Annual Report of Public Trust

For the year ended 30 June 2010

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!

Public Trust's purpose is to help all New Zealanders grow and protect the important things in their lives.

We were reminded very clearly of this when the magnitude 7.1 earthquake struck Christchurch in the early hours of Saturday 4 September.

Many New Zealanders were seriously affected by the quake and are continuing to deal with the aftermath.

We are providing ongoing support to our employees and customers who were affected, as they continue to rebuild their lives and livelihoods.

Purpose

This report has been prepared to meet the requirements of:

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

The report covers the activities for the year ended 30 June 2010.

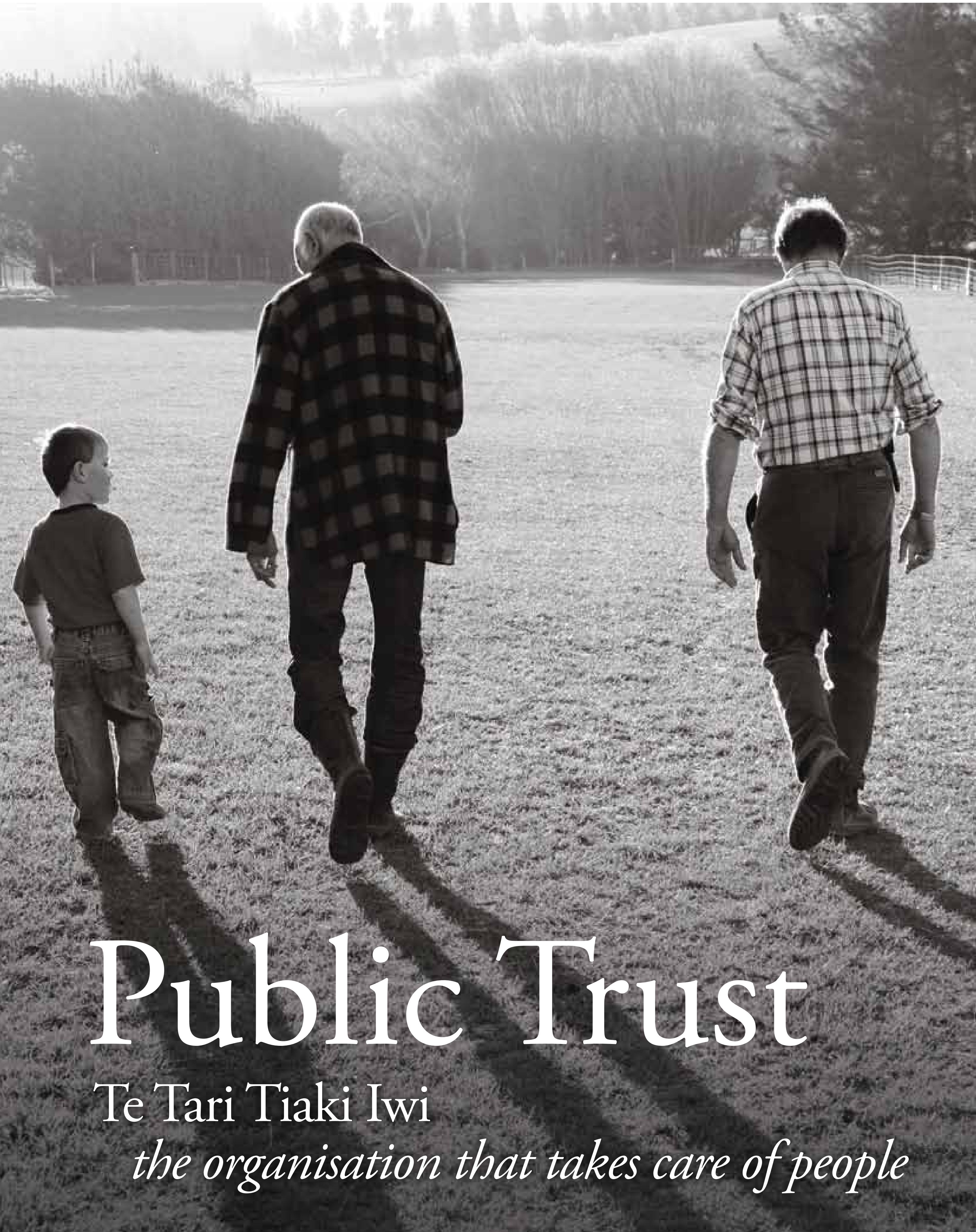
Contents

Foreword

On behalf of the Board, we have the pleasure of presenting the annual report of Public Trust for the year 1 July 2009 to 30 June 2010.

Trevor D Janes
Chair
24 September 2010

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 rating and deposit 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 252,000 New Zealanders as customers.

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 protect what's important.

Personal *Customers*

prepare more than

24,000

Wills annually

administer or manage over

$3.9 billion

in assets, including $1.3 billion in investment funds

Business *Customers*

manage 440 charitable trusts comprising approximately

$370 million

in assets

Corporate *Customers*

supervise approximately

$29 billion

on behalf of corporate and business investors through our Corporate Trustee Services

look after more than
6,000
estates each year

manage in excess of
4,000
family trusts

provide mortgage lending in excess of
$240 million

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

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

distribute approximately
$10 million
of funding to charitable causes each year

actively manage
29 farms
across 19,600 hectares including Smedley Station, New Zealand's largest training farm

safeguard over $245 million of fees for at least
47,000
students across more than 340 private training establishments

offer a full range of trustee services to some of Australasia's best known institutions covering approximately
200 appointments in the securities and financial markets

Chair's *Report*

In my first report as Chair I'm pleased to advise that, whilst there remains much to be done, Public Trust has made significant progress in its transformation to deliver an improved customer experience and ensure financial sustainability.

Financial performance

There was an improvement in financial performance, with a net profit of $4.8 million compared to a loss of $47.5 million in 2008/09. This improved result is driven principally by the reversal of previous unrealised investment losses. Lower mortgage provisions and an increase in operating surplus also contributed.

A key focus has been to build a strong core trustee business and increase fee and commission revenue with the intent that this becomes a greater contributor to total revenue. The increase in core revenues is also necessary to offset the continued decrease in Common Fund income as a result of planned changes in the investment risk position and competition for retail deposits. Progress has been achieved with both an improvement in the revenue mix, productivity gains and a year-on-year reduction in operating expenses.

We have also made progress in reshaping the mortgage portfolio and focusing on residential customers with whom Public Trust has an existing or pending fiduciary relationship. Mortgage impairments have reduced materially from the 2008/09 year as we continue to take a prudent approach to assessing provisions, and significant progress has been made in improving portfolio quality in a difficult market.

Public Trust's overall equity position has improved over the period principally due to the $30 million of additional capital provided by the Crown in August 2009. The Board remains committed to continuing to build capital to ensure that Public Trust has an appropriate capital structure and complies with the Non-Bank Deposit Takers regime (NBDT) requirements.

Strategic direction

Public Trust has recognised that a fundamental transformation is required to ensure its financial sustainability and is part way through a change programme that is affecting all parts of the organisation.

The goal is to build a stronger business that engages with New Zealanders to better meet their trustee needs. To achieve this goal, we need to significantly enhance the customer experience and improve operating capability and efficiency levels.

The implementation of our change programme continues to progress; while requiring significant investment, the programme is now in its third year and is delivering tangible results. The improvement in capability, year-on-year growth in core fee revenue and high levels of customer satisfaction all indicate that we are on the right path to deliver enhanced value for both the Crown and our customers.

The 2010/11 year will see us build on the 2009/10 results as we continue to focus on developing people capability, improving the customer experience and enhancing productivity levels.

Regulatory change

The regulatory environment in which Public Trust operates is also undergoing significant change and these changes bring both challenges and opportunities. Of particular note are the Financial Advisers Act (FAA), which comes into effect in July 2011, the capital ratio requirements of the NBDT regime in December 2010 and Anti-Money Laundering and Countering Financing of Terrorism reform which is expected to be implemented in 2012.

We are compliant with the risk and credit rating requirements of the NBDT regime. In August 2010 Public Trust was assigned a first-time issuer credit rating of Aa3 by Moody's Investors Service. The rating is a strong result for Public Trust and reflects the organisation's established trustee franchise, funding profile, sound strategic direction and the support provided by the Crown.

Moody's Investor Service also assigned a backed long-term deposit rating of Aaa covering deposits held in the Common Fund. Public Trust's customers' deposits and interest held in the Common Fund have a Crown guarantee provided under the Public Trust Act 2001 and Public Finance Act 1989. The strong investment grade credit rating and deposit rating, combined with the Crown guarantee on Common Fund deposits, provides customers with confidence as to their investments with Public Trust.

Non-commercial services

While Public Trust operates competitively in the trustee services market, it also provides non-commercial protective fiduciary services, such as the provision of free Wills and the administration of small estates, trusts and personal property protection rights on behalf of the Crown. This work helps to ensure that New Zealanders have access to professional trustee and administration services regardless of personal circumstances.

