Chief Financial and Information Officer and Dennis Church retired as General Manager Corporate Trustee Services.

Our people and nationwide presence

We're the proud employer of 325 individuals (excluding contract or casual workforce) at 27 locations. Our Customer Centres and appointment only sites can be found across New Zealand from Whangarei to Invercargill, and we have a contact centre in Christchurch and corporate sites in Auckland, Wellington and Christchurch.

Our workforce is as diverse as our customers, aged between 22 and 70, and made up of more than 22 different ethnicities; we are also proud to have an equal number of women and men in leadership positions. Our employees have experience from a range of industries including law, banking, finance, insurance, local government and technology.

Workforce percentages

87% Permanent Full Time

8% Permanent Part Time

4% Temporary Full Time

1% Temporary Part Time

Gender spilt percentages

Non managers

72% Women

28% Men

Managers

50% Women

50% Men

Average service length

7.6 years

Ethnicities and percentages

2% Australian

2% Other

2% European

2% South African

3% Pacific Islander

4% British/Irish

5% New Zealand Māori

10% Asian

70% New Zealand European/Pākeha

Age ranges and percentages

13% 20-29

20% 30-39

30% 40-49

29% 50-59

8% 60-69

13% Disability

325 people

27 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

Our vision, purpose, promise, values and agreed behaviours help shape our culture. This is supported through our Culture Plan, internal communications, development programmes, performance framework, and rewards and recognition.

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 people is a priority and we're continuing to invest in them. Customer-facing employees have received a significant amount of system and process learning in preparation for our new core system implementation this year. From a leadership perspective, all people leaders attended leadership fundamentals training and our Executive Team participated in a number of externally facilitated sessions to support their learning and development.

Recruitment and selection

Our recruitment strategy focuses on having a fast, thorough and targeted process that allow 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.

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. 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 or 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 workplace for our people, customers, visitors and contractors. All our people complete an annual Health, Safety and Wellness awareness module to ensure we all understand our roles and responsibilities.

We strive to continually mitigate our most critical health and safety risks. This year we have implemented a personal security mobile app for our people conducting offsite visits, and made security and safety upgrades to our customer centre network.

Public Trust is proud to have robust employee participation with trained regional health and safety representatives across the country that help support the implementation of our health and safety improvement initiatives.

Risk and compliance

We have a Compliance and Risk Framework that 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 three years we've been focused on lifting our performance, achieving our principal objective to operate as an effective business and putting in place the necessary foundations for growth as a dedicated trustee services company.

In our 2016 Statement of Intent we outlined four strategic goals and three strategic focus areas to enable us to achieve our overall vision to be New Zealanders' first choice of trustee services provider.

In this section we take a closer look at how we've tracked against each of these goals, review the actions we've taken, measures for success and the outcome.

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.

Business to Business: be a trusted partner of New Zealand businesses.

Strategic Focus Areas:

— Culture and capability.

— Revenue growth.

— Operational excellence.

Our progress against each strategic goal

Market share

Current goal: Provide trustee services to more New Zealanders.

The actions we've taken:

- fine-tuned our current business plan with an emphasis on ensuring we're fit for purpose and offering the best trustee advice in the marketplace;
- built our 2020+ strategy to define what living our business purpose looks like over the next decade;
- created a marketing and customer experience plan to deliver customer growth and greater customer alignment;
- grew revenue and implemented a new core technology platform.

Business planning for growth

The last few years of our business and operational plan have been devoted to simplifying and stabilising our business. With this foundation work now complete, this year's business planning cycle has been focused on building the roadmap for achieving profitable market share growth, and ensuring the long-term success and sustainability of our business. With FY17 revenue growth increases of 7% in our Retail business and 4% in our Corporate Trustee business, we are on track to continue to profitably grow our business in years to come.

In support of our goal to provide trustee services to more New Zealanders, a comprehensive marketing and customer experience plan has been prepared to drive growth through enhanced relationships with customers.

Over the coming financial year, we will start to review the metrics that we are using to track our progress against our business goals, including how we can obtain more robust measures to show our success in growing customers, as there is currently no independent industry measure that reflects our business.

A better understanding of our customers

We've been focused on building a more complete picture of what our customers value the most and gaining a better understanding of their drivers, networks and life triggers to best meet their needs in a timely way via their preferred channel. This is being supported by a re-defining of our customer segments of value, planning around how we can grow our business in these target markets, and deliver an improved customer experience.

Quality customer propositions

We've been on a journey to develop quality propositions that are based on customer insights and fact, which will ultimately help to ensure that our services are relevant and future-proofed. An important part of this process is ensuring that we're aligning our propositions with the most appropriate market partners (such as hospitals, associations and banks).

Telling our Public Trust story

The second half of this year has been devoted to preparing Public Trust's first major brand campaign in several years. While the Public Trust name is well known, we're keen to expand New Zealanders' understanding of who Public Trust is and the supporting role we can play in their lives. The campaign is an important first step in telling this story and helps demonstrate to New Zealand the ways in which our specialised and expert assistance can provide estate planning guidance and solutions.

Technology leader

The implementation of our new core technology platform in late 2016 has now positioned Public Trust as a technology leader in the trustee industry. This will enable us to deliver on our growth plans and aspirations over the next three years in the lead up to 2020 and beyond, including the ability to release innovative propositions, work more closely with partners, and embrace the digital world for the benefit and convenience of our customers.

Measure	Outcome
Market share of Wills, EPAs and Estates	Outcome: Probate market share has held steady at 10.8% for FY17, as has Wills market share at 16%.

Productivity

Current goal: Build a sustainable and profitable business by working smarter.

The actions we've taken:

- implementation of new core technology platform;
- formation of the Business Improvement team;
- increased our focus on time management.

New systems and processes

Public Trust achieved a key milestone this year in the quality implementation of our new core technology platform. The business is already benefiting from having a modern, stable and well supported Microsoft platform in place and we're looking forward to being able to leverage the greater flexibility that this platform provides over the coming years to improve workflows and meet the changing needs of customers.

The transition to the new systems was very smooth and we were really pleased to experience a relatively low number of issues at 'go live' – especially when considering the size and scale of this project. While an expected drop in productivity did occur as our people adjusted to new ways of working, we were back at pre-implementation productivity levels within three months.

A structure to support business change

With the successful system implementation now behind us, instilling and embedding operational excellence at Public Trust has been a key strategic focus. We have some significant performance enhancements planned in order for us to deliver on our business goals, and our structure needs to be one that allows us to drive though the necessary improvements in an efficient and effective way.

To help achieve this, we centralised all change, business improvement and Project Management Office roles within our Culture, Capability and Change business unit. The new Business Improvement team has formalised the process for requesting and managing business change, and has some important initiatives ready to roll out to help us improve efficiency and provide faster service to our customers.

Emphasis on time management and valuing our work

In the last quarter of this financial year, we launched a Retail focus on time management that focused on appropriately valuing the work we do for customers every day. Learning material and resources were prepared to help teams deepen their understanding of the disciplines of time recording and management, and clarified some of our existing time recording policies and processes. As part of the campaign, we launched our Value Code, which outlined the need to be commercial in our activities to ensure a sustainable future for Public Trust.

Measure	Outcome
Retail productivity	Retail productivity was 48.4% at the beginning of the reporting period, with the year ending at 57.2%.

Customer satisfaction

Current goal: Make every customer interaction one worth sharing.

The actions we've taken:

— aligned the structure of our Marketing and Partnerships team with our strategy;

— continued to redefine our culture and progressed our Culture Plan;

— designed a Retail capability framework to ensure all our people have all the best skills, knowledge and behaviours to deliver consistently great outcomes for customers.

