Interim Report of Public Trust

For the six months from 1 July to 31 December 2011

with you for generations to come

Public Trust

He aha te mea nui o tenei ao?

He Tangata!
He Tangata!
He Tangata!

What is the most important thing in this world?

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

Purpose

This report has been prepared to meet the requirements of:

- The Statement of Intent of Public Trust

The report covers the activities for the six months ended 31 December 2011.

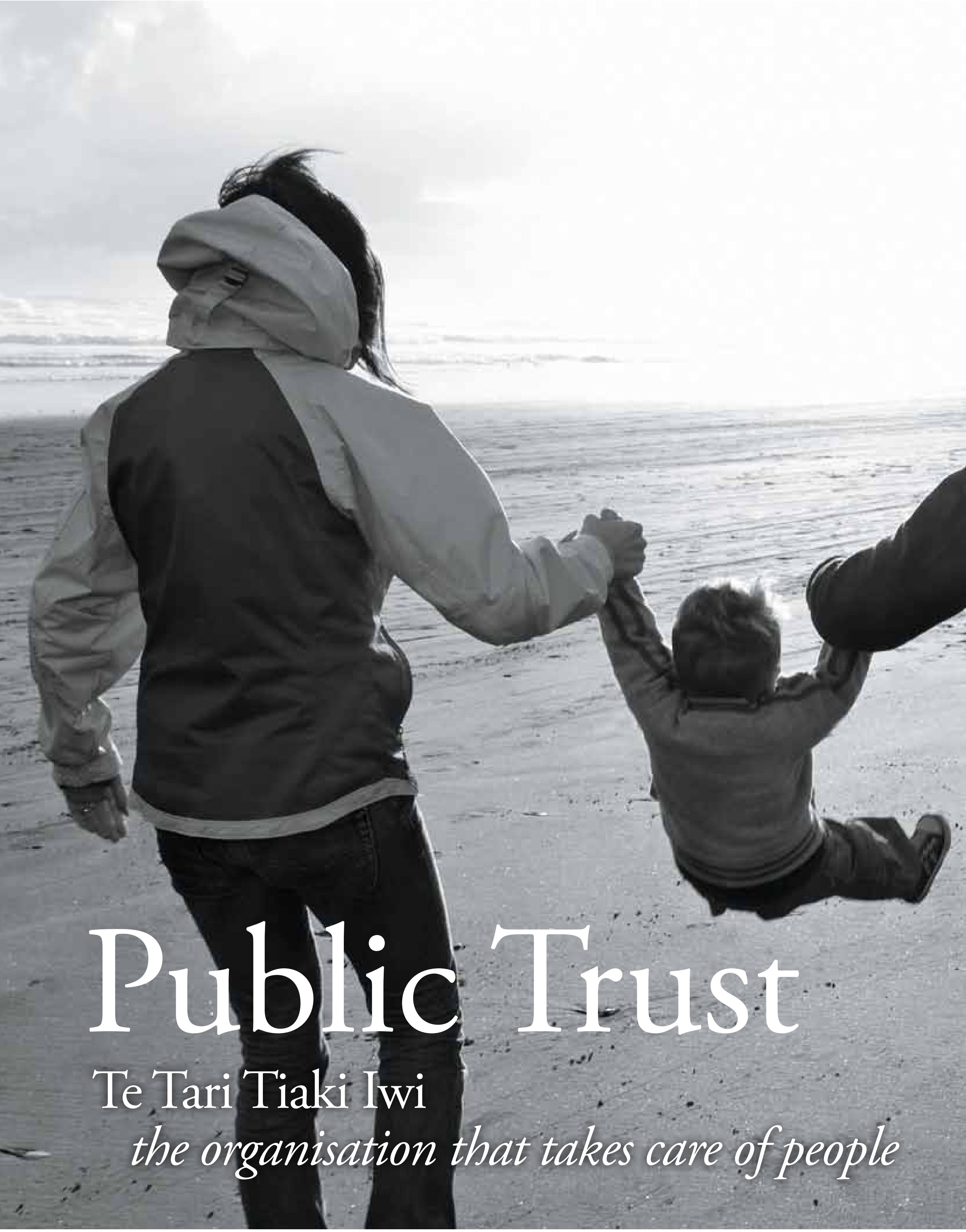
Contents

Foreword

On behalf of the Board, we have the pleasure of presenting the interim report of Public Trust for the six months from 1 July 2011 to 31 December 2011.

Trevor D Janes
Chair
10 February 2012

Robin Hill
Deputy Chair


Public Trust
Te Tari Tiaki Iwi
the organisation that takes care of people

With you for *generations to come...*

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

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

Best known as New Zealand's largest provider of Wills and Estate Administration services, Public Trust also provides a range of products and services to help all New Zealanders grow and protect the important things in their lives. With 28 customer centres and 18 part-time offices nationwide, Public Trust looks after the interests of more than 246,000 New Zealanders.