In the last year, Public Trust has continued to work closely with the Crown and the Ministry of Justice to ensure the services we provide are sustainable and relevant to Government policy objectives.

Changes to the Board

This year the Board has welcomed three new members, Hinerangi Raumati, Fiona Oliver and Sue McCormack, who each bring significant skills and experience.

I would like to thank outgoing members Fiona Pimm and Murray Weatherston for their contribution during a time of significant challenge and change for the organisation. I would also like to commend the outgoing Chair, Donal Curtin, who provided guidance and commitment prior to his retirement in April 2010.

Thanks

It is important that I acknowledge that the changes undertaken in the last year have required a lot of hard work and we should not underestimate the impact on employees.

I would like to thank my Board colleagues, Grenville Gaskell, management and all employees for their continued focus and commitment to building a stronger, more durable business.

Outlook

While we are pleased to see the continuation in core fee revenue growth and the reduction in operating costs, we recognise that Public Trust faces a number of significant challenges while managing a number of internal and external risks.

The costs to the business to implement key regulatory changes are substantial and the Board is actively working with management to ensure we comply as efficiently and effectively as possible. Volatility in property and investment markets will continue to create considerable uncertainty during the 2010/11 year.

We are confident Public Trust will continue to improve capability to better meet customer needs as the transformation programme progresses.

Trevor D Janes, Chair

net profit of $4.8 million

2009/10 has seen Public Trust make significant progress in its transformation to deliver an improved customer experience and ensure financial sustainability.

Chief Executive's *Report*

The 2009/10 financial year has been one of achievement and great challenge for Public Trust. We continue to undertake a major change programme in a subdued economic environment. In addition we are responding to substantial regulatory change in a way that ensures compliance and improves competitive positioning.

Whilst our financial result for 2009/10 shows a significant improvement over last year, the need for ongoing investment in the change programme, coupled with the material decrease in Common Fund income, places pressure on ensuring we grow and build stronger customer relationships and improve productivity levels. The urgency outlined in last year's report to improve short-term performance continues with 2010/11 being a pivotal year of change for Public Trust.

Current performance

Following last year's significant loss after tax, principally due to unrealised Common Fund investment losses and mortgage provisions, we recognised the need to place increased focus on short-term performance improvement whilst continuing with longer-term strategic change to ensure a sustainable financial position could be achieved. The ongoing effect of the Global Financial Crisis (GFC) dictated a shift to implement initiatives that contain costs and improve revenues in the short term.

The continued focus on increasing core trustee business revenues to reduce the reliance on Common Fund income is working. Fee and commission revenue increased by $3 million or 8.5% year-on-year to comprise 61.8% of total revenue (up from 56% last year). The increase in revenue was in all segments with the Corporate Trustee business performing particularly strongly. Over the same period the expected decrease in Common Fund income occurred with a reduction of $4.4 million or 18.9%. The Common Fund's share of total revenue reduced from 36.7% of total revenue to 30.4% year-on-year.

There has been a continued improvement in productivity levels with a 12.1% increase in revenue per frontline and support full-time equivalent (FTE) employees over the year. There has also been a focus on managing operating costs, which decreased 3% year-on-year partly, due to lower FTE numbers and no salary increases for the year.

Transformation costs were above those incurred in 2008/09 due to the extent of structural change and subsequent one-off restructuring costs incurred in this financial year. However, we are seeing encouraging trends with employee vacancy rates down, training completed and product cross-sell rates lifting.

Public Trust received a significant inflow of deposit funds during the height of the GFC as the organisation was viewed with confidence.

As a result of maturing deposits Common Fund balances and financial assets have reduced during the period. The reduction in advances secured by mortgages is the result of the transition of the portfolio towards residential customers.

Sustaining the very high level of employee engagement achieved last year was expected to be very challenging given market conditions, the quantum of structural changes being implemented across Public Trust and the need to improve organisational performance. This has proven to be the case with the level dropping to 41%. This is now in line with New Zealand averages but remains above global benchmarks.

This year we have seen some encouraging trends across our business and have:

- maintained a strong market position, with growth in key customer segments and Wills market share
- achieved a year-on-year growth of 17.1% in estate revenues
- delivered a 12.5% year-on-year increase in the number of family trusts and a 44.1% increase in pre-paid funeral trusts
- delivered our first product bundle, "Family Promise", which tailors our products and services to better meet the needs of new families
- grown our charitable trust business by increasing our newly established trusts year-on-year
- increased the number of students protected by Fee Protect by 2.8% year-on-year, which resulted in a 2.8% increase in revenue and a 6.1% increase in funds under management
- increased total funds under supervision by Corporate Trustee Services by 18.9% to $29 billion
- made substantial progress in addressing non performing mortgages and transitioning the portfolio to a lower risk position focusing on residential lending to existing customers.

Our ongoing monitoring of how New Zealanders feel about doing business with Public Trust shows a continued high level of perceived satisfaction with 70% either satisfied or very satisfied with the level of service provided. This indicates that the initial changes we have made to our brand and the way we deliver the enhanced customer experience are on target.

Improving the customer experience

The change programme has continued to deliver. While the actions taken to date to transform the business are significant, we have set ambitious targets to improve the customer experience in the next year by developing our people and improving their capability, and introducing new products and services to meet customer life stage needs. We also recognise that further substantive change is required.

There have been a number of highlights this year. The Customer Centricity Programme (CCP) has been implemented throughout customer centres placing a clearer focus on customer segments and a relationship management model delivering to customer needs. The implementation of CCP has resulted in a significant change in front-line employee responsibilities and a considerable investment in both recruitment and learning and development.

We have seen our productivity improve through an ongoing programme of process redesign particularly in the family trust and estates area. Improved contract management standards have been implemented and new ethics and competency frameworks introduced. Substantial work has been undertaken to prepare for the introduction of the Financial Advisers Act (FAA) and we are well underway in launching a new customer investment product range during the second quarter of the 2010/11 financial year.

We are operating in an environment that is impacted by the flow on effect of the GFC and the subsequent regulatory changes to strengthen the financial markets in New Zealand.

fee and commission revenue increased by **$3 million**

Corporate Trustee Services total funds under supervision increased to **$29 billion**

customer satisfaction maintained at **70%**

Central to our success will be leveraging the opportunities presented by the FAA and the Non-Bank Deposit Takers (NBDT) regime. The NBDT project has made excellent progress with the issuance of a high quality investment credit rating from Moody's Investors Service in August 2010. We continue to address the requirements for minimum capital and capital ratio effective 1 December 2010.

The coming year will see us continue to build on the key strategies for achieving:

- improved people capability
- enhanced customer relationship management
- improved brand positioning
- productivity gains through process improvement
- improved competitive positioning from implementing regulatory change
- growth in core trustee revenues and tightly managed operating costs

Thanks

There is no question that Public Trust is a stronger organisation than it was a year ago and I thank our people for their contribution and continued hard work. We have expected a lot and our people have responded to significant changes in organisational design and the need to improve quality and productivity. The Executive Leadership Team has in particular carried a significant workload and I'm very grateful for their support.

I would like to recognise the extensive work completed by our outgoing Chair, Donal Curtin, and thank him for his guidance and direction as he steered the organisation through a period of sustained change and challenges. On this note I welcome Trevor Janes, who was appointed Chair in May this year.

My thanks also goes to all of the members of the Board for their support, guidance and wisdom. It has been a most challenging year for members but one in which they have overseen a lift in organisational capability and underlying performance. Public Trust is very fortunate to have a Chair and Board with the level of experience we have to govern the implementation of our strategy to fundamentally reshape the organisation.

"I remain confident we can continue to improve Public Trust's financial position and role as the Trustee for all New Zealanders…"

Outlook

Whilst the next year presents ongoing opportunities and challenges for Public Trust, we are making considerable progress and have a clear plan of what we need to accomplish.

The objectives ahead of us include achieving increased operating surplus and total fee revenue targets in order to counteract the planned decline in the Common Fund revenue and tightly managing operating expenses. Our challenge is to balance the need for short-term performance improvement, implementing regulatory change and achieving our overall goal of ensuring long-term financial sustainability by completing our transformational change programme.

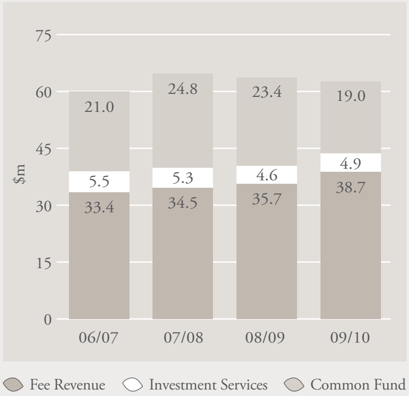
I remain confident we can continue to improve Public Trust's financial position and role as the Trustee for all New Zealanders as we deliver an enhanced customer experience to enable us to become a truly customer centric organisation meeting the changing needs of New Zealanders.