Driving customer experience excellence

Structure changes to the Marketing and Partnerships team this year have ensured we are now able to deliver a number of important customer experience functions in house. This is allowing us to more easily and cost-effectively identify what really matters to customers and focus on consistently delivering great customer experiences.

Improved online presence

We've invested a lot of time this year in preparing for the re-launch of our website to improve the content and navigation, as well as accessibility from mobile devices for our customers. This will become an increasingly important medium for us as we invest more in helping to further educate New Zealanders, and provide customers with greater convenience.

Estate planning

We also took a first step towards providing customers with world class estate planning services this year with an important change to the approval process for Standard Wills. Once embedded, the new approval process will mean a faster, more efficient service for customers.

Culture Plan

Since 2016, we've been embarking on a dedicated programme of work to transform our culture into one where customers are at the heart of everything we do. We see evolving our culture as fundamental to our success and are committed to continuing to progress our Culture Plan.

The focus over this reporting period has been on embodying the new Public Trust behaviours (accountability, empathy and problem solving), which were launched in July 2016. Since then, the behaviours have been integrated into our internal communications, development programmes, performance management framework and our reward and recognition portal.

Retail capability framework

In recognition of the fact that we see our people as being core to our success, we have spent the better part of this year building a capability framework for Retail trustees. The framework, which is a mix of formal and on-the-job training, defines the knowledge, skills and behaviours that are required to deliver a consistently great experience for our customers and will help provide the means for more in-depth estate planning conversations across New Zealand.

Measure	Outcome
Net Promoter Score	Public Trust improved across all service areas year on year. Wills and EPAs increased from 29 in 2016 to 35 in 2017. The largest improvement was seen across Beneficiaries (estates) with a very positive improvement from -17 in 2016 to -9 in 2017. The Trust NPS survey sample size from year to year was small, so this should be treated as indicative only.
Reduction in number and level of complaints, as measured by the General Manager Retail's complaints log.	For the year ended 30 June 2017 we received 149 complaints; this is a 45% decrease when compared with the 269 complaints received the year ended 30 June 2016. During the year, ten complaints were escalated to Financial Services Complaints Limited for mediation, a decrease of eight since the previous year.

Business to business

Current goal: To be a trusted partner of New Zealand businesses.

The actions we've taken:

- leveraged existing partnerships and sought new strategic partnerships;
- continued promotion of our innovative Executor Assist service.

Planning for partnership growth

We see our goal of becoming a trusted partner of New Zealand business as an integral way that we'll be able to educate more New Zealanders around the importance of good estate planning. We have a strong partnership base already established with existing relationships with Plunket, Bupa and Alzheimers New Zealand, and have managed to progress some important new partnerships over this financial year.

New partnerships

Some key partnering highlights this year include the signing of a preferred supplier agreement with the New Zealand Anglican Church Pension Board, and formalising our partnership with Heartland Bank under a Memorandum of Understanding.

The relationship with Heartland Bank is focused on partnering with Heartland Seniors Finance. Signing the Memorandum means both organisations can take a more coordinated approach to providing expert, caring and specialist advice and solutions to New Zealanders, which both Heartland and Public Trust customers will benefit from.

Executor Assist

We implemented a number of sales and marketing campaigns this year for our innovative Executor Assist service and worked together with our partners to promote the service. Over the coming year, our focus will be to continue to market to individuals (predominantly through digital channels) and to work more closely with lawyers to grow awareness and uptake of this service.

This year we also signed a commercial partnership with InvoCare New Zealand funeral directors. With Invocare managing around 6000 funerals a year in New Zealand, this is a great opportunity for us to raise awareness of how our Executor Assist service can support New Zealanders with the challenging task of executing an estate.

Measure	Outcome
Number of new partnerships formalised	We signed three new partnership agreements over this reporting period (InvoCare, Heartland Bank and the New Zealand Anglican Church Pension Board).

Statement of Performance

as at 30 June 2017

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, either as property manager or property attorney under an Enduring Power of Attorney.	Hours to manage and advise individuals under the Protection of Personal Property Rights Act.	4,694 undertaken. (5,000 forecast for 16/17).
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.	3,206. (3,000 forecast for 16/17).
The examination of statements filed in court by any manager who is not a trustee corporation under section 46 of the Protection of Personal Property Rights Act 1988.	Hours taken to examine statements.	3,102 undertaken This consists of: – 796 hours of fully funded statement examinations (920 forecast). – 2,306 hours of subsidised statement examinations at $17.50 per hour.

Revenue and expenses

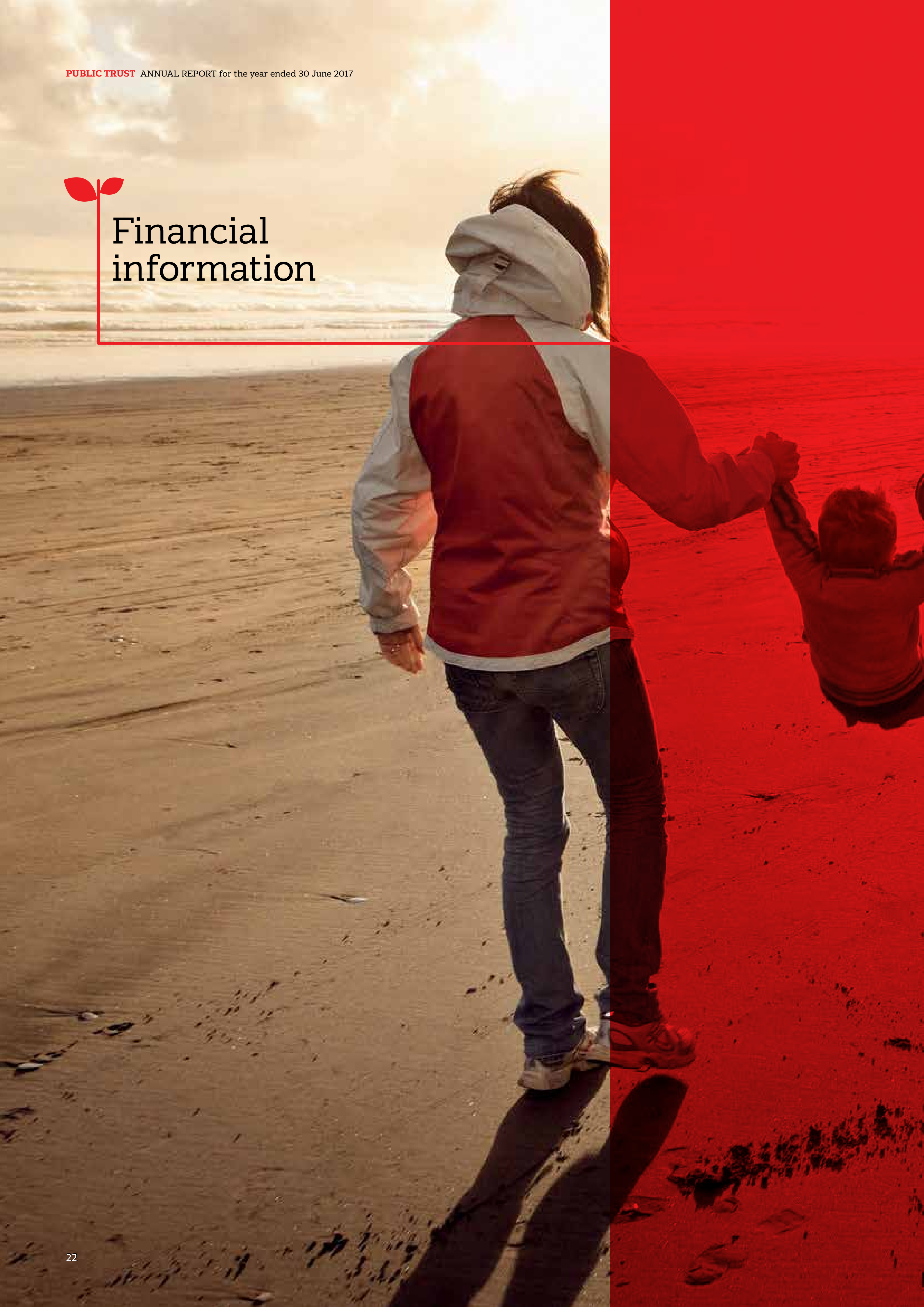
Expected	Actual
Expected revenue 2016/17 $1.8m Proposed expenses 2016/17 $2m	Revenue $1.9m Expenses $2.4m