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

Personal *Customers*

prepare more than
20,000
Wills annually

administer or manage over
$4 billion
in assets, including $1.3 billion in investment funds

Business *Customers*

manage 470 charitable trusts comprising approximately
$406 million
in assets

Corporate *Customers*

supervise approximately
$36 billion
on behalf of corporate and business investors through our Corporate Trustee Services

look after approximately
6,000
estates each year

manage in excess of
4,000
family trusts

provide mortgage lending in excess of
$188 million

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

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

distribute approximately
$9.5 million
of funding to charitable causes each year

actively manage
28 farms
across 19,500 hectares including Smedley Station, New Zealand's largest training farm

safeguard fees for at least
48,000
students across more than 250 private training establishments

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

200 appointments in the securities and financial markets

Report
For the six months ended 31 December 2011

Financial Performance

Public Trust has reported a $5.6 million net profit after tax for the six month period to 31 December 2011. This was $5.9 million ahead of plan and compares with a net profit after tax of $0.4 million for the same period last year. The reversal of previously reported unrealised Common Fund investment losses was the main contributor to the improved result.

The operating surplus was also ahead of plan for the half year by $1.7 million. While total fee revenue increased by 5.5%, this was offset by a 24.2% reduction in Common Fund revenue reflective of the changed investment risk position, lower interest rate environment and continuing competition for retail deposits. Trustee fee revenue as a percentage of total revenue increased to 69.4% from 63.9% in the same period last year.

Operating costs were $1.7 million below plan for the half year and $1.1 million (3.5%) lower than the same period last year reflecting tight control.

The reversal of unrealised legacy investment losses of $7.8 million was $4.7 million ahead of plan. In the period there has been a change in valuation method for certain mortgage backed securities to reflect a more accurate assessment of market value. The Board considers that the valuation fully reflects all known risks at this time. This was offset by continuing adverse market conditions and the performance of underlying assets. The timing of reversals will remain influenced by market conditions and the performance of investment assets.

The reshaping of the mortgage portfolio to focus on quality residential lending to Public Trust customers has continued, albeit in a difficult market. Impairments for the first six months were $0.8 million, $0.1 million lower than the same period last year.

Public Trust's overall equity position has improved over the period. There are a number of initiatives underway to ensure Public Trust builds its capital base to required levels.

Operational Performance

Our core business performance continues to show positive trends. There has been an increase in both customer numbers and market share in key target segments. Market share in our Wills and estates businesses has increased during the period and we have seen revenue growth in key product lines.

The Corporate Trustee business has again improved its market position with total funds under supervision increasing to $35.8 billion.

The transition of the mortgage portfolio to a lower risk position has seen a reduction in total outstanding loans from $204.7 million to $188.3 million over the six month period to 31 December 2011.

Productivity levels have improved with a 12.3% increase in fee revenue per full-time equivalent employee over the same period last year. Recovery activity as a result of the Christchurch earthquakes concluded during the period with operational capability and service levels largely restored. An interim insurance claim has been filed although settlement is likely to take some time.

Public Trust is working closely with the Ministry of Justice to ensure the non-commercial fiduciary protective services we provide support Crown outcomes.

We remain focussed on building a stronger business engaging with New Zealanders to meet their trustee and financial needs.

Regulatory Change

The regulatory environment is again changing with the introduction of the Financial Markets Conduct and Non-Bank Deposit Takers Bills. The Financial Markets Conduct Bill, which reforms New Zealand's securities regime, is expected to result in changes to the way we offer some of our financial products to the public.

A programme of work is in place to ensure compliance with the Anti-Money Laundering and Countering Financing of Terrorism Act. We are also monitoring the Law Commission's review of trusts. Applications for Public Trust and New Zealand Permanent Trustees Limited to be licensed as trustees and statutory supervisors under the Security Trustees and Statutory Supervisors Act have been lodged with the Financial Markets Authority.

Public Trust continues to comply with the risk management and credit rating requirements for non-bank deposit takers (NBDTs). Public Trust has been exempted from the NBDT related party exposure and liquidity requirements and granted a three year period to progressively meet NBDT capital ratio requirements.

In August 2011 Moody's Investors Service affirmed Public Trust's issuer credit rating of Aa3 and a backed long-term deposit rating of Aaa for deposits held in the Common Fund. The ratings are a strong result for Public Trust and reflect the organisation's established trustee franchise, funding profile, sound strategic direction and the ongoing support provided by the Crown.

Improving the Customer Experience

The introduction of new products and services and continued investment in processes have improved our overall service quality and efficiency.

The recently introduced Public Trust Investment Service, supported by Authorised and Registered Financial Advisers, has extended our service offering and we are progressively migrating existing and attracting new customers to the Service.

Research confirms customer satisfaction levels have continued to improve increasing to 79% from 75% at the same time last year. Our tailored customer feedback channel, Voice of the Customer, has again provided us with valuable insights with 89% of customers rating their overall customer experience with Public Trust as excellent or very good.

A programme of work is underway to refine our customer segmentation model, to enable us to further tailor products and services to better meet customer needs at key life stages.

Our People

An ongoing priority is investment in our people and culture to further develop a productive, professional, capable and engaged workforce that is well supported to adapt to and deliver change. There has been an increased focus on leadership development both through an external programme in conjunction with the University of Auckland Business School and through a number of internal initiatives.

Ongoing support is being provided to our people to address changes to their work environment. We have a programme of activity assisting our people impacted by the Canterbury earthquakes.