Grenville Gaskell

Grenville Gaskell, Chief Executive

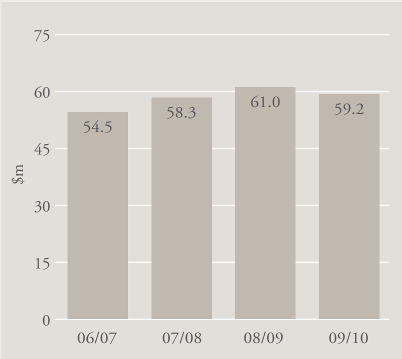
Key *Trends*

Revenue *($m)*



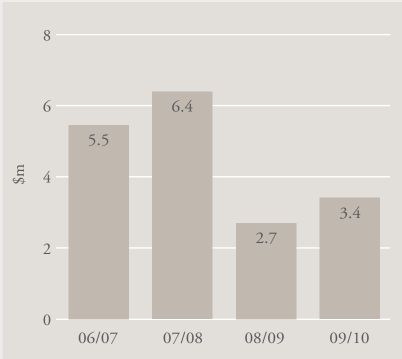
Strong growth in fee revenue (+8.5%) in 2009/10 is offset by declining Common Fund and investment services revenue.

Operating *Costs ($m)*



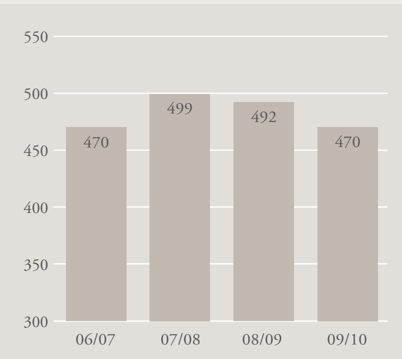
Operating costs (before change costs and mortgage impairment) were reduced by 3% in 2009/10 through tight cost management and productivity gains.

Operating *Surplus ($m)*



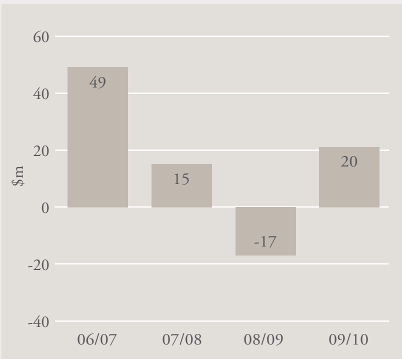
Operating surplus for 2009/10 is up $0.7million (+25.9%) driven by total revenue (down $1.1 million) and operating costs (down $1.8 million). Operating surplus excludes change costs, mortgage impairment and investment revaluations.

Number of Permanent *Staff*



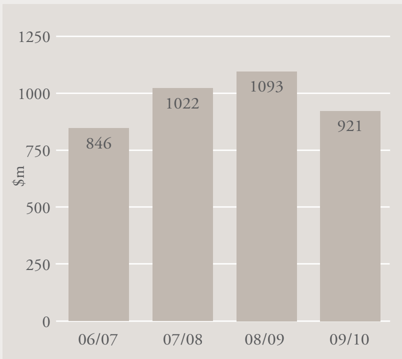
Since 2007/08, permanent staff numbers have reduced.

Equity *($m)*



In recent years, the equity position has been eroded by significant mortgage losses and unrealised investment losses. Capital injections ($20 million in 2008/09 and $30 million in 2009/10) together with the reversal of unrealised investment losses have resulted in a positive equity position at the end of 2009/10.

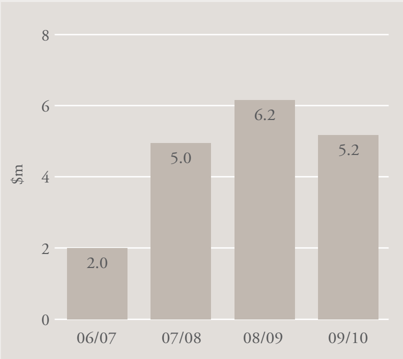
Total *Assets ($m)*



Total assets declined 15.7% in 2009/10, driven primarily by the planned reduction in the Common Fund.

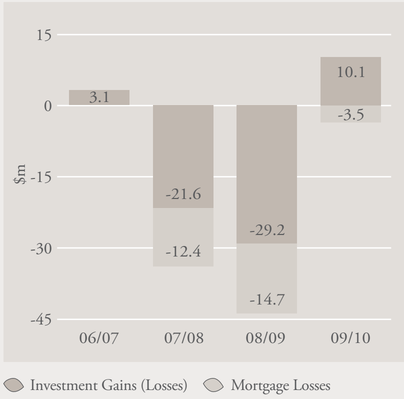
* The key performance trends information is based on management accounting definitions used for internal reporting of revenue and cost. This information is presented for performance reporting purposes and may not directly correspond to the financial statements within the annual report which are prepared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

Transformation *Costs ($m)*



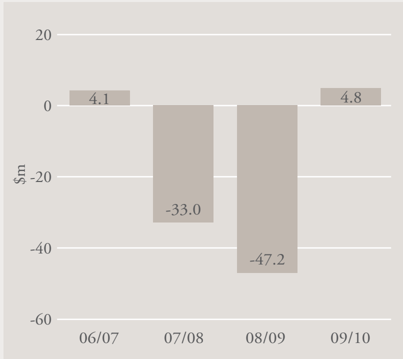
Public Trust has invested $5-6 million each year in its transformation programme. This programme is focused on achieving a position of leadership in the New Zealand trustee services market and ensuring future sustainability.

Mortgage *Losses* & Investment *Gains (Losses) ($m)*



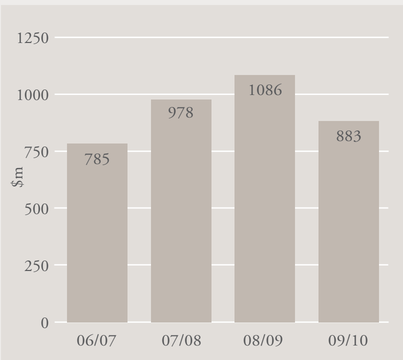
Significant mortgage losses and unrealised investment losses were incurred in 2007/08 and 2008/09 stemming from the global financial crisis. Mortgage losses were significantly lower in 2009/10 and unrealised investment losses are now reversing to profit as the underlying securities approach maturity and credit market conditions improve.

Profit after *Tax ($m)*



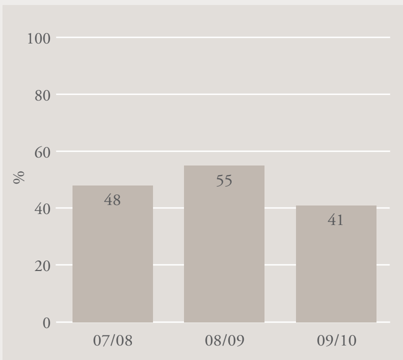
Profit after tax in 2007/08 and 2008/09 was impacted by the significant mortgage losses and unrealised investment losses. Improved performance in 2009/10 is due to lower mortgage losses and unrealised investment losses which are now reversing.

Client *Liabilities ($m)*



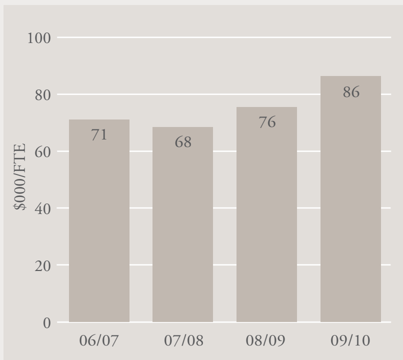
Client liabilities declined by $203 million (-18.7%) in 2009/10 in line with the planned reduction in the size of the Common Fund and competition in deposit markets.

Employee *Engagement %*



The decrease in employee engagement from 55% to 41% is attributed to the external pressures associated with the global financial crisis, internal focus to lift organisational performance and the transformational change programme that is underway.

Productivity *(Revenue per Fee-Earning FTE)*



Revenue per fee-earning full-time equivalent (FTE) employee has increased from $76,000 last year to $86,000 in 2009/10 (+13.2%) as the transformation programme has improved processes and operational efficiency.

Strategy

Our purpose is:

To help all New Zealanders grow and protect the important things in their lives

Our vision is:

To become the leader in the trustee services market

Public Trust is transforming itself into a customer centric organisation and building a stronger business, based on focusing on core trustee services.

We are part way through our transformation programme to achieve this vision.

Our *strategic plan* at a glance

Some of the key strategies of focus are:

Customer relationship management focus

Continuing to enhance talent and invest in our people while ensuring that our product offering is relevant to our customers' needs and offers a deeper, ongoing relationship based around key life events.

Transforming service delivery efficiency

Refining and automating our business processes to improve the productivity of our employees and enhance the customer experience with Public Trust.