Measuring our performance

The quality and impact of the services we provide and their contribution to Ministry of Justice outcomes are outlined in our 2016 Statement of Performance Expectations these are measured below.

Service	Measure	Achievement
Access to justice services that individuals are unable to obtain within their own means.	Public Trust's Contact Centre is available 95% of the time between 8.00am – 5.30pm Monday to Friday. Online resources available with less than 40 hours down time per annum. Nationwide network of customer centres available during business hours.	We continue to maintain a mix of channels where the public can easily access our services: We operate out of 23 dedicated and 15 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 2016/17 period totalled 4 hours. Our website allows customers to get in touch online. Outages for the 2016/17 period totalled 10 minutes.
Provide quality and responsive/timely services.	Customer satisfaction rating (as measured through an independent survey) is greater than 80%.	We achieved an outcome of 86% customers satisfied (rated us in the range of 6-10 out of 10), with a base of 518 customers in the TNS survey. For further detail refer page 17 as measured in Customer Satisfaction outcomes.
	80% of complaints are closed within 30 days and less than 5% of complaints are referred to external dispute resolution provider.	63% of complaints were closed within 30 days. 6.7% were referred to an external resolution provider. For further detail refer page 17 as measured in Customer Satisfaction outcomes.

Financial information



Contents

Funds under Management

as at 30 June 2017

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.

	ACTUAL 2017 $M	ACTUAL 2016 $M
Fiduciary assets		
Funds under management		
Common Fund	450	474
Managed Funds	586	554
Assets under management	2,521	2,575
Funds under supervision	75,178	63,949*

*The methodology for calculation of Funds under supervision was updated during the current year taking into account the Financial Markets Authority definition of Funds under Management. This has resulted in a restatement of the 2016 balance from $50,231m.

Statement of Responsibility

for the year ended 30 June 2017

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 2017 fairly reflect the financial position, results of operations and cash flows of Public Trust.

Ian Fitzgerald
Chair
9 October 2017

Graham Naylor
Chair, Audit Committee

Consolidated Statement of Financial Position

as at 30 June 2017

	NOTES	ACTUAL 2017 $000	UNAUDITED BUDGET 2017 $000	ACTUAL 2016 $000
Assets				
Cash and cash equivalents		18,754	11,796	18,465
Investment securities	5	443,044	444,562	465,514
Derivative financial instruments	6	-	18	-
Advances to clients	8	2,662	2,067	2,673
Trade receivables and work in progress	7	11,551	7,403	8,734
Advances secured by mortgage		1,008	3,692	1,694
Total financial assets		**477,019**	**469,538**	**497,080**
Current tax		-	328	171
Intangible assets	10	28,515	24,406	22,932
Deferred tax asset	9	9,163	-	-
Other assets		4,173	5,088	4,451
Total assets		**518,870**	**499,360**	**524,634**
Liabilities				
Liabilities to clients – at call or short term		415,125	407,989	414,836
Liabilities to clients – term deposits		35,039	35,790	51,157
Prepaid estate administration		322	276	361
Total liabilities to clients		**450,486**	**444,055**	**466,354**
Trade payables		2,317	3,088	3,572
Derivative financial instruments	6	568	3,031	2,960
Employee benefits	11	3,985	3,339	4,154
Provisions	12	2,262	2,108	1,522
Other liabilities		512	1,131	500
Total liabilities		**460,130**	**456,752**	**479,062**
Equity				
Contributed equity		90,174	90,174	90,174
Cash flow hedging reserve		-	(181)	(108)
Retained earnings		(31,434)	(47,385)	(44,494)
Total equity	13	**58,740**	**42,608**	**45,572**
Total liabilities plus equity		**518,870**	**499,360**	**524,634**

For and on behalf of the Board, who authorised the issue of the financial statements on 9 October 2017.

Ian Fitzgerald
Chair
9 October 2017

Graham Naylor
Chair, Audit Committee

Consolidated Statement of Changes in Equity

for the year ended 30 June 2017

	CONTRIBUTED EQUITY $000	RETAINED EARNINGS $000	CASH FLOW HEDGE RESERVE $000	TOTAL EQUITY $000
Actual as at 1 July 2015	90,174	(50,646)	(315)	39,213
Profit for the year	-	6,152	-	6,152
Other comprehensive income	-	-	207	207
Total comprehensive income	-	6,152	207	6,359
Actual as at 30 June 2016	**90,174**	**(44,494)**	**(108)**	**45,572**
Profit for the year	-	13,060	-	13,060
Other comprehensive income	-	-	108	108
Total comprehensive income	-	**13,060**	**108**	**13,168**
Actual as at 30 June 2017	**90,174**	**(31,434)**	**-**	**58,740**
Unaudited budget as at 30 June 2016	**90,174**	**(49,091)**	**(181)**	**40,902**
Profit for the year	-	1,705	-	1,705
Other comprehensive income	-	-	-	-
Total comprehensive income	-	**1,705**	**-**	**1,705**
Unaudited budget as at 30 June 2017	**90,174**	**(47,386)**	**(181)**	**42,607**

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

Consolidated Statement of Total Comprehensive Income

for the year ended 30 June 2017

	NOTES	ACTUAL 2017 $000	UNAUDITED BUDGET 2017 $000	ACTUAL 2016 $000
Revenue				
Fees and commission revenue		46,025	47,353	44,276
Less: Fees and commission expense		(3,005)	(2,808)	(2,864)
		43,020	**44,545**	**41,412**
Interest from interest bearing securities		12,884	12,634	17,032
Interest from advances secured by mortgage		225	301	2,517
Less: Interest expense		(3,098)	(5,745)	(7,566)
		10,011	**7,190**	**11,983**
Revenue from the Crown	17	1,881	1,800	1,723
Other revenue		254	223	252
Net Revenue		**55,166**	**53,758**	**55,370**
Expenses				
Employee benefits		(30,989)	(32,793)	(31,123)
Operating lease costs		(2,936)	(2,812)	(3,014)
Depreciation		(1,340)	(1,488)	(1,324)
Amortisation of intangible assets	10	(2,220)	(2,801)	(645)
Other expenses		(14,644)	(12,158)	(12,695)
Total expenses		**(52,129)**	**(52,052)**	**(48,801)**
Gains (losses) on financial instruments		860	(1)	(417)
Profit before tax for the year		**3,897**	**1,705**	**6,152**
Tax benefit	9	9,163	-	-
Profit after tax for the year		**13,060**	**1,705**	**6,152**
Other comprehensive income				
Items that may be reclassified to profit or loss:				
Cash flow hedges:				
– Net fair value gains		108	-	207
Total other comprehensive income		**108**	**-**	**207**
Total comprehensive income for the year		**13,168**	**1,705**	**6,359**