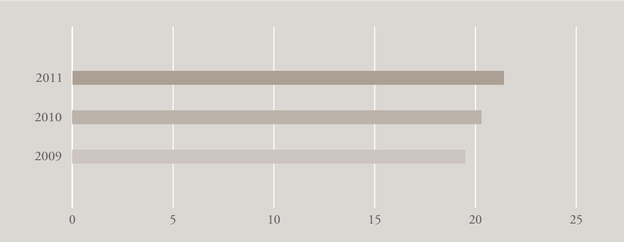
Outlook

External market factors and the economic environment will continue to impact on our performance. The effect on Common Fund revenue and the timing of the reversal of investment losses had a material impact on the financial result for the six month period to 31 December 2011. Key to achieving financial sustainability is the ongoing growth in fee revenue and tight management of operating costs.

The Board and management remain confident that Public Trust will continue to improve its operational performance. While recognising the dependency on the reversal of investment losses to support our financial performance in the short term, Public Trust remains focussed on the transformation of the organisation into a customer centric business that achieves financial sustainability and grows shareholder value.

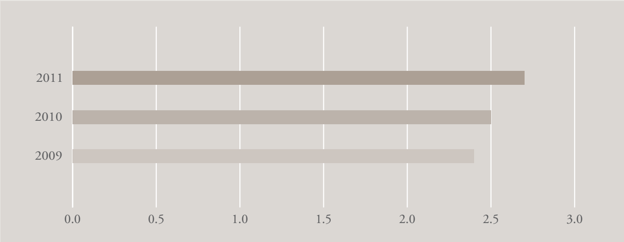
Key Trends
*For the six months ended 31 December 2011**

Trustee fee *revenue ($m)*



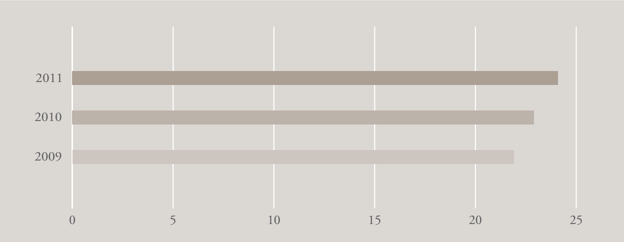
Trustee fee revenue was 5.3% ahead of the same period last year with improved results in the personal and business and corporate segments.

Investment services *revenue ($m)*



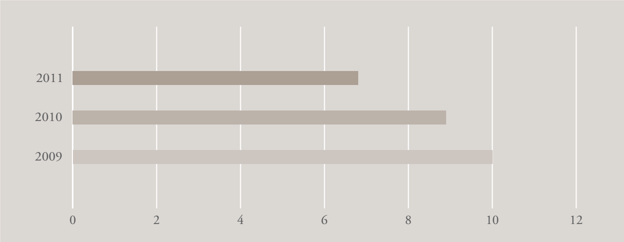
Investment services revenue was 7.5% ahead of the same period last year following the introduction of the Public Trust Investment Service.

Total fee *revenue ($m)*



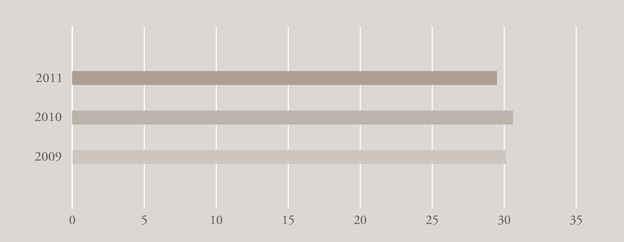
Total fee revenue was 2.8% ahead of budget and 5.5% ahead of the same period last year.

Common Fund *revenue ($m)*



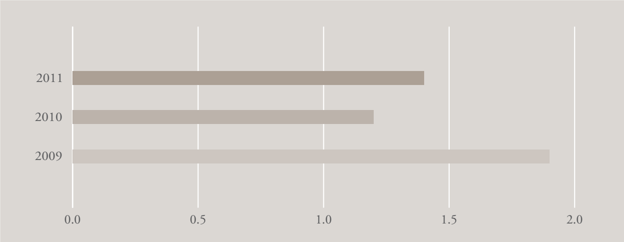
Common Fund revenue reduced 24.2% compared to the same period last year due to the planned changes in the investment risk position, the lower interest rate environment and continuing competition for retail deposits.

Operating *costs ($m)*



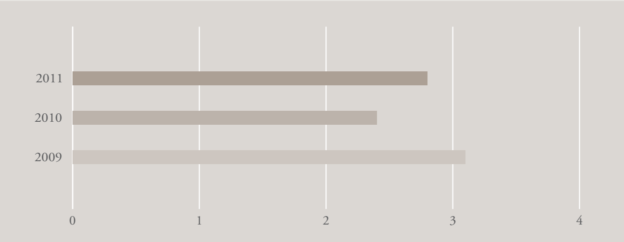
A strong focus on cost management has resulted in a 3.5% reduction in operating costs compared to the same period in the previous year.

Operating *surplus ($m)*



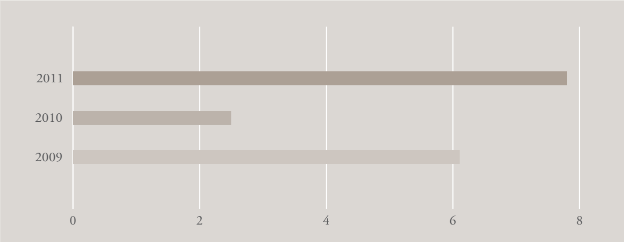
Operating surplus is $0.2 million higher than the same period last year reflecting higher fee revenues, lower Common Fund revenue and lower operating costs. Operating surplus excludes transformation costs, mortgage impairment and investment revaluations.