Developing change capability and innovation

Building a Public Trust culture that is aware, ready and accepting of change. This is targeted at instilling creativity and innovation in all that we do, through challenging the norm and coming up with new ways of doing things, while remaining respectful of our values and ethics.

Regulatory positioning

Closely managing regulatory changes to ensure we meet compliance requirements and are best positioned to leverage competitive opportunities that will come from the changes.

Governance

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

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

Role of the Board

Trevor D Janes *(Chair from 1 May 2010)*

Donal Curtin *(Chair to 30 April 2010)*

Robin Hill *(Deputy Chair)*

Sarah Roberts

Candis Craven

Rodger Finlay

Fiona Oliver *(from 1 November 2009)*

Hinerangi Raumati *(from 1 November 2009)*

Sue McCormack *(from 1 May 2010)*

Fiona Pimm *(to 31 October 2009)*

Murray Weatherston *(to 31 October 2009)*

The Board and its members are responsible in terms of the Public Trust Act 2001 and the Crown Entities Act 2004 to the responsible Ministers for supervising or directing the management of the affairs of Public Trust. The Board appoints the Chief Executive, delegates to the Chief Executive appropriate authority for the day-to-day management of Public Trust and monitors management's performance on a regular basis. The Chief Executive is responsible to the Board for the efficient and effective management of the affairs of Public Trust.

Separation of the governance role of the Board from the management role of the Chief Executive is reinforced by the express bar in the Public Trust Act 2001 on the Chief Executive being a member of the Board. In addition to providing leadership to, and effective management of the Board, the Board Chair acts as the primary interface between the Board and the Chief Executive and management.

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

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

Board committees

There are currently four standing committees of the Board: the Risk Assurance and Audit Committee (formerly known as the Audit, Finance and Risk Management Committee), the Investment Committee, the Due Diligence Committee and the Governance and Remuneration Committee. The Chair is an ex officio member of all the Board committees. The Governance and Remuneration Committee held its first meeting on 24 June 2010.

Risk Assurance and Audit Committee (RAAC)

Robin Hill *(Chair)*

Hinerangi Raumati *(from 6 November 2009)*

Sarah Roberts

Trevor D Janes *(became ex officio from 1 May 2010)*

Sue McCormack *(from 25 June 2010)*

Murray Weatherston *(to 31 October 2009)*

Donal Curtin *(ex officio to 30 April 2010)*

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

The committee assists the Board in fulfilling its risk management and audit responsibilities by overseeing and providing advice to the Board on Public Trust's:

- risk management assurance
- internal control mechanisms
- internal and external audit functions
- policies and processes adopted to ensure compliance with applicable legislation, regulations and code of practice
- financial statements relating to Public Trust and the Public Trust Managed Funds.

Board policy is that non-audit services for Public Trust may not be undertaken for, or sought from, the organisation's external auditors without prior RAAC approval.

Investment Committee

Candis Craven *(Chair)*

Rodger Finlay

Trevor D Janes *(ex officio from 1 May 2010)*

Fiona Oliver *(from 6 November 2009)*

Hinerangi Raumati *(from 6 November 2009)*

Murray Weatherston *(to 31 October 2009)*

Donal Curtin *(ex officio to 30 April 2010)*

The Investment Committee meets a minimum of six times a year. The committee oversees the investment philosophy, policy, strategy, implementation, performance, compliance and risk in respect of the investment of:

- the Common Fund, the Public Trust Investment Funds, the Group Investment Funds and Charitable Trust PIEs (together 'Funds')
- estate financial assets other than those invested in the Funds and
- the free working capital of Public Trust.

The Investment Committee is also responsible for oversight of the mortgage portfolio.

Due Diligence Committee

Sarah Roberts *(Chair)*

Rodger Finlay

Fiona Oliver *(from 6 November 2009)*

Trevor D Janes *(ex officio from 1 May 2010)*

Murray Weatherston *(to 31 October 2009)*

Donal Curtin *(ex officio to 30 April 2010)*

The Due Diligence Committee supervises, on behalf of the Board the due diligence process for documents in respect of securities offered to the public of which Public Trust or any subsidiary of Public Trust is the issuer. The committee meets on an "as required" basis.

Governance and Remuneration Committee

Fiona Oliver *(Chair)*

Candis Craven

Robin Hill

Trevor D Janes *(ex officio from 1 May 2010)*

The Governance and Remuneration Committee, formally formed in 2009, assumed responsibilities previously undertaken by an informal Board Committee, and meets at least twice a year. The purpose of the committee is to assist and advise the Board and the Board Chair in fulfilling the Board's corporate governance responsibilities in regard to the:

- governance and management of the Board's business including through its committees
- performance of the Board and its committees
- appointment and remuneration of the Chief Executive and the management of his or her performance.

The committee also consults with the Chief Executive in relation to the appointment of members of the Executive Leadership Team, and receives information from the Chief Executive as to the structure of their remuneration.

Performance Targets and *Other Measures*

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

Part A – Crown Stewardship Interest. This is the ownership interest of the Crown for which a number of performance targets and measures, as detailed in the Statement of Intent, are reported on page 28.

Part B – Statement of Output Objectives. This relates to the purchase of non-commercial activities by the Crown, which is reported in the Statement of Service Performance on page 95.

Part C – Good Employer Reporting. Public Trust is required by the Crown Entities Act 2004 to report on its obligation to be a good employer. The report is on page 24.

Public Trust is New Zealand's most enduring trustee organisation, providing independent and reliable trustee services since 1873.

Board and Executive Leadership Team

Board

Trevor D Janes *(Chair)*
BCA, CA, FNZFIP, FInstD

Public Trust Board Member since June 2009
Chair since May 2010

Trevor is an experienced Company Director who sits on a number of public and private boards. He is Deputy Chairman of Abano Healthcare Group, Chairman of Salvus Strategic Investments Limited and a director of Procare Health Ltd. Trevor is a Member of the Investment Committee of the Board of Accident Compensation Corporation, Deputy Chairman of Mighty River Power Ltd where he chairs the Risk Assurance and Audit Committee, and a director of the litigation funding company LPF Group Ltd. Trevor's career has been in investment banking and financial analysis. He is a Fellow of the Institute of Financial Professionals New Zealand Inc, and was previously a Fellow, and past Chairman, of the New Zealand Society of Investment Analysts. He is also a member of the Chartered Financial Analysts (CFA) Institute (USA) and of the CFA Society Inc in New Zealand, an affiliate of the United Kingdom Society of Investment Professionals and a Fellow of the Institute of Directors.

Robin Hill *(Deputy Chair)*
BCom, FCA

Public Trust Board Member since May 2007, Deputy Chair since 2007

Chair of the Risk Assurance and Audit Committee

Member of the Governance and Remuneration Committee

Robin has an extensive background in financial and commercial roles. He has gained insight from working with some of New Zealand's leading corporate organisations. He is an Advisory Trustee of the New Zealand Armed Forces Superannuation Scheme and the NZDF (Civil Staff) Superannuation Scheme, Deputy Chair of the Gas Industry Company Limited, Deputy Chair of Wai-West Enterprises Ltd and a Trustee of the Volunteer Service Abroad Foundation. Robin's range of experience includes working as Managing Partner of Coopers and Lybrand Wellington and as Chairman and Chief Executive of Coopers and Lybrand (New Zealand), where he managed the successful merger with Price Waterhouse to form PricewaterhouseCoopers. Robin was an inaugural member of the Accounting Standards Review Board. He is a Fellow of the New Zealand Institute of Chartered Accountants.

Candis Craven
DipEd, BA, MA (Hons), Graduate Diploma (Personal Financial Planning), ONZM

Public Trust Board Member since January 2008

Chair of the Investment Committee

Member of the Governance and Remuneration Committee

Candis is a consultant and company director with substantial experience in the social services and not-for-profit sector. She is Managing Director of Niger Holdings Limited which provides consultancy services to the Ministry of Health, the New Zealand Medical Council, the New Zealand Nursing Council and many local authorities and health boards. Candis is a trustee and Chair of the Finance and Investment Committee of the ASB Community Trust, Chair of the New Zealand Contemporary Art Trust and a member of the Occupational Therapy Board of New Zealand. She is Director of the Auckland Regional Funding Amenities Board. Candis has also held positions with a wide range of organisations including the New Zealand Family Planning Association and Presbyterian Support Services. She is an Associate Fellow of the New Zealand Institute of Management and a member of the Institute of Directors.

Rodger Finlay
BCom, CA

Public Trust Board Member since June 2009

Member of the Investment Committee

Member of the Due Diligence Committee

Rodger is a company director and an active South Island farmer. He has extensive experience in the financial services, funds management and investment banking sectors. His directorships include Rural Equities Limited where he chairs the Audit Committee, Moeraki Limited and Mundane Asset Management Limited, of which he is Chair. Rodger has more than 25 years' experience in the financial services industry, including senior investment banking and funds management positions with a range of major international institutions including UBS, Paribas and Credit Suisse First Boston. He is a member of the New Zealand Institute of Chartered Accountants and of the Institute of Directors.