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

Consolidated Statement of Cash Flows

for the year ended 30 June 2017

	NOTES	ACTUAL 2017 $000	UNAUDITED BUDGET 2017 $000	ACTUAL 2016 $000
Cash flows from operating activities				
Fees and other revenue		45,241	49,446	44,505
Interest revenue from non-trading investments		17,287	12,934	25,462
Payments to suppliers and employees		(50,268)	(50,170)	(55,386)
Interest paid		(5,514)	(5,745)	(11,615)
Net GST		(488)	(400)	(405)
Net cash flows from operating activities		**6,258**	**6,065**	**2,561**
Cash flows from investing activities				
Net flows from non-trading investments*		19,988	60,110	66,611
Sale of property, plant & equipment		-	-	8
Purchase of property, plant & equipment		(1,180)	(2,489)	(957)
Purchase of intangible assets		(9,122)	(2,663)	(9,618)
Net cash flows from investing activities		**9,686**	**54,958**	**56,044**
Cash flows from financing activities				
Net (payments to) receipts from clients*		(15,655)	(60,022)	(50,140)
Net cash flows from financing activities		**(15,655)**	**(60,022)**	**(50,140)**
Net increase in cash and cash equivalents		**289**	**1,001**	**8,465**
Cash and cash equivalents at the beginning of the year		18,465	10,795	10,000
Cash and cash equivalents at the end of the year		**18,754**	**11,796**	**18,465**

*Cash flows from investment activities and receipts/payments from clients from financing activities are presented on a net basis.

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

Consolidated Statement of Cash Flows

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

for the year ended 30 June 2017

	2017 $000	2016 $000
Profit after tax	13,060	6,152
Adjustments to reconcile profit after tax to operating cash flows:		
Depreciation and gains (losses) on disposal	1,305	1,218
Amortisation and gains (losses) on disposal	2,246	625
Movement in accrued purchases of property, plant and equipment and intangible assets	1,111	(151)
Realised losses on disposal	(30)	(61)
Unrealised (gains) losses and amortisation of premiums and discounts	(851)	502
Movement in accrued interest	1,761	1,947
Write off and movement in impairment of advances and mortgage allowances	(282)	(1,153)
Increase (decrease) in provisions	740	(3,436)
Movements in other client payables	92	-
Working capital adjustments		
Increase in trade receivables and work in progress	(2,817)	(2,170)
Increase in deferred tax asset	(9,163)	
Decrease in current tax asset	171	244
Decrease in advances to clients and other assets excluding property plant and equipment	366	138
Decrease in trade payables, prepaid estates and other liabilities	(1,282)	(646)
Decrease in employee benefits	(169)	(648)
Net cash flows from operating activities	**6,258**	**2,561**

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 by the Public Trust Act 2001 (the 2001 Act) and domiciled in New Zealand, and includes those liabilities defined as the Common Fund by the 2001 Act. Public Trust is a Crown Entity for the purposes of the Crown Entities Act 2004 and an FMC reporting entity for the purposes of the Financial Markets Conduct Act 2013.

The financial statements comprise Public Trust (the Parent) and its subsidiaries (collectively, the Group).

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) and the requirements of the Financial Markets Conduct Act 2013 and the Crown Entities Act 2004. For the purposes of complying with NZ GAAP, the Group is a for-profit entity.

The financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). The financial statements also comply with International Financial Reporting Standards.

Comparatives

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 interest bearing securities and derivative financial instruments which have been measured at fair value.

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 2017 year.

Use of judgements and estimates

In the process of applying the accounting policies, management make judgements, estimates and assumptions. Actual results may differ from these estimates.

Information about critical judgements that have the most significant effect on the amounts recognised in the financial statements is included below:

Taxes (note 9)

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. This requires management to assess the likelihood, timing and the level of future taxable profits.

Intangible assets (note 10)

The recoverability of the carrying amount of goodwill is assessed for impairment annually. Performing this assessment requires management to estimate future cash flows, terminal growth rate and pre-tax discount rate.

Provisions (note 12)

Legal counsel is consulted on matters that may give rise to a remedial work and a litigation provision. Estimation and assumptions are made in determining the likelihood, amount and timing of cash necessary to settle the obligation.

Fair value measurement of financial instruments (notes 5-6)

For financial assets not trading in an active market, fair value is obtained using valuation techniques. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions related to these factors could affect the reported fair value of financial instruments.

Notes to the Financial Statements

3. ACCOUNTING POLICIES

New and amended financial reporting standards and interpretations

For the year ended 30 June 2017 the Group adopted, for the first time, certain amendments to standards. The impact of the amendments on the financial statements is immaterial.

New and amended standards and interpretations that could be expected to have a material impact on the Group's financial statements, which are not yet effective for the year ended 30 June 2017 and have not been adopted, are stated below.

— NZ IFRS 15 Revenue from Contracts with Customers will supersede all current revenue recognition requirements under NZ IFRS. The Group adopts the standard from 1 July 2018.

NZ IFRS 15 provides a principles based five-step model that will be applicable to all contracts with customers. The core principle of NZ IFRS 15 is that an entity shall recognise revenue that represents the transfer of promised goods or services to customers in an amount that reflects the consideration that the entity expects to be entitled to in exchange for those goods or services. The five steps in the model are as follows:

- Identify the contract(s) with the customer;
- Identify the performance obligations in the contract(s);
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract(s); and
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Under NZ IFRS 15, the entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. The projected impact of adoption of NZ IFRS 15 on the Group's financial statements is a reduction in revenue in the first year of adoption of approximately $500,000 due to deferral of revenue.

— NZ IFRS 16 Leases requires a lessee to recognise a lease liability reflecting future lease payments and a "right-of-use asset" for virtually all lease contracts. The Group plans to adopt the new standard from 1 July 2019. The Group does not expect the adoption of NZ IFRS 16 to materially impact the Group's financial statements.

NZ IFRS 9 Financial Instruments 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. The Group intends to adopt NZ IFRS 9 from 1 July 2018. The impact of adoption of the standard is as follows:

- New NZ IFRS 9 hedge accounting rules will not have a material impact on the Group's financial statements for the year ended 30 June 2019.
- No significant changes are expected as a result of the classification, measurement and impairment requirements of NZ IFRS 9.

There are no other new or amended standards and interpretations that are issued but not yet effective that would be expected to have a material impact on the Group's financial statements.

Basis of consolidation

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 Group's financial statements from the date on which control commences until the date control ceases.

All intra-group balances and transactions, and unrealised income and expenses resulting from intra-group transactions are eliminated on consolidation. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

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

Business combination

Business combinations are accounted for using the acquisition method. The consideration transferred in the acquisition is measured at fair value at the acquisition date. Acquisition related costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

Goodwill is initially measured at cost, being the excess of the consideration transferred and the fair value net identifiable assets acquired and liabilities assumed. Any gain on a bargain purchase is recognised in profit or loss immediately. After initial recognition goodwill is measured at cost less any accumulated impairment losses.

Notes to the Financial Statements

Financial instruments

All financial instruments are initially recognised at the fair value of the consideration received less, in the case of financial assets and liabilities not recorded at fair value through profit or loss, directly attributable transaction costs.

Subsequently the Group applies the following accounting policies for financial instruments:

(i). Financial assets at fair value through profit or loss

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

— investments securities: interest bearing securities;

— derivative financial instruments.