Transformation *costs ($m)*



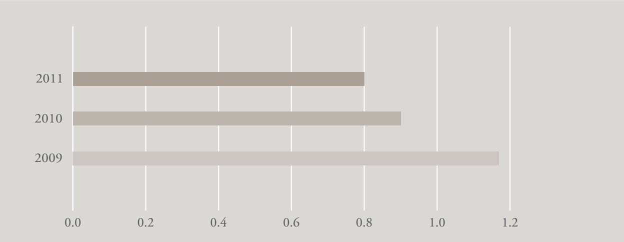
Investment in transforming Public Trust has continued as planned during the period.

Investment *gains ($m)*



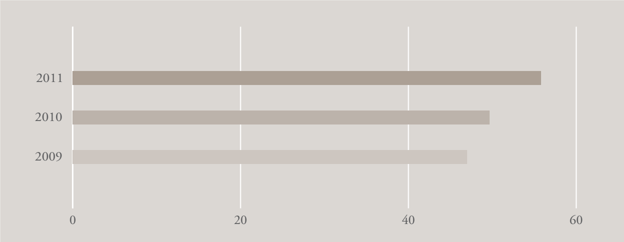
Unrealised investment gains are reflective of a combination of change in valuation model offset by continued adverse market conditions and the performance of underlying assets.

Mortgage *losses ($m)*



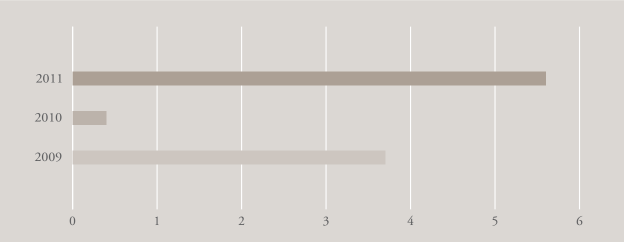
Mortgage losses in the period were less than in the same period last year but higher than planned and include a small decline in the level of the collective impairment allowance.

Productivity *($ total fee revenue per FTE)*



Total fee revenue per full-time equivalent has increased 12.3% over the same period last year reflecting higher fee revenues and reducing FTE employees.

Profit after *tax ($m)*



The reported profit for the period was $5.9 million above plan, reflecting improved operating performance of $1.2 million above plan and unrealised investment gains of $4.7 million above plan.

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

Report on the *Statement of Intent*

For the six months ended 31 December 2011

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

	DEC 2011/12 SIX MONTHS ACTUAL	DEC 2010/11 SIX MONTHS ACTUAL	JUN 2010/11 YEAR ACTUAL	JUN 2011/12 YEAR TARGET[1]	JUN 2012/13 YEAR TARGET[1]
Ownership perspective					
Profit post-tax ($000)	5,591	385	582	1,900	3,400
Return on equity[2]	22.9%	1.9%	2.8%	7.9%	12.8%
Distributions to Crown	Nil	Nil	Nil	Nil	Nil
Efficiency and effectiveness perspective					
Cost/Revenue[3]	95.5%	96.2%	97.0%	97.4%	92.9%
Capability perspective					
Employee engagement[4]	-	-	39%	50%	52%
Customer and market perspective					
Market shares					
– Wills[5]	15.0%	16.0%	14.0%	15.1%	15.2%
– Estates (probates)	14.6%	14.0%	14.2%	14.2%	14.3%
Customer satisfaction[6]	7.9	7.5	8.1	7.8	8.0
Net promoter score[7]	11	5	23	18	20

1 Source: 2012/14 Statement of Intent.
2 Return on equity is profit (loss) post tax divided by the average opening and closing equity. Profit (loss) does not include the movement in the cash flow hedging reserve.
3 Total expenses (excluding change, restructuring and mortgage losses) as a percentage of total revenues (excluding investment gains/losses).
4 Independent survey of employee engagement (2009 Global benchmark = 34%, New Zealand benchmark = 42%). Public Trust's survey is only conducted on an annual basis.
5 Independently conducted survey of market share.
6 Independently conducted survey of customer satisfaction (Range: 1 = poor, 10 = excellent).
7 The net promoter score is derived from asking customers the question "Would you recommend Public Trust to friends and family." The score is the number of people who gave us 9 or 10 out of 10 (10 being positive), minus those who gave us a score of 5 or less (being negative).