Sue McCormack
BA, LLB

Public Trust Board Member since May 2010

Member of the Risk Assurance and Audit Committee

Sue is senior partner with law firm Mortlock McCormack Law of Christchurch, specialising in corporate and commercial law with a special interest and expertise in business mergers and acquisitions, dispositions and insolvency law. Sue is an experienced company director and has sat on a number of public and private boards. She is a Member of the University of Canterbury Council and has previously been a director of the Lyttleton Port Company Limited and the New Zealand Symphony Orchestra. Sue is currently the Chair of Clown Doctors New Zealand, a trustee of St Margaret's Board of Trustees and Honorary Solicitor of Dress for Success. Sue is also a member of the Institute of Directors.

Fiona Oliver
BA , LLB

Public Trust Board Member since November 2009

Chair of the Governance and Remuneration Committee

Member of the Investment Committee

Member of the Due Diligence Committee

Fiona has significant experience in operational leadership roles in Auckland, Sydney and London in funds management, private equity and the wider financial services industry. Most recently, she was the Chief Operating Officer of BT Funds Management (NZ) Limited, the investment arm of Westpac. Before that, she worked for AMP Limited in both Sydney and London in senior commercial management and in-house legal positions. Fiona has also practised in Auckland and London in private practice as a corporate lawyer, specialising in corporate finance. She is a member of the Chartered Financial Analysts (CFA) Institute (USA) and of the CFA Society Inc in New Zealand, an affiliate of the United Kingdom Society of Investment Professionals and is a Fellow of the Institute of Directors. Fiona also serves as a board member of Dress for Success (NFP).

Hinerangi Raumati
BMS, MMS, CA

Public Trust Board Member since November 2009

Member of the Risk Assurance and Audit Committee

Member of the Investment Committee

Hinerangi is a Chartered Accountant with significant investment and financial management and governance experience. Her current roles include director of Te Ohu Kai Moana Portfolio Management Services Limited, alternate director on the Te Ohu Kai Moana board, Management Committee member of Parininihi ki Waitotara Inc and Trustee of the Parininihi ki Waitotara Trust and Chair of the Nga Miro Health Trust. Hinerangi was CFO of Tainui Group Holdings Limited from 2002 to 2009 and was previously Deputy Chair and Chair of the Investment Committee of Trust Waikato. She is a member of the New Zealand Institute of Chartered Accountants.

Sarah Roberts
LLB

Public Trust Board Member since May 2007

Chair of the Due Diligence Committee

Member of the Risk Assurance and Audit Committee

Sarah is a senior corporate partner with law firm Buddle Findlay specialising in major commercial transactions across the public and private sectors. She advises major institutions and substantial companies on a variety of acquisitions, dispositions, joint ventures, management buyouts and structuring matters. Sarah is also a director of Australasian private equity firm, Pacific Equity Partners (NZ) Limited and is a member of the Auckland University Council. Sarah has also served as a member of the Board of Healthcare Hawkes Bay and was Chair of Buddle Findlay from 2004 to 2007. She is a member of the Institute of Directors and of the Australian Venture Capital Association.

Executive Leadership Team

Grenville Gaskell *(Chief Executive)*
BCA

Chief Executive of Public Trust since April 2007

Grenville has held senior roles in the banking and energy sectors, with considerable experience in developing product strategy, new product launches, leading the integration of a major retail bank and delivering major change programmes. Prior to Public Trust he was the Director of New Zealand Operations for a major energy company, responsible for electricity generation, wholesale and retail.

Ann Brennan *(General Counsel)*
LLB (Hons)

Joined Public Trust in 2007

Ann has held senior legal positions with a major trading bank and spent a number of years with two commercial law firms and is a barrister and solicitor of the High Court of New Zealand. She has significant experience in corporate and commercial law, banking and financial services, governance, regulation and dispute resolution. As General Counsel, Ann leads the legal, risk and compliance team, acts as Board Secretary and is responsible for quality assurance and regulatory affairs.

Ken Reilly *(Chief Financial Officer)*
BComm (Hons), MBA, CMA

Joined Public Trust in 2010

Ken has extensive experience in senior financial management roles gained from positions he has held overseas and in New Zealand. Has worked in industries as varied as telecommunications, manufacturing, research and development, energy and consulting. As Chief Financial Officer, Ken is responsible for finance, tax, planning, investments, commercial services and the programme management office.

Grant Brenton *(General Manager Marketing)*

Joined Public Trust in 2008

Grant has 15 years experience in the trustee industry, including national manager and general manager of personal client services roles. He has also owned and operated retail businesses and has had senior roles with two large finance companies. As General Manager Marketing, Grant is responsible for the development and implementation of Public Trust's marketing strategy.

Dennis Church
(General Manager Corporate Trusts)

Joined Public Trust in 2005

With over 20 years experience in the corporate trustee industry, Dennis has particular expertise in corporate finance, structured finance transactions and all forms of securities issues. As General Manager Corporate Trusts, Dennis is responsible for managing the Corporate Trustee business.

Dave Conning
(General Manager Human Resources)

Joined Public Trust in 1997

Dave has 25 years experience, mostly in human resources, in the financial services and investment/funds management sector, including a role as HR Manager for a major investment company. As General Manager Human Resources, Dave is responsible for managing the human resources functions.

Simon Dixie *(General Manager Operations)*

Joined Public Trust in 2007

Simon has 25 years experience in management roles in the finance and energy industries, and has specific expertise in IT management, banking credit cards, finance, project and programme management and risk management. As General Manager Operations, Simon is responsible for managing the delivery of Public Trust's estate and trust administration services, mortgage processing, information services and funds administration.

Alex Polaschek
(General Manager Personal & Business)

Joined Public Trust in 2007

Alex has previously held senior management roles with major energy companies. His experience includes sales and marketing, corporate sales, commercial management and pricing management. As General Manager Personal and Business, Alex is responsible for the development and delivery of Public Trust products and services through the national retail network and contact centre.

Above l to r: Grenville Gaskell, Ann Brennan, Ken Reilly, Grant Brenton, Dennis Church, Dave Conning, Simon Dixie, Alex Polaschek.

Good Employer Report

During 2009/10, Public Trust worked to improve the outcomes relating to the fair and proper treatment of all employees. These included requirements relating to:

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

The areas of focus are divided across seven major areas, each of which is detailed below.

People and culture

We have continued to focus on developing the capability and performance levels of our employees as we implement the PT*ON* transformation change programme.

A survey on employee engagement was conducted in June 2010 with a response rate of 90.9%. This survey measures the level of employee commitment, satisfaction, advocacy and pride in the organisation and is conducted by an external consultancy. The overall level of engagement was 41%, which was a significant drop from the 2008/09 survey result of 55%. Whilst a drop was disappointing, it was expected given the quantum of change being implemented across Public Trust. However, when adding the change implementation impact at the same time as the global financial crisis, which also negatively impacted other similar employee engagement surveys globally, the overall drop in employee engagement was significant. At 41% it remains slightly behind the New Zealand benchmark of 42% for 2009 and ahead of the global benchmark of 34% for 2009. The 2010 benchmark results have yet to be published. The external consultancy anticipates that the New Zealand and global benchmarks will also drop further once more surveys are completed in 2010. This is likely to result in a more favourable comparison to benchmarks when comparing the 2010 survey result.

During the year we worked in partnership with the Public Service Association (PSA) and internal delegates on initiatives that could or did affect employees' terms and conditions of employment. The Collective Agreement with the PSA expires on 30 September and work has commenced in preparation for bargaining later in 2010.

Recruitment, selection and induction

A range of recruitment activities is used to encourage a broad range of skilled and experienced applicants, for vacancies internally and externally, while ensuring we maintain appropriate levels of skill and capability requirements for roles.

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

We filled 136 positions in the 2009/10 year with 60 of these being internal movements.

Appropriate induction of employees continued this year with every new employee completing a self-paced induction pack, and attending an induction course after spending up to two months in their roles. Forty-four employees participated in a full-day orientation course during the year.

We retained our membership with the EEO Trust and continue to use the EEO Employers Group branding for all external advertisements. In addition, every job description contains our EEO statement of intent.

Employee development, promotion and exit

A significant level of training programmes were delivered in 2009/10 to customer centre employees as we focused on growing our product, sales and technical capabilities following the significant change implementation of the Customer Centricity Project. Training was undertaken in core services; estate management, trusts, Wills, insurance and mortgages, as well as behavioural-type training on sales techniques.

We continued to develop our people leaders through a programme led by the Business School from the Auckland University, alongside our in-house Leadership Programme.

To enable a greater level of focus on building the technical and local capability of employees within business units, the learning and development function was decentralised during the year. Three learning and development advisors were appointed to concentrate on delivering technical, tailored training programmes as part of this tactical initiative.