Subsequent to initial recognition, financial assets at fair value through profit or loss are carried at their fair value with net changes in fair value recognised in profit or loss, with the exception of gains and losses on derivative financial instruments which are designated and effective as cash flow hedges.

The Group uses derivative financial instruments, such as interest rate swaps, to manage exposures to interest rate risk. Some of these hedge managed exposures qualify for hedge accounting.

For the purpose of hedge accounting, hedges are classified as:

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 in the cash flow hedging reserve. Any ineffective portion is recognised immediately 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.

Fair value hedges. 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.

(ii). Loans and receivables

Financial assets in this category include:

— cash and cash equivalents;

— investment securities: term deposits;

— advances to clients;

— trade receivables and work in progress;

— advances secured by mortgage.

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.

Subsequent to initial recognition, loans and receivables are carried at their amortised cost, in accordance with the effective interest rate method, less impairment.

Loans and receivables (other than advances secured by mortgage) are regularly reviewed for impairment, both individually and collectively in groups of financial assets with similar risk profiles. An impairment loss is recognised when there is objective evidence that future cash flows from the asset will decline from the previous expected levels. The amount of any impairment is measured as the difference between the asset's carrying value and the present value of the re-estimated cash flows, discounted at the original effective interest rate. Any impairment loss is recognised in profit or loss with a corresponding reduction in the carrying value of the financial asset through an impairment allowance account.

Advances secured by mortgage

Initial fair value of advances secured by mortgage 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, 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.

Notes to the Financial Statements

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

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

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

(iii). 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.

(iv). Financial liabilities at amortised cost

Financial liabilities in this category include:

— liabilities to clients;

— trade and other payables.

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

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: IT assets and development costs

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.

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 any 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. Value in use is determined using a discounted cash flow model. 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, CGU).

Any impairment losses are recognised in profit or loss. 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.

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 CGU. Impairment testing is done using a discounted cash flows model. Further details on the methodology and assumptions used are outlined in Note 10.

Notes to the Financial Statements

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.

Leases

Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease. 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.

Taxes

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 other comprehensive income or equity, in which case it is recognised in other comprehensive income or equity.

Current tax

Current tax is the tax receivable or 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 or 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 and 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.

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 and personal management 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 non-trading investments are presented on a net basis as they relate to the placement and withdrawal of deposits from other financial institutions.

Cash receipts from/payments to clients are presented on a net basis as they represent cash receipts and payments on behalf of customers and the cash flows reflect the activities of the customer rather than those of Public Trust.

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.

On 26 May 2017 Fitch assigned a credit rating to Public Trust of AA on the basis of Public Trust's legal status, control and oversight, and that support from the New Zealand government would be forthcoming, if needed. Following the Fitch rating, on 22 June 2017, the New Zealand Government announced that it will remove the Crown guarantee. This is likely to take place in the second half of 2018.

Notes to the Financial Statements

5. INVESTMENT SECURITIES

	2017 $000	2016 $000
Designated at fair value through profit or loss		
Interest bearing securities		
State owned enterprises	15,059	-
Mortgage backed securities	1,216	1,547
Corporates	122,684	133,247
	138,959	134,794
Loans and receivables		
Term deposits subject to fair value hedges		
Banks	33,057	86,740
State owned enterprises	16,189	16,470
Term deposits		
Banks	239,774	190,503
State owned enterprises	15,065	37,007
	304,085	330,720
	443,044	**465,514**

Fair value measurements of financial assets measured at fair value in the statement of financial position

State owned enterprise and corporate interest bearing securities are classified as level 2 of the fair value hierarchy. The valuation technique used to determine the fair value of these securities is the net present value method. The inputs used to determine fair value measurements are daily market yields published by the New Zealand Financial Markets Association.

Mortgage backed securities are classified as level 3 of the fair value hierarchy. Fair value of these securities was determined using market accepted valuation techniques. The inputs used to determine fair value measurements are quoted prices for similar assets, benchmark yield curves and other market corroborated inputs, while taking into account the different asset pool characteristics and subordination profile of the evaluated securities.

The table below provides the reconciliation of the opening balance of mortgage backed securities to their closing balance:

	2017 $000	2016 $000
Opening balance	1,547	2,060
Movements through profit or loss		
Net gains (losses) on financial assets at fair value	52	(61)
Movement in accrued interest	(2)	(2)
Sales	(381)	(450)
Closing balance	**1,216**	**1,547**

Notes to the Financial Statements

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

	2017 $000	**2016** $000
100 point increase in credit margin	58	2,082
90 days increase in weighted average life	1	5

Fair value measurements of financial assets for which the carrying value in the statement of financial position differs from the fair value

The carrying amount of the term deposits equate to their fair value, except for term deposits that are not subject to fair value hedges.

Term deposits subject to fair value hedges are classified as level 2 of the fair value hierarchy. The valuation technique used to determine the fair value of these term deposits is the net present value method. The inputs used to determine fair value measurements are interest rates from market cash rates, futures and interest rate swaps.

The table below shows the carrying amount and fair value of term deposits that are not subject to fair value hedges. For the purpose of determination of fair value measurement, these term deposits are classified as level 2 of the fair value hierarchy. The fair value was determined using net present value method of valuation and inputs used are interest rates from market cash rates and interest rate swaps.

	Carrying amount 2017 $000	**Fair value 2017** **$000**	**Carrying amount 2016** $000	**Fair value 2016** **$000**
Term deposits				
Banks	239,774	242,187	190,503	196,670
State owned enterprises	15,065	15,079	37,007	38,317

Interest rate risk

The Group's interest rate risk arises from its investments in interest bearing securities and term deposits and associated derivative financial instruments. 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 are entered into to create a cash flow hedge.

Exposures to interest rate risk are monitored by management on a daily basis and reported to the Investment Committee quarterly. 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. The 1 year Value-at-Risk at 95% confidence level is $81,000 in 2017 (2016: $211,000). 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.

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. It reflects potential VaR arising from interest rate and credit spread movements.

Credit risk

Through its investments in securities and deposits, the Group is also exposed to credit risk. 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.

The credit quality of investment securities that are neither past due nor impaired is provided in the following table:

	2017 $000	2016 $000
Long-term credit rating		
AAA	1,216	1,547
AA	-	7,473
AA-	64,337	66,519
A+	-	37,034
A	50,177	10,004
A-	5,027	13,535
	120,757	136,112
Short-term credit rating		
A1+	181,217	268,765
A1	148,306	55,714
A2	11,517	23,387
	341,040	347,866
Unrated - other financial assets*	15,222	13,102
Total financial assets	**477,019**	**497,080**

*Other financial assets comprise trade receivables, advances to clients and advances secured by mortgage.

Notes to the Financial Statements

6. DERIVATIVE FINANCIAL INSTRUMENTS

	2017 $000	2016 $000
Assets		
Interest rate swaps		
Cash flow hedge accounted	-	-
	-	-
Liabilities		
Interest rate swaps		
Cash flow hedge accounted	-	1,987
Fair value hedge accounted	568	973
	568	**2,960**

Fair value measurement

Derivative financial instruments are classified as level 2 of the fair value hierarchy. The fair value of interest rate swaps is based on the quoted market interest rates and the associated discounted cash flows.

Financial risks

The Group is exposed to interest rate risk arising from derivative financial instruments. Refer to note 5 for more information about the Group's policy for managing interest rate risk.