Funds under *Management*

As at 31 December 2011

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

	DEC 2011 ACTUAL $M	DEC 2010 ACTUAL $M	JUN 2011 ACTUAL $M
Fiduciary assets			
Funds under management			
Common Fund	833	837	869
Managed Funds	467	394	460
Assets under management	2,771	2,713	2,755
Funds under supervision	35,840	34,706	34,849

Consolidated interim statement of *Financial Position*

As at 31 December 2011

	NOTES	ACTUAL DEC 2011 $000	ACTUAL JUN 2011 $000
Assets			
Cash and cash equivalents		6,298	25,714
Investment securities	4	661,813	656,994
Derivative financial instruments		2,348	2,181
Advances to clients		5,400	7,847
Trade receivables		6,074	6,140
Advances secured by mortgage	5	177,524	194,791
Total financial assets		859,457	893,667
Sundry receivables		1,361	1,352
Prepayments		1,338	745
Current tax		228	227
Property, plant & equipment		8,208	8,657
Intangibles		2,974	3,082
Total assets		**873,566**	**907,730**
Liabilities			
Liabilities to clients - at call or short term		423,384	460,629
Liabilities to clients - term deposits		408,648	408,031
Prepaid estate administration		493	592
Total liabilities to clients		832,525	869,252
Trade payables		2,645	3,820
Other payables		1,812	1,808
Derivative financial instruments		3,730	4,923
Prepaid income		236	245
Employee benefits		4,418	4,760
Provisions	6	1,117	1,255
Total liabilities		**846,483**	**886,063**
Equity			
Contributed equity		90,174	90,174
Cash flow hedging reserve		(2,067)	(1,892)
Retained earnings		(61,024)	(66,615)
Total equity	7	**27,083**	**21,667**
Total liabilities plus equity		**873,566**	**907,730**

For and on behalf of the Board, who authorised the issue of the financial statements on 10 February 2012.

Trevor D Janes
Chair

Robin Hill
Deputy Chair

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

Consolidated interim statement of *Changes in Equity*

For the six months ended 31 December 2011

	NOTES	ACTUAL DEC 2011 $000	ACTUAL DEC 2010 $000
Opening balance		21,667	20,095
Comprehensive income			
Other comprehensive income			
- movement in cash flow hedging reserve		(175)	601
Profit after tax		5,591	385
Total comprehensive income		5,416	986
Equity at the end of the period	7	**27,083**	**21,081**

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

Consolidated interim statement of *Comprehensive Income*

For the six months ended 31 December 2011

	NOTES	ACTUAL DEC 2011 $000	BUDGET DEC 2011 $000	ACTUAL DEC 2010 $000
Revenue				
Revenue from financial instruments				
Interest from interest bearing securities		12,893	16,014	13,762
Interest from advances secured by mortgage		6,097	8,518	8,242
		18,990	24,532	22,004
Less: Interest expense		12,213	17,063	13,070
		6,777	7,469	8,934
Fees and commission revenue		22,102	21,546	20,483
Less: Fees and commission expense		1,227	825	825
Other revenue		115	105	89
Revenue from the Crown		2,250	2,250	2,810
Revenue before expenses		**30,017**	**30,545**	**31,491**
Expenses				
Employee benefits		20,099	21,929	20,820
Operating lease costs		2,079	2,216	2,164
Depreciation		953	1,053	963
Amortisation of intangibles		111	88	94
Net losses on disposals of property, plant & equipment and intangibles		2	38	36
Impairment losses on advances secured by mortgage		850	534	951
Other expenses		8,127	8,064	8,576
Total expenses		**32,221**	**33,922**	**33,604**
Net realised (losses) on financial instruments		(27)	-	(586)
Net unrealised gains on financial instruments		7,822	3,066	3,084
Net gains (losses) on financial instruments		7,795	3,066	2,498
Profit (loss) before tax for the period		**5,591**	**(311)**	**385**
Tax expense (benefit)		-	-	-
Profit (loss) after tax for the period		**5,591**	**(311)**	**385**
Other comprehensive income				
Movement in cash flow hedging reserve		(175)	325	601
Total comprehensive income for the period		**5,416**	**14**	**986**

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

Consolidated interim statement of *Cash Flows*

For the six months ended 31 December 2011

	NOTES	ACTUAL DEC 2011 $000	ACTUAL DEC 2010 $000
Cash flows from operating activities			
Fees and other revenue		23,652	23,237
Interest revenue		17,947	19,834
Payments to suppliers and employees		(33,008)	(33,817)
Interest expense		(12,270)	(12,466)
Net GST expense		(81)	(147)
Cash flows from operating activities before changes in trading investments		(3,760)	(3,359)
Net flows from trading investments		(28)	(805)
Net cash flows from operating activities	9	**(3,788)**	**(4,164)**
Cash flows from investing activities			
Net flows from non-trading investments		22,107	36,249
Sale of property, plant & equipment		-	3
Purchase of property, plant & equipment		(1,181)	(521)
Purchase of intangibles		(2)	-
Net cash flows from investing activities		**20,924**	**35,731**
Cash flows from financing activities			
Net receipts (payments) from clients		(36,552)	(46,243)
Net cash flows from financing activities		**(36,552)**	**(46,243)**
Net (decrease) in cash and cash equivalents		(19,416)	(14,676)
Cash and cash equivalents at the beginning of the period		25,714	26,526
Cash and cash equivalents at the end of the period		**6,298**	**11,850**

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

Notes to the *Consolidated Interim Financial Statements*

For the six months ended 31 December 2011

1 General information

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

Public Trust is a Crown Entity for the purposes of the Crown Entities Act 2004 and an issuer for the purpose of the Financial Reporting Act 1993.