The average expenditure on employee development, covering both internal and external courses and conferences, was $782 per employee, including travel and accommodation. This included:

- 44 people undertaking orientation
- 385 people undertaking internal courses
- 154 people participating in external courses
- 25 employees who undertook formal tertiary study through a range of institutions.

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

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

We continue our focus on exit interviews as a mechanism to gather relevant data, in sufficient volumes, to inform us what leads employees to a decision to leave Public Trust. This information is used when designing improvements in practices such as work processes.

Flexibility and work design

We have continued to support flexible work hours and practices while balancing the business, health and safety requirements with the personal requests. We have 43 employees who have flexible practices – being either reduced hours, compressed or reduced weeks or a proportion of hours from home.

Remuneration, recognition and conditions

For the 2009/10 year, while Public Trust ensured its remuneration system and policies were consistent for all employees, a zero per cent increase was applied in the annual review.

Public Trust continued to run its transparent, consistent and gender neutral performance assessment system. Alongside our performance system we have procedures to reward and recognise employees for additional contributions they make. These fall into several major categories, including high performer incentives and allowances.

Harassment and bullying prevention

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

Safe and healthy environment

The 2009/10 Health, Safety and Wellness (HS&W) work plan was developed to sustain the ACC Workplace Safety Management Practices (WSMP) tertiary accreditation standard that was achieved in June 2009. The programme of work included enhancing and maintaining site plans at all Public Trust workplaces to meet the tertiary level standard and to complete continuous improvement projects.

The elements of the HS&W programme include:

- leadership and visibility through Steering Committee national HS&W committee and regional champions involving employee and management representatives
- implementation of the programme requirements by local managers and site coordinators in each location
- training for managers, employee representatives and site coordinators
- programme implementation and effectiveness reviews.

In March 2010, our Christchurch based customer centre, service centre and contact centre were independently assessed to the standards set for the WSMP accreditation programme. While this identified improvements needed in local record keeping, the sustained tertiary assessment would have been achieved.

Ninety-nine HS&W incidents were reported during the year, through the incident management and reporting programme. Ninety-four per cent of these were assessed as being minor or moderate-level incidents.

The five most common hazards reported relate to computer/workstations, customer behaviour, driving, filing and manual lifting/handling.

A programme of work has been completed to ensure that appropriate management of threatening customer behaviour occurs. This has been achieved through training for customer-facing employees and remotely managing customers who have a history of threatening actions.

In June, Public Trust joined the Business Leaders' Health and Safety Forum. This forum aims to improve, harness and focusing safety leadership in New Zealand businesses. The forum's pledge provides a personal commitment of leaders to meet the goal of zero harm in workplaces.

We have continued to focus on developing the capability and performance levels of our employees as we implement the PT*ON* transformation change programme.

Financial *Information*

Report on the *Statement of Intent*

For the year ended 30 June 2010

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

	2008/09 ACTUAL	2009/10 ACTUAL	2009/10 TARGET[1]	2010/11 TARGET[2]
Ownership perspective				
Profit (Loss) post-tax ($000)	(47,451)	4,818	2,385	400
Return on equity[3]	n/a	n/a	n/a	1.8%
Distributions to Crown	Nil	Nil	Nil	Nil
Efficiency and effectiveness perspective				
Cost/Revenue[4]	128.8%	108.6%	103.7%	96.6%
Capability perspective				
Employee engagement[5]	55%	41%	56%	56%
Customer and market perspective				
Market shares[6]				
– Wills	12.0%	15.0%	13.0%	15.0%
– Estates (probates)	14.0%	13.9%	14.2%	14.5%
Customer satisfaction[7]		7.0		8.2
– Wills	8.4	n/a	8.0	n/a
– Estates	8.1	n/a	8.0	n/a
Net promoter score[8]	n/a	n/a	n/a	18

1 Source: 2010/12 Statement of Intent.
2 Source: 2011/13 Statement of Intent.
3 Return on equity not calculated for 2008/09 due to the loss and negative average equity. Return on equity not calculated for 2009/10 due to negative equity as at 30 June 2009. 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.
4 Total expenses as a percentage of total revenues (excluding investment gains/losses). In 2010/11 the measure is total expenses (excluding change, restructuring and mortgage losses) as a percentage of revenue (excluding investment gains/losses).
5 Independent survey of employee engagement (2009 Global benchmark = 34%, New Zealand benchmark = 42%. Benchmark for 2010 not yet available).
6 Independently conducted survey of market share. There was a change in research provider and methodology for 2009/10.
7 Independently conducted survey of customer satisfaction (Range: 1 = poor, 10 = excellent). This measure is no longer split between Wills and estates.
8 Not a measure until 2010/11.

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

	2008 ACTUAL $M	2009 ACTUAL $M	2010 ACTUAL $M
Fiduciary assets			
Funds under management			
Common Fund	978	1,086	883
Managed Funds	400	354	376
Assets under management	2,262	2,614	2,649
Funds under supervision	18,097	24,370	28,975

Statement of *Responsibility*

For the year ended 30 June 2010

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

The Board and management of Public Trust accept responsibility for establishing, and have established and maintain a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting.

In the opinion of the Board and management of Public Trust, the financial statements and Statement of Service Performance for the year ended 30 June 2010 fairly reflect the financial position, results of operations and cash flows of Public Trust.

Trevor D Janes	Robin Hill	Grenville Gaskell
Chair	*Deputy Chair*	*Chief Executive*

24 September 2010

Statement of *Financial Position*

As at 30 June 2010

	NOTES	GROUP ACTUAL 2010 $000	GROUP BUDGET 2010 $000	GROUP ACTUAL 2009 $000	PARENT ACTUAL 2010 $000	PARENT ACTUAL 2009 $000
Assets						
Cash and cash equivalents	1	26,526	7,000	11,592	26,505	11,575
Investment securities	2	625,692	676,101	762,733	625,692	762,733
Derivative financial instruments	3	2,385	8,000	3,682	2,385	3,682
Advances to clients		8,694	7,000	6,267	8,694	6,267
Trade receivables	4	5,051	5,028	4,445	4,401	3,881
Due from subsidiary	29	-	-	-	119	-
Advances secured by mortgage	5	241,448	275,984	292,322	241,448	292,322
Total financial assets		909,796	979,113	1,081,041	909,244	1,080,460
Sundry receivables	6	109	50	168	109	168
Prepayments		836	1,000	477	836	477
Current tax	7	726	-	670	726	670
Property, plant & equipment	8	6,666	8,877	7,652	6,666	7,652
Intangibles	9	3,015	2,746	3,141	510	636
Investments in subsidiaries	10	-	-	-	4,654	4,654
Total assets		**921,148**	**991,786**	**1,093,149**	**922,745**	**1,094,717**
Liabilities						
Liabilities to clients - at call or short term		436,231	433,881	479,792	436,231	479,792
Liabilities to clients - term deposits	12	445,807	530,298	604,963	445,807	604,963
Prepaid estate administration	13	675	750	774	675	774
Total liabilities to clients		882,713	964,929	1,085,529	882,713	1,085,529
Trade payables	14	2,528	1,500	2,872	2,427	2,793
Other payables	15	1,819	2,800	1,838	1,819	1,838
Derivative financial instruments	3	8,647	1,900	14,133	8,647	14,133
Prepaid income		288	450	346	-	-
Employee benefits	16	4,671	4,223	4,401	4,671	4,401
Provisions	17	387	700	1,028	379	958
Loan from subsidiary	29	-	-	-	6,315	5,773
Total liabilities		**901,053**	**976,502**	**1,110,147**	**906,971**	**1,115,425**
Equity						
Contributed equity		90,174	90,174	60,174	90,174	60,174
Cash flow hedging reserve	18	(2,882)	(3,016)	(5,157)	(2,882)	(5,157)
Retained earnings		(67,197)	(71,874)	(72,015)	(71,518)	(75,725)
Total equity	18	**20,095**	**15,284**	**(16,998)**	**15,774**	**(20,708)**
Total liabilities plus equity		**921,148**	**991,786**	**1,093,149**	**922,745**	**1,094,717**

For and on behalf of the Board, who authorised the issue of the financial statements on 24 September 2010.