Also, the Group is exposed to interest rate risk arising from its derivative financial assets. The Group has a policy to limit its exposure to this risk by entering into transactions only with banks with a minimum long term credit rating of AA- from Standard & Poors or equivalent, as well as by acquiring derivatives with the several different banks. Given the high credit rating, management does not expect these banks to fail their obligations.

The Group is also exposed to liquidity risk arising from derivative financial liabilities. The table below shows the timing of gross contractual cash flows of the Group derivative financial liabilities.

	Carrying amount $000	Contractual cash flows $000	1 year or less $000	1-2 years $000
2017 Interest rate swaps				
Cash flow hedge accounted	-	-	-	-
Fair value hedge accounted	568	589	589	-
	568	**589**	**589**	**-**
2016 Interest rate swaps				
Cash flow hedge accounted	1,987	129	129	-
Fair value hedge accounted	973	799	701	98
	2,960	**928**	**830**	**98**

Notes to the Financial Statements

7. TRADE RECEIVABLES AND WORK IN PROGRESS

	2017 $000	2016 $000
Accrued interest	19	35
Fees receivable from the Crown	185	164
Receivables of uncertain timing*	2,595	2,554
Fees receivable	3,803	2,051
Work in progress**	4,949	3,930
	11,551	**8,734**
Collective impairment allowance – Receivables of uncertain timing		
Opening balance	(250)	(354)
Charge for year	10	104
	(240)	**(250)**
Collective impairment allowance – Fees receivable		
Opening balance	(128)	(248)
Charge for year	(220)	120
	(348)	**(128)**

* Receivables of uncertain timing represent estate administration charges where payment is not due until an uncertain point in the future. These charges relate to estates with life tenants, whereby payment will be received when the estate is wound up on the death of the life tenant.

** Work in progress represents the time incurred in providing trustee and estate administration services that has not yet been invoiced to the clients.

The carrying amount of the trade receivables and work in progress equates to its fair value and is presented net of specific and collective impairment allowances.

Notes to the Financial Statements

Customer credit risk

Credit risk is the risk that a customer fails to meet its contractual obligations.

The credit quality of trade receivables, work in progress and receivables of uncertain timing 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 clients' assets.

For receivables of uncertain timing, 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.

The following table provides an aging profile of the Group's trade receivables:

	Work in progress	Neither past due nor impaired	Past due but not impaired				Total
			1-30 days	31-60 days	61-90 days	More than 90 days	
	$000	$000	$000	$000	$000	$000	**$000**
2017	4,949	3,570	772	316	321	1,623	**11,551**
2016	3,930	3,827	194	136	96	551	**8,734**

8. ADVANCES TO CLIENTS

The Group is exposed to credit risk arising from advances to its clients. Advances to clients include client overdrafts and advances to client beneficiaries. The Group manages and controls this credit risk by setting limits for each customer based on their particular risk profile. Outstanding advances of age greater than three months are brought to the attention of senior management and require their approval for maintaining or increasing the advance.

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 clients and generally has first call over the clients' assets. There have been no advances that were past due in 2017 (2016: nil). The allowance for impairment is $13,000 in 2017 (2016: $209,000).

9. INCOME TAX

Tax benefit comprises:

	2017 $000	**2016** $000
Deferred tax		
Origination and reversal of temporary differences	1,043	-
Recognition of previously unrecognised deferred tax assets	8,120	-
Tax benefit	**9,163**	**-**

Notes to the Financial Statements

During the current year, a deferred tax benefit was recognised in relation to accumulated tax losses of $29m.This represents the expected benefit of utilising tax losses against taxable profit in the foreseeable future. The benefit was recognised on the basis that Public Trust has demonstrated increasing profitability over the most recent two financial years following significant organisational transformation and the implementation of a new organisation-wide operating platform. Profits are forecast to continue improving now that a stable operating model is in place and any increase in tax losses that may be incurred in the coming years will be as a result of temporary differences in relation to depreciation of our new platform.

Reconciliation of tax benefit and the accounting profit:

	2017 $000	**2016** $000
Profit before tax	3,897	6,152
Income tax at 28%	1,091	1,723
Non-deductible expenses for tax purposes	18	9
Adjustments in respect of deferred income tax of previous years	(2,994)	-
Prior period adjustment	213	-
Temporary differences not recognised	-	(1,880)
Utilisation of previously unrecognised tax losses	(7,491)	148
Tax benefit	**(9,163)**	**-**

The deferred tax asset comprises:

	2017 $000	**2016** $000
Accounts receivable	575	-
Property, plant and equipment and Intangible assets	(1,164)	-
Employee benefits	951	-
Provisions	633	-
Prepaid estate administration	24	-
Other	24	-
Tax losses	8,120	-
Tax benefit	**9,163**	**-**

The amount of tax losses for which no deferred tax asset is recognised is $25,787,347 (2016: $51,806,549).

Notes to the Financial Statements

10. INTANGIBLE ASSETS

	2017 $000	2016 $000
Intangible IT assets		
Cost		
Opening balance	10,913	12,277
Additions	51	26
Transfers from intangible assets in development	25,970	904
Disposals	(3,947)	(2,294)
Closing balance	**32,987**	**10,913**
Accumulated amortisation & impairment		
Opening balance	(9,454)	(11,103)
Amortisation for the year	(2,220)	(645)
Disposals	3,923	2,294
Closing balance	**(7,751)**	**(9,454)**
Net carrying value	**25,236**	**1,459**
Intangible assets in development		
Opening balance	18,968	10,053
Additions	7,776	9,819
Transfers to intangible IT assets	(25,970)	(904)
Closing balance	**774**	**18,968**
Goodwill arising on acquisition		
Opening and closing balance	2,505	2,505
Carrying value of intangible assets	**28,515**	**22,932**

Goodwill has been allocated to the Corporate Trustee Services 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.

The inputs to the 2017 goodwill impairment test were unchanged from those of the detailed 2016 impairment test. No significant changes or events occurred since the detailed test that could have resulted in the CGU's recoverable amount declining below its carrying value. Key judgements and assumptions from the 2016 impairment test were as follows:

- The recoverable amount of the CGU was $54.64 million calculated on the basis of value in use, using a discounted cash flow 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.

Notes to the Financial Statements

— Growth assumptions taking into account the competitive nature of the market were applied.

— A terminal growth rate of 1.5% was applied.

— A pre-tax discount rate of 10.6% was applied to compute present value.

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

11. EMPLOYEE BENEFITS

	2017 $000	**2016** $000
Annual and sick leave	1,555	1,391
Long-service leave	1,393	1,571
Salaries accrual	589	891
Performance incentive payments	448	301
	3,985	**4,154**

The calculation of long-service leave assumes a salary increase of 3.0% (2016: 2.5%). An additional 1% increase in salary would increase the provision by $120,000 (2016: $130,000).

The Group contributes towards Kiwisaver and the Government Superannuation Scheme. Contribution to these defined contribution plans is $719,000 in 2017 (2016: $734,000).

12. PROVISIONS

	Restructuring 2017 $000	**Remedial work and litigation 2017** $000	**Onerous leases 2017** $000	**Make good 2017** $000	**Total 2017** $000
Opening balance	599	518	5	400	1,522
Additional provisions made	859	880	-	79	1,818
Amounts used	(779)	(79)	(5)	(12)	(875)
Unused amounts reversed	(157)	-	-	(46)	(203)
Closing balance	**522**	**1,319**	**-**	**421**	**2,262**

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.

Notes to the Financial Statements

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 such matters have been recognised within sundry receivables (2016: $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.

13. EQUITY

Capital management

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

- protect the interests of beneficiaries of the Common Fund;
- 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 assets and the cash flow hedging reserve.