The activities and assets of Group Investment Funds managed by Public Trust are not included except for cash balances held in the Common Fund, and to the extent that Public Trust invests those funds on its own account. Similarly the assets managed for individual trusts, except for liabilities to clients held in the Common Fund, are not included. These entities are not consolidated within the Group's financial statements as the Group does not control these funds and trusts so as to obtain ownership benefits.

2 Basis of preparation

These consolidated interim financial statements are for the six months ended 31 December 2011. They have been prepared in accordance with NZ IAS 34 Interim Financial Reporting and do not include all of the information required for full annual financial statements. These consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 30 June 2011, which have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for profit-oriented entities. The annual financial statements for the year ended 30 June 2011 complied with International Financial Reporting Standards.

Comparatives

The comparatives presented are either for the six months ended 31 December 2010 (unaudited) or the year ended 30 June 2011 (audited except for the restatements noted below), as appropriate.

Commitments

During the preparation of the consolidated interim financial statements we have reassessed the calculation of non-cancellable lease commitments as at 30 June 2011. This reassessment resulted in the restatement of the comparatives presented in the consolidated interim financial statements.

3 Accounting policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2011 except that during the period the following amended standards have been adopted:

NZ IFRS 7 *Financial Instruments: Disclosure (amendments 2010)*: The amended NZ IFRS 7 requires that qualitative disclosure should be provided to enable users to evaluate the nature and extent of the risks arising from financial instruments. This standard is effective for accounting periods beginning on or after 1 January 2011.

NZ IAS 34 *Interim Financial Reporting (amendments 2010)*: The amended NZ IAS 34 requires significant events and transactions to be disclosed and includes mandatory disclosures. This standard is effective for accounting periods beginning on or after 1 January 2011.

Notes to the *Consolidated Interim Financial Statements (continued)*

For the six months ended 31 December 2011

3 Accounting policies (continued)

Application of accounting standards

The following amendments to accounting standards have been issued but are not yet effective for the six months ended 31 December 2011, and have not been applied in preparing these interim financial statements:

NZ IFRS 9 *Financial Instruments*: effective for annual periods beginning on or after 1 January 2015. This standard will initially be applied in the interim financial statements for the six months ending 31 December 2015. The requirements for classifying and measuring financial liabilities were added to this standard as issued in 2009. The existing NZ IAS 39 requirements for the classification of financial liabilities and the ability to use the fair value option have been retained.

NZ IFRS 10 *Consolidated Financial Statements*: effective for annual periods beginning on or after 1 January 2013. This standard will initially be applied in the interim financial statements for the six months ending 31 December 2013. This standard establishes a new control model. The new control model broadens the situations when an entity is considered to control another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control.

NZ IFRS 12 *Disclosure of Interests in Other Entities*: effective for annual periods beginning on or after 1 January 2013. This standard will initially be applied in the interim financial statements for the six months ending 31 December 2013. This standard includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.

IRFS 13 *Fair Value Measurement*: effective for annual periods beginning on or after 1 January 2013. This standard issued in May 2011 defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. The actual impact has not yet been determined.

Use of judgements and estimates

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

In preparing these consolidated interim financial statements, significant judgements are made by management in applying the Group's accounting policies. With the exception of the items set out below, and the amendment of all key inputs to reflect the position at 31 December 2011, the underlying methodology and the key sources of estimation uncertainty are consistent with those applied to the annual financial statements as at and for the year ended 30 June 2011.

Financial assets at fair value through profit or loss - valuation

In prior periods the fair value of a portion of the mortgage backed securities portfolio, for which neither a quoted market price nor pricing from a third party agent are available, was determined by reference to a third party's current market price for a similar instrument not held in the portfolio, but which had a substantively similar subordination and credit rating structure. Concerns over the appropriateness and reliability of the comparator security led to the conclusion that the determination of fair value by reference to this third party instrument is no longer appropriate. From 31 December 2011 the fair value of this portion of the mortgage backed security portfolio has been determined by reference to a discounted cash flow valuation technique. Additional information on the valuation technique is included in Note 8.

Long-service leave

Actuarial valuation is carried out on an annual basis unless there are significant changes in circumstances.

Notes to the *Consolidated Interim Financial Statements (continued)*

For the six months ended 31 December 2011

4 Investment securities

	DEC 2011 $000	JUN 2011 $000
Designated at fair value through profit or loss	265,604	276,298
Loans and receivables	396,209	380,696
	661,813	**656,994**

The level classification of investment securities designated at fair value through profit or loss is disclosed in Note 8.

5 Advances secured by mortgage

	DEC 2011 $000	DEC 2010 $000
Gross value	188,330	226,420
Less: Individual impairment allowance	(7,848)	(7,082)
Less: Collective impairment allowance	(2,958)	(3,605)
	177,524	**215,733**
Individual impairment allowance		
Opening balance	(6,848)	(11,183)
Charge for the period	(1,000)	(1,577)
Bad debts written off	-	5,379
Unused allowance reversed	-	307
Interest accrued on impaired advances	-	(8)
Closing balance	**(7,848)**	**(7,082)**
Collective impairment allowance		
Opening balance	(3,080)	(3,964)
Unused allowance reversed	122	359
Closing balance	**(2,958)**	**(3,605)**

6 Restructuring provision

The restructuring provision relates primarily to the termination of employment. It is expected the sums provided will be paid by 30 June 2012.