Trevor D Janes
Chair

Robin Hill
Deputy Chair

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

Statement of *Changes in Equity*

For the year ended 30 June 2010

	NOTES	GROUP ACTUAL 2010 $000	GROUP BUDGET 2010 $000	GROUP ACTUAL 2009 $000	PARENT ACTUAL 2010 $000	PARENT ACTUAL 2009 $000
Contributed equity						
Opening balance		60,174	60,174	40,174	60,174	40,174
Contribution by the Crown		30,000	30,000	20,000	30,000	20,000
Closing balance		90,174	90,174	60,174	90,174	60,174
Cash flow hedging reserve						
Opening balance		(5,157)	(5,576)	(377)	(5,157)	(377)
Other comprehensive income		2,275	2,560	(4,780)	2,275	(4,780)
Closing balance	18	(2,882)	(3,016)	(5,157)	(2,882)	(5,157)
Retained earnings						
Opening balance		(72,015)	(69,489)	(24,564)	(75,725)	(27,663)
Profit (loss) after tax		4,818	(2,385)	(47,451)	4,207	(48,062)
Closing balance		(67,197)	(71,874)	(72,015)	(71,518)	(75,725)
Equity at the end of the period	18	**20,095**	**15,284**	**(16,998)**	**15,774**	**(20,708)**

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

Statement of *Comprehensive Income*

For the year ended 30 June 2010

	NOTES	GROUP ACTUAL 2010 $000	GROUP BUDGET 2010 $000	GROUP ACTUAL 2009 $000	PARENT ACTUAL 2010 $000	PARENT ACTUAL 2009 $000
Revenue						
Revenue from financial instruments						
Interest from interest bearing securities		26,489	29,011	57,007	26,489	57,007
Interest from advances secured by mortgage		19,642	17,034	27,513	19,642	27,513
		46,131	46,045	84,520	46,131	84,520
Less: Interest expense		27,209	26,746	61,104	27,425	61,380
		18,922	19,299	23,416	18,706	23,140
Fees and commission revenue		40,044	39,996	36,252	37,478	33,819
Less: Fees and commission expense		1,576	1,400	1,436	1,418	1,249
Other revenue		178	400	166	1,721	1,609
Revenue from the Crown	29	4,254	4,500	4,500	4,254	4,500
Revenue before expenses	26	**61,822**	**62,795**	**62,898**	**60,741**	**61,819**
Expenses						
Employee benefits	26	40,857	38,395	41,476	40,857	41,476
Operating lease costs		4,668	4,300	4,562	4,668	4,562
Depreciation	8	1,984	2,220	1,944	1,984	1,944
Amortisation of intangibles	9	196	110	195	196	195
Net losses (gains) on disposals of property, plant & equipment and intangibles		26	-	99	26	99
Impairment losses on advances secured by mortgage	5	3,557	1,830	14,698	3,557	14,698
Other expenses	26	15,842	18,325	18,082	15,634	17,875
Total expenses		**67,130**	**65,180**	**81,056**	**66,922**	**80,849**
Net realised losses on financial instruments		(559)	-	(12)	(559)	(12)
Net unrealised gains (losses) on financial instruments		10,685	-	(29,149)	10,685	(29,149)
Net gains (losses) on financial instruments	26	10,126	-	(29,161)	10,126	(29,161)
Profit (loss) before tax for the period		**4,818**	**(2,385)**	**(47,319)**	**3,945**	**(48,191)**
Tax expense (benefit)	27	-	-	132	(262)	(129)
Profit (loss) after tax for the period		**4,818**	**(2,385)**	**(47,451)**	**4,207**	**(48,062)**
Other comprehensive income						
Movement in cash flow hedging reserve		2,275	2,560	(4,780)	2,275	(4,780)
Total comprehensive income for the period		**7,093**	**175**	**(52,231)**	**6,482**	**(52,842)**

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

Statement of *Cash Flows*

For the year ended 30 June 2010

	NOTES	GROUP ACTUAL 2010 $000	GROUP BUDGET 2010 $000	GROUP ACTUAL 2009 $000	PARENT ACTUAL 2010 $000	PARENT ACTUAL 2009 $000
Cash flows from operating activities						
Fees and other revenue		43,595	42,968	40,253	42,600	41,086
Interest revenue		47,254	46,045	87,386	47,257	87,386
Taxation		-	357	44	-	44
Payments to suppliers and employees		(62,746)	(60,148)	(64,268)	(62,348)	(64,042)
Interest expense		(30,656)	(26,746)	(65,008)	(30,872)	(65,284)
Net GST expense		(634)	(800)	(571)	(632)	(587)
Cash flows from operating activities before changes in trading investments		(3,187)	1,676	(2,164)	(3,995)	(1,397)
Net flows from trading investments		(158)	2,560	1,466	(158)	1,466
Net cash flows from operating activities	28	**(3,345)**	**4,236**	**(698)**	**(4,153)**	**69**
Cash flows from investing activities						
Net flows from non-trading investments		188,970	80,530	(129,142)	188,970	(129,142)
Sale of property, plant & equipment		1	-	3	1	3
Purchase of property, plant & equipment		(1,175)	(3,400)	(2,680)	(1,175)	(2,680)
Purchase of intangibles		(70)	-	(526)	(70)	(526)
Net cash flows from investing activities		**187,726**	**77,130**	**(132,345)**	**187,726**	**(132,345)**
Cash flows from financing activities						
Net receipts (payments) from clients		(199,447)	(112,466)	109,098	(198,643)	108,338
Contribution from the Crown		30,000	30,000	20,000	30,000	20,000
Net cash flows from financing activities		**(169,447)**	**(82,466)**	**129,098**	**(168,643)**	**128,338**
Net increase (decrease) in cash and cash equivalents		14,934	(1,100)	(3,945)	14,930	(3,938)
Cash and cash equivalents at beginning of the year		11,592	8,100	15,537	11,575	15,513
Cash and cash equivalents at the end of the year	1	**26,526**	**7,000**	**11,592**	**26,505**	**11,575**

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

Statement of *Commitments*

As at 30 June 2010

Group & Parent	2010 $000	2009 $000
Payable within 1 year	5,236	4,376
Payable after 1 year and within 5 years	6,973	7,025
Payable after 5 years	-	320
	12,209	11,721

Operating leases

The Group has sublet two properties (2009: three). The total minimum sublease payments expected to be received from the subleases is $359,000 (2009: $523,000). The income received during the year from sublet properties was $159,000 (2009: $123,000).

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

The majority of the premise leases have renewal terms with the rental reviewed on their review dates or on a two or three-year cycle. The average lease will expire within two-years. Most leases allow subletting with the approval of the lessor.

Motor vehicle leases are for three-year terms. Lease payments for the fleet of motor vehicles are reviewed every year.

Other commitments

The Group has no commitments to purchase property, plant & equipment (2009: nil).

The Group has no commitments to purchase intangible IT assets (2009: nil).

The Group has no other non-cancellable commitments (2009: nil).

The Group, in connection with its mortgage lending activities, has commitments to a value of $12.1 million to provide funding under undrawn revolving credit facilities and approved but undrawn applications (2009: $7.8 million).

Statement of *Contingent Liabilities*

As at 30 June 2010

The Group has a contingent liability in relation to restructuring. Uncertainties remain around the likelihood and timing of a redundancy provision. The estimated potential liability is $137,000 (2009: nil).

Statement of *Accounting Policies*

For the year ended 30 June 2010

Reporting entity and statutory basis for reporting

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

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

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

These financial statements, for the year ended 30 June 2010, have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for profit-oriented entities. The financial statements also comply with International Financial Reporting Standards.

Measurement basis

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

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

Budget

The budget figures are not audited.

Accounting policies

Basis of consolidation

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

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

Subsidiaries

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

The purchase method of accounting is used by the Group to account for the acquisition (prior to 1 July 2009) of subsidiaries in a business combination. There was no acquisition of subsidiaries after this date.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. The current carrying value of goodwill includes any post-acquisition impairment losses recognised in profit or loss.

Financial instruments

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

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

Offsetting financial instruments

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

Statement of *Accounting Policies (continued)*

For the year ended 30 June 2010

Recognition and derecognition of financial instruments
All financial instrument purchases and disposals are accounted for on a trade date basis.

Financial instruments are derecognised when the Group neither retains the risks and rewards of ownership nor controls the contractual rights to the cash flows arising from them.

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

Financial assets at fair value through profit or loss

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

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

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

- investment in interest bearing securities
- derivatives.

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

After initial recognition, financial assets at fair value through profit or loss are carried at their fair values. Unless otherwise stated, the fair value of these instruments is determined in accordance with the bid price quoted in the relevant active market or the most recent transaction price where the bid price is not available.

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

Gains and losses on these financial instruments arise where their fair value at initial recognition differs from their subsequent fair value measurement. All such gains and losses, including those arising upon sale, derecognition and foreign currency translation, are recognised in profit or loss, except for those in relation to derivatives that qualify for cash flow hedge accounting, which are recognised in an equity reserve within other comprehensive income.

For interest bearing securities and interest related derivatives, subsequent measurement is carried out in a two-stage process. Firstly, the amortised cost of the instrument is calculated in accordance with the effective interest rate method. This gives rise to interest revenue or expense as the case may be. The amortised cost value is then compared to the fair value as computed and the difference is recorded as an unrealised gain or loss.

Derivative financial instruments

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

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

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

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

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

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

After initial recognition, gains and losses from subsequent remeasurement to fair value are recognised in the profit or loss, except where the derivatives are designated and effective

Statement of *Accounting Policies (continued)*

For the year ended 30 June 2010

as hedge accounting instruments. Hedge accounting instruments are accounted for as set out below.

Where the instrument is recognised in profit or loss, that component of the change in fair value that relates to interest received or accrued in the current year is included in net interest revenue. The remainder is included in unrealised gains (losses) on financial instruments.

Derivatives designated as hedging instruments – cash flow hedges
Derivatives, whose purpose is to match the cash outflows arising from liabilities to clients at call as interest rates change, are designated as cash flow hedges. To the extent that individual hedges are effective at inception and remain so, changes in the fair value of the derivatives are recognised in other comprehensive income (the cash flow hedging reserve). Any ineffective portion is recognised in profit or loss.

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

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

Derivatives designated as hedging instruments – fair value hedges
Derivatives, whose purpose is to match the changes in fair value of long-dated term deposits as interest rates change, are designated as fair value hedges. To the extent that individual hedges are effective at inception and remain so, changes in the fair value of the derivatives, together with any changes in fair value of the relevant (hedged) risk of the term deposits are recognised in profit or loss.

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

Loans and receivables

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

Financial assets in this category include:

- cash and cash equivalents
- investment securities
- advances to clients
- trade receivables
- due from subsidiary (Parent financial statements)
- advances secured by mortgage.

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

Gains and losses on these financial instruments arise on sale, derecognition or impairment and are recognised in profit or loss. Any interest revenue arising on loans and receivables is recognised in profit or loss in accordance with the associated effective interest rate.

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

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

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

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

Statement of *Accounting Policies (continued)*

For the year ended 30 June 2010

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

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

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

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

Advances secured by mortgage
Advances secured by mortgage are initially recognised at cost including origination fees, plus any transaction costs that are directly attributable to the issue of the advance. Advances secured by mortgage including origination fees and transaction costs are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by amortising advances secured by mortgage including fees and costs to profit or loss over the expected term of the advance.

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

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

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

For the purposes of a collective evaluation of impairment, advances secured by mortgage excluding those where an individual impairment allowance has been provided are grouped together on the basis of similar risk characteristics.

Future cash flows of the group are estimated on the basis of the contractual cash flows and historical loss experience for assets with similar risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

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

Financial liabilities at fair value through profit or loss

Liabilities at fair value through profit or loss comprise solely those derivatives in a loss position which cannot be offset against a countervailing balance which forms part of a qualifying offset agreement.

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

Term deposits – subject to fair value hedges
Term deposits that are the hedged item in a fair value hedge accounting relationship are carried at amortised cost plus an adjustment to arrive at the fair value ascribed to the risk being hedged. The fair value change is recognised in profit or loss.

Other financial liabilities

Other financial liabilities comprise all financial liabilities other than term deposits subject to fair value hedge accounting and derivatives in a loss position.

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

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

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

Foreign currency transactions

Transactions in foreign currencies are translated to New Zealand dollars at the rate of exchange prevailing at the transaction date.

Statement of *Accounting Policies (continued)*

For the year ended 30 June 2010

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

Foreign currency investment assets
Investments in foreign currencies are carried at fair value. Changes in the fair value of these investments, including exchange differences, are recognised in profit or loss.

Property, plant & equipment

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

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

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

In cases of fixtures and fittings installed in leasehold properties, useful lives are considered to correspond to the estimated occupancy period based on the contractual terms of the relevant lease.

A review of property, plant & equipment is undertaken at each financial year-end to ensure the estimates of useful life, depreciation method and residual value remain relevant.

Computer software that is deemed integral to the operation of associated hardware is classified as property, plant & equipment; otherwise it is classified as an intangible asset.

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

After initial recognition, items of property, plant & equipment are carried at their cost less any accumulated depreciation and any accumulated impairment losses. Any impairment losses are expensed in profit or loss.

Intangible assets

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

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

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

Goodwill impairment
Goodwill is subject to an annual recoverable amount impairment test. Any impairment is expensed to profit or loss as a permanent reduction in the carrying value.

Intangible IT assets
Intangible IT assets comprise computer software that is not integral to the operating systems of computer and server equipment. These are classified as finite life intangible assets that are initially recognised at the cost necessary to bring the software to the condition intended for functionality. Until the intangible IT assets are at this level of functionality, costs are accumulated as capital work in progress. Once the software is capable of functionality, the cost is amortised over its estimated useful life of three to five years using the straight-line method.

Both the estimated useful life and the amortisation method are reviewed annually to ensure these remain appropriate.

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

Intangible IT assets, other than those under development, are subject to annual review for impairment. Any impairment losses are expensed in the profit or loss.

Statement of *Accounting Policies (continued)*

For the year ended 30 June 2010

Parent investment in subsidiary

In the Parent's financial statements, investment in subsidiary is accounted for by the cost method. Under this method the cost of an acquired subsidiary is measured as the fair value of the assets given in exchange at the date of acquisition, plus costs directly attributable to the acquisition, subject to the concession to allow the acquisition to be carried at the deemed cost at the date of transition to NZ IFRS.

After acquisition, investment in subsidiary is subject to annual review for impairment.

Upon receipt of dividend payments from the subsidiary, the Parent will assess whether any indicators of impairment to the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value exceeds its recoverable amount, an impairment is recognised.

Prepaid income

The Group receives certain management fees for services to be provided over more than one financial year. The prepaid portion is carried in the Statement of Financial Position at the value of the services yet to be performed measured in accordance with the underlying contract on a straight-line basis.

Prepaid estate administration

The Group has entered into contracts, where a fee is taken in advance, for services to be delivered upon the death of the client. The liability to these clients is valued at the net present value of the estimated cost necessary to complete the contract, determined in accordance with the probabilities associated with life expectancy.

Employee benefits

Annual leave

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

Sick leave

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

Long-service leave

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

Provisions

Restructuring

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

Vacant space

The vacant space provision represents gross rentals payable on premises no longer used for operational purposes, less an estimate of value of the right to occupy, discounted at the risk-free rate.

Remedial work and litigation

The remedial work and litigation provision relates to a number of matters where fault with the Group's service delivery has been alleged or other contractual dispute has arisen, including some matters that may take a number of years for resolution.

Where the Group assesses a present obligation exists in any such matter, a provision is recognised and is carried at the estimated amount of cash necessary to settle the obligation.

Where it is expected that some or all of a provision will be reimbursed by a third party, the reimbursement is recognised as a separate asset under sundry receivables when the reimbursement is virtually certain.

Expense

The expense relating to any provision is recognised in profit or loss net of any expected reimbursement and separately from any interest expense arising from the discounting of provision obligations.

Leases

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

Statement of *Accounting Policies (continued)*

For the year ended 30 June 2010

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

Tax

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

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

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

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

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

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

Receivables and payables are recognised inclusive of any applicable GST.

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

Fee revenue

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

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

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

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

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

Commitments

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

Comparatives

The following comparatives have been restated to align with the current period's presentation.

In the Statement of Financial Position as at 30 June 2009, bank overdraft was presented as a liability. There is a set off arrangement with the bank for all of Public Trust's current bank accounts. Bank overdraft is now offset against cash and cash equivalents in the Statement of Financial Position and other applicable notes.

In the Statement of Comprehensive Income for the year ended 30 June 2009, certain client recoveries revenue and expense was offset. These are now presented gross as it reflects the substance of the transactions.

Statement of *Accounting Policies (continued)*

For the year ended 30 June 2010

In the Group Statement of Comprehensive Income for the year ended 30 June 2009, New Zealand Permanent Trustees' administration fee expense was classified as other expenses. These have been reclassified to fees and commission expense.

In note 28 reconciliation of profit (loss) after tax from operating activities for the year ended 30 June 2009, amortisation of lease incentives was presented separately as another non-cash item. This is now included within movements of other payables.

Changes in accounting policies

There have been no changes in accounting policies except for the initial application of new standards, amendments to standards or interpretations. Where there are changes, the accounting policies have been consistently applied throughout the periods in the financial statements.

The following new standards, amendments to standards or interpretations have been adopted:

NZ IAS 1 *Presentation of Financial Statements (revised 2007):* effective for annual periods beginning on or after 1 January 2009. The revised standard separates owner and non-owner changes in equity. All owner changes in equity are presented in the Statement of Changes in Equity. All non-owner changes in equity are presented in one Statement of Comprehensive Income or in two statements (a separate Statement of Financial Performance and a Statement of Comprehensive Income).

Public Trust and the Group have chosen the one Statement of Comprehensive Income. The changes include new lines of Other Comprehensive Income and Total Other Comprehensive Income in the Statement of Comprehensive Income and Statement of Changes in Equity. Other comprehensive income is movements in the cash flow hedging reserve.

NZ IAS 18 *Revenue (amendments 2009):* effective for annual periods beginning on or after 1 January 2009. The amendment removed the requirement to deduct dividends out of pre-acquisition profits from the cost of an investment in a subsidiary. All dividends from a subsidiary are recognised as income.

NZ IAS 27 *Consolidated and Separate Financial