The Group maintains a minimum level of capital at all times which is consistent with its overall risk position.

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.

Notes to the Financial Statements

14. LIABILITIES TO CLIENTS AND TRADE PAYABLES

Due to the short-term nature, the fair value of liabilities to clients is assumed to equate to the carrying value.

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 clients. 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 liability deposits. The table excludes liabilities deposits at call or short term and trade payables that will be repaid within one year.

	Carrying amount $000	**Contractual cash flows** $000	**1 year or less** $000	**1-2 years** $000	**2-3 years** $000	**3-5 years** $000
2017						
Liabilities to clients - term deposits	34,808	35,039	31,350	2,039	896	754
Other liabilities	512	512	451	20	39	2
	35,320	**35,551**				
2016						
Liabilities to clients - term deposits hedge accounted	51,157	51,582	47,394	2,377	1,146	665
Other liabilities	1,345	1,345	1,282	63	-	-
	52,502	**52,927**				

Notes to the Financial Statements

15. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets and liabilities are offset and reported net 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.

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 Common Fund transactional bank accounts and derivative transactions.

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

The table below sets out the financial assets and financial liabilities subject to offsetting enforceable master netting agreements and other agreements.

	Amounts offset in the statement of financial position			Amounts not offset	Net amount
	Gross financial assets/ (liabilities) $000	Gross financial assets/ (liabilities) setoff $000	Net financial assets/ (liabilities) presented $000	$000	$000
2017					
Cash and cash equivalents	10,954	(7,381)	3,573	15,181	18,754
Investment securities	203,355	-	203,355	239,689	443,044
	214,309	**(7,381)**	**206,928**	**254,870**	**461,798**
Derivative liabilities	(568)	-	(568)	-	(568)
	213,741	**(7,381)**	**206,360**	**254,870**	**461,230**
2016					
Cash and cash equivalents	16,750	(10,982)	5,768	12,697	18,465
Investment securities	234,371	-	234,371	231,143	465,514
	251,121	**(10,982)**	**240,139**	**243,840**	**483,979**
Derivative liabilities	(2,960)	-	(2,960)	-	(2,960)
	248,161	**(10,982)**	**237,179**	**243,840**	**481,019**

16. AUDIT FEES

	2017 $000	2016 $000
Audit fees	316	343
Audit fees for non-consolidated managed funds	73	51
Other fees paid to auditors*	30	9

*Other fees to auditors comprise fees for remuneration benchmarking services and assistance with financial statement disclosure effectiveness.

Notes to the Financial Statements

17. RELATED PARTY TRANSACTIONS

(i). Group information

Ultimate parent

Group's ultimate parent is the New Zealand Crown.

Consolidated Subsidiaries:

— Trading subsidiary – New Zealand Permanent Trustees Limited – a 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

— Investment Funds – as part of its service offering to customers, the Group operates a number of 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 $586 million. Risk lies with the unit holders of the funds.

— 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). The Group has significant influence over the Fund as it acts as the trustee, manager and administrator of the Fund.

— Special purpose vehicles – unconsolidated entities wholly owned by the 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.

Notes to the Financial Statements

(ii). Transactions with related parties

The table below provides the total amount of transactions that have been entered into with related parties for the relevant financial year.

		Fees/interest received from related parties $000	Amounts owed by related parties $000	Amounts owed to related parties $000	Investment securities held with related parties $000
Ultimate parent:					
New Zealand Crown	2017	1,881	185	-	-
	2016	1,723	164	-	-
Crown related parties:					
Stated owned enterprises	2017	1,596	-	-	46,313
	2016	3,391	-	-	53,477
Group's unconsolidated entities:					
Investment funds*	2017	3,906	-	-	-
	2016	4,873	-	-	-
Funeral Trust Cash Fund	2017	-	-	28,495	-
	2016	-	-	30,022	-

*Excluding Funeral Trust Cash Fund

Terms and conditions of transactions with related parties:

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

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

Investment Funds: The Group receives management and administration fees under the terms of the Trust deeds. The Group does not hold units in the funds. Any outstanding balances with Investment Funds are unsecured and repayable on demand, and interest is paid at market rates.

Notes to the Financial Statements

(iii). Key management personnel

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

Key management personnel compensation comprises:

	2017 $000	**2016** $000
Short-term employee benefits	2,090	2,484
Short-term contractor benefits	-	37
Post-employment benefits	33	51
Termination benefits	42	200
	2,165	**2,772**

18. COMMITMENTS AND CONTINGENCIES

	2017 $000	**2016** $000
Analysis of operating lease commitments		
Payable within 1 year	3,432	2,560
Payable after 1 year and within 5 years	4,760	5,125
Payable after 5 years	123	137
	8,315	**7,822**

	2017 $000	**2016** $000
Capital commitments		
Purchase of property, plant and equipment	342	237
Purchase of intangible IT assets	370	786
	712	**1,023**

Contingent Liabilities

The Group had no contingent liabilities at 30 June 2017 (2016: $nil).

Notes to the Financial Statements

19. COMPARISON OF BUDGET TO ACTUAL

Assets and liabilities

Financial assets have increased against budget mainly due to the increase in trade receivables that came about as a result of increasing revenues and delays in billing as a result of the implementation of our new operating platform.

Intangible assets include $4m over the amount originally budgeted due to additional spend to ensure our new operating platform was fit for purpose when implemented in November 2016.

Liabilities to clients are higher than budget as we had expected to be further advanced in our reduction of non-fiduciary client funds (third party deposits).

Revenue

Net revenue was $1.4 million higher than budget due to higher revenue from our investment services business unit as a result of higher volumes of Common Fund deposits and other funds under management. This was offset against lower than budgeted fee revenue growth in other business units, particularly in relation to fees linked to funds under management.

Expenses

Expenses were on budget. Significant variances to budget include the following:

1. Employee benefits were $1.8 million less than budget due to use of temporary staff on strategic projects such as implementation of the new operating platform.

2. Amortisation of intangibles is $0.6m less than budget due to the delay in implementation of our new operating platform.

Cash flows

Net inflows from non-trading investments and net payments to clients are $40m and $44m below budget respectively due to withdrawals related to non-fiduciary client funds not taking place as expected, and higher than expected deposit volumes of fiduciary clients.

Cash outflows on the purchase of intangible assets is $6.5m over budget due to higher than budgeted spend and the timing of payment of retentions for our new operating platform.

20. EVENTS AFTER THE REPORTING PERIOD

There are no events subsequent to the end of the reporting period that require disclosure.

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Notes to the Financial Statements

21. OTHER STATUTORY INFORMATION

Employee remuneration

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

	2017 Number of employees	2016 Number of employees
$100,000 to $109,999	12	12
$110,000 to $119,999	11	16
$120,000 to $129,999	11	10
$130,000 to $139,999	7	5
$140,000 to $149,999	4	4
$150,000 to $159,999	2	6
$160,000 to $169,999	1	3
$170,000 to $179,999	4	2
$180,000 to $189,999	3	1
$190,000 to $199,999	1	1
$220,000 to $229,999	-	1
$230,000 to $239,999	-	1
$240,000 to $249,999	1	-
$250,000 to $259,999	1	-
$270,000 to $279,999	-	2
$280,000 to $289,999	3	1
$300,000 to $309,999	-	-
$310,000 to $319,999	-	1
$320,000 to $329,999	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.

Employment cessation payments

During the year, 98 employees received or will receive collectively $2,181,000 (2016: 50 employees received a total of$2,661,000) relating to the cessation of their employment with Public Trust.

Notes to the Financial Statements

Insurance and indemnities

Public Trust holds 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.

Board member remuneration

	Board 2017 $000	Sub Committee Board 2017 $000	Board 2016 $000	Sub Committee Board 2016 $000
Remuneration paid or payable to Board members:				
Sarah Roberts	56	-	56	-
Fiona Oliver	35	6	35	6
Dinu Harry (term ended 31 October 2016)	9	2	28	4
Sue McCormack (term ended 30 April 2016)	-	-	27	3
Diana Puketapu (term ended 31 October 2016)	10	2	28	1
David Tapsell (term ended 31 October 2015)	-	-	9	1
Lyn Lim (term ended 30 June 2017)	31	4	28	4
Simon Craddock	27	3	18	2
John Duncan	26	3	18	2
Bevan Killick (appointed 1 November 2016)	18	1	-	-
Dianne McAteer (appointed 1 November 2016)	18	1	-	-
Graham Naylor (appointed 1 November 2016)	18	3	-	-
Ian Fitzgerald (appointed 22 May 2017)	6	-	-	-

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Independent Auditor's Report

To the readers of Public Trust's Group Financial Statements and Performance Information for the year ended 30 June 2017

The Auditor-General is the auditor of Public Trust group (the Group). The Auditor-General has appointed me, Emma Winsloe, 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 on his behalf.

Opinion

We have audited:

- the financial statements of the Group on pages 25 to 53, that comprise the consolidated statement of financial position as at 30 June 2017, the consolidated statement of total comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date and the notes to the financial statements including a summary of significant accounting policies; and
- the performance information of the Group on pages 20 to 21.

In our opinion:

- the financial statements of the Group on pages 25 to 53:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2017; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.
- the performance information on pages 20 to 21:
  - presents fairly, in all material respects, the Group's performance for the year ended 30 June 2017, including:
    - for each class of reportable outputs:
      - its standards of delivery performance achieved as compared with forecasts included in the statement of performance expectations for the financial year; and
      - its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year; and
    - 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.

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Independent Auditor's Report

Our audit was completed on 9 October 2017. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

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

Responsibilities of the Board for the financial statements and the performance information

The Board is responsible on behalf of the Group for preparing financial statements and performance information that are fairly presented and comply with generally accepted accounting practice in New Zealand. The Board is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board is responsible on behalf of the Group for assessing the Group's ability to continue as a going concern. The Board is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to merge or to terminate the activities of the Group, or there is no realistic alternative but to do so.

The Board's responsibilities arise from the Crown Entities Act 2004, the Public Trust Act 2001, the Financial Markets Conduct Act 2013 and the Public Finance Act 1989.

Responsibilities of the auditor for the audit of the financial statements and the performance information

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the performance information.

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Chartered Accountants

Independent Auditor's Report

For the budget information reported in the financial statements and the performance information, our procedures were limited to checking that the information agreed to the Group's statement of performance expectations.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit 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.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board.
- We evaluate the appropriateness of the reported performance information within the Group's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial statements and the performance information of the entities or business activities within the Group to express an opinion on the consolidated financial statements and the consolidated performance information. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

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Independent Auditor's Report

Other information

The Board is responsible for the other information. The other information comprises the information included on the inside front cover, and pages 2 to 18, 24 and 58 but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

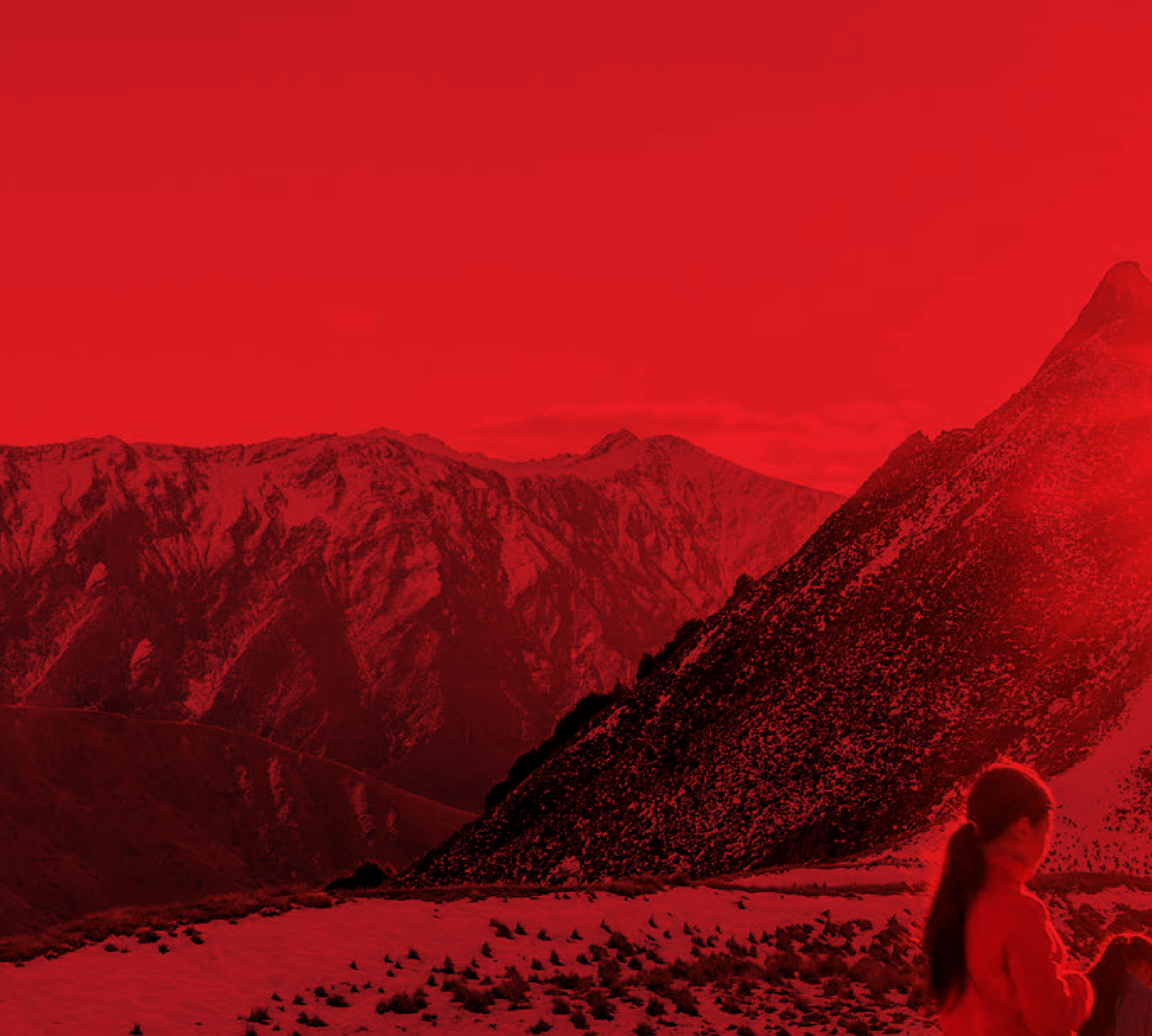
Independence

We are independent of the Group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

In addition to the audit we have carried out audits of collective investment schemes managed by Public Trust and engagements in the areas of financial statement disclosure effectiveness and market-based salary benchmark information, which are compatible with those independence requirements. Other than the audit and these assignments, we have no relationship with or interests in the Group.

Emma Winsloe

Emma Winsloe
Ernst & Young
On behalf of the Auditor-General
Auckland, New Zealand



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

Public Trust