	DEC 2011 $000	DEC 2010 $000
Opening balance	219	204
Additions during the period	259	202
Amount applied during the period	(364)	(216)
Reversal of provision not used	(15)	(135)
Closing balance	**99**	**55**

Notes to the *Consolidated Interim Financial Statements (continued)*

For the six months ended 31 December 2011

7 Equity

	DEC 2011 $000	DEC 2010 $000
Contributed Equity		
Opening/Closing balance	**90,174**	**90,174**
Retained earnings		
Opening balance	(66,615)	(67,197)
Profit after tax	5,591	385
Closing balance	**(61,024)**	**(66,812)**
Cash flow hedging reserve		
Opening balance	(1,892)	(2,882)
Net (losses) gains from changes in fair value	(431)	508
Transferred to profit or loss	256	93
Closing balance	**(2,067)**	**(2,281)**
Equity at the end of the period	**27,083**	**21,081**

Capital management

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

- protect the interests of depositors and creditors;
- protect the interests of the Crown;
- ensure the safety of the capital position; and
- ensure the capital base supports the strategic business objectives and the agreed risk appetite.

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

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

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

Notes to the *Consolidated Interim Financial Statements (continued)*

For the six months ended 31 December 2011

7 Equity (continued)

The Group, as a deposit taker, is subject to the requirements of the Non-Bank Deposit Taker (NBDT) regime. The prudential requirements with regard to capital have been developed and prescribe a minimum capital ratio of 8% for NBDT's with a credit rating from an approved credit rating agency. The Reserve Bank of New Zealand granted the Group a temporary exemption from capital ratio requirements, effective 1 December 2010. The exemption is subject to the condition that the Group must maintain a minimum capital ratio that is:

- not less than 2.5% until 1 December 2012;
- not less than 3.5% from 1 December 2012 to 1 December 2013; and
- not less than 8% from 1 December 2013.

The Group's capital ratio at 31 December 2011 is 5.3% placing it above its minimum capital requirement.

The actual position in terms of the proposed prudential capital requirements of the NBDT regime, (and the Group's specific exemption) is reviewed monthly by management and the Board.

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 period.

8 Financial risk management

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including interest rate risk and price risk), credit risk and liquidity risk.

The consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the annual financial statements for the year ended 30 June 2011.

There have been no changes in the risk management department since the year end or in any of the risk management policies.

Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Notes to the *Consolidated Interim Financial Statements (continued)*

For the six months ended 31 December 2011

8 Financial risk management (continued)

The following table presents the Group's assets and liabilities that are measured at fair value as at 31 December 2011.

	LEVEL 1 $000	LEVEL 2 $000	LEVEL 3 $000	TOTAL $000
Assets				
Investment securities	36,500	120,436	108,668	265,604
Derivative financial instruments	-	2,348	-	2,348
Total assets	**36,500**	**122,784**	**108,668**	**267,952**
Liabilities				
Derivative financial instruments	-	3,730	-	3,730
Total liabilities	**-**	**3,730**	**-**	**3,730**

The following table presents the Group's assets and liabilities that are measured at fair value as at 30 June 2011.

	LEVEL 1 $000	LEVEL 2 $000	LEVEL 3 $000	TOTAL $000
Assets				
Investment securities	61,438	117,348	97,512	276,298
Derivative financial instruments	-	2,181	-	2,181
Total assets	**61,438**	**119,529**	**97,512**	**278,479**
Liabilities				
Derivative financial instruments	-	4,923	-	4,923
Total liabilities	**-**	**4,923**	**-**	**4,923**

The following table presents a reconciliation of the fair value of level 3 assets for the six months ended 31 December.

	DEC 2011 $000	DEC 2010 $000
Opening balance	97,512	135,875
Total gains (losses) recognised in profit or loss	7,805	1,166
Movement in amortisation	(279)	(75)
Movement in accrued interest	155	(43)
Purchases	111,626	117,385
Sales	(4,657)	(19,250)
Maturities	(103,494)	(130,485)
Transfers into or out of level 3	-	-
Closing balance	**108,668**	**104,573**

As at 31 December 2011 the fair value of a portion of the mortgage backed security portfolio, classified as level 3 investment securities, with a carrying value of $26.5 million (30 June 2011: $19.6 million), previously determined using a comparator security technique, has been determined by reference to a discounted cash flow valuation technique. The comparator security technique is no longer appropriate as the security no longer trades in the market. Continuation of the comparator security technique would have resulted in the recognition of an unrealised loss of $4.2 million for the period. The adoption of a cash flow valuation technique resulted in the recognition of an unrealised gain of $5.9 million for the period.

Notes to the *Consolidated Interim Financial Statements (continued)*

For the six months ended 31 December 2011

8 Financial risk management (continued)

Inputs to the cash flow model include information obtained from third parties which includes assumptions which are relied upon. The key inputs obtained from third parties are the expected loss and weighted average life of the mortgage backed security structure following an assessment of the rate of scheduled and voluntary capital repayments together with the rate of default and losses given foreclosure. Judgement is applied in determining the appropriate discount rate used in the calculations. This rate incorporates a margin above the risk free rate to reflect a potentially different market assessment of the performance of the securities plus illiquidity.

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

	DEC 2011 $000	DEC 2010 $000
Profit after tax	**5,591**	**385**
Items relating to property, plant & equipment		
Depreciation	953	963
Losses on disposal of property, plant & equipment	2	30
Items relating to intangibles		
Amortisation	111	94
Losses on disposal of intangibles	-	6
Items relating to non-trading financial assets and financial liabilities		
Realised (gains) on disposal	(108)	(290)
Unrealised (gains)	(6,638)	(1,536)
Amortisation of premiums and discounts	(1,139)	67
Movement in accrued interest	1,008	(878)
Movement in impairment allowances	922	(4,454)
Write off of advances secured by mortgage	(53)	5,373
Movement in amortisation of origination fees and transaction costs	(15)	(15)
Other items		
(Increase) decrease in trading derivative assets	7	(104)
(Increase) decrease in trade receivables	(806)	(127)
(Increase) decrease in sundry receivables	7	19
(Increase) decrease in prepayments	(615)	(692)
Increase (decrease) in trade payables	(500)	(287)
Increase (decrease) in other payables	(94)	(404)
Increase (decrease) in trading derivative liabilities	(1,934)	(2,007)
Increase (decrease) in prepaid income	(6)	(16)
Increase (decrease) in employee benefits	(343)	(156)
Increase (decrease) in provisions	(138)	(135)
Net cash flows from operating activities	**(3,788)**	**(4,164)**

Notes to the *Consolidated Interim Financial Statements (continued)*

For the six months ended 31 December 2011

10 Related parties

Crown-related parties

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

Revenue from the Crown of $2.3 million (31 December 2010: $2.8 million) arises from an output agreement between Public Trust and the Minister of Justice (with the agreement of the Minister of Finance). The agreement covers certain non-commercial services that are either paid for or are subsidised by the Crown to ensure that, among other things, reasons of affordability do not prevent or preclude New Zealanders from obtaining key services relating to the management of their estates and personal affairs. Payment for these services is managed by the Ministry of Justice on behalf of the Crown. The total output appropriation is limited to $4.5 million for the 2011/12 financial year.

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

Dec 2011	NET INTEREST REVENUE $000	PURCHASES $000	SALES/ MATURITIES $000
State owned enterprises	2,592	70,000	43,000
Crown entities	-	-	-
	2,592	**70,000**	**43,000**
Dec 2010			
State owned enterprises	2,862	35,000	59,020
Crown entities	150	-	-
	3,012	**35,000**	**59,020**

Notes to the *Consolidated Interim Financial Statements (continued)*

For the six months ended 31 December 2011

10 Related parties (continued)

Group Investment Funds

Public Trust manages Group Investment Funds and this management relationship confers significant influence on the funds.

The following significant transactions and balances occurred for the period in relation to the Group Investment Funds.

	DEC 2011 $000	DEC 2010 $000
Reimbursement of expenses	728	779
Management fee received	1,796	1,947
Interest paid	-	1
Interest received	1	8
Receivable at balance date	-	15
Total balances with the Common Fund at balance date	-	42
Total overdrafts with the Common Fund at balance date	(385)	-
Interest paid to Funeral Trust Cash Fund	228	172
Balance of Funeral Trust Cash Fund with the Common Fund	33,292	33,438

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

Key management personnel

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

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

	DEC 2011 $000	DEC 2010 $000
Closing balance	-	219
Interest received during the period	-	26

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

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

Notes to the *Consolidated Interim Financial Statements (continued)*

For the six months ended 31 December 2011

11 Commitments

	DEC 2011 $000	JUN 2011 $000
Closing balance		
Total capital expenditure committed to at reporting date but not provided for in the financial statements	911	-
Analysis of non-cancellable lease commitments		
Payable within 1 year	3,881	4,086
Payable after 1 year and within 5 years	5,829	6,623
Payable after 5 years	204	590
	9,914	11,299
	10,825	11,299

12 Contingent assets and liabilities

Contingent asset

As at 31 December 2011 the Group has lodged an interim claim with its insurer in relation to the Canterbury earthquakes. Due to the timing of the earthquakes, difficulties in accessing damaged sites, ongoing expenditure in relation to re-establishing operations and interpretation of the terms and conditions of the policy, the quantum of the final claim has not been finalised. The quantum of the full insurance claim is expected to be in excess of $3 million. An interim payment of $0.5 million (including GST) was received from the insurer on 15 July 2011.

Contingent liabilities

The Group has no contingent liabilities at 31 December 2011.

As at 30 June 2011, the Group had a contingent liability in relation to restructuring. Uncertainties existed around the likelihood and timing of a redundancy provision, for which the potential liability was estimated to be $141,300. During the six months ended 31 December 2011 this contingent liability was resolved.

13 Events after the reporting date

There were no material events subsequent to the reporting date that would affect the interpretation of the consolidated interim financial statements.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Directory

Shareholders

The Minister of Justice (Hon Judith Collins)
and Minister of Finance (Hon Bill English)

Board

Trevor D Janes *(Chair)*
Robin Hill *(Deputy Chair)*
Rodger Finlay
Dinu Harry
Sue McCormack
Fiona Oliver
Hinerangi Raumati
Sarah Roberts

Executive Leadership Team

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

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Auditor

Ernst & Young on behalf of the Auditor-General

Solicitors

DLA Phillips Fox

Banker

Bank of New Zealand

Credit rating agency

Moody's Investors Service


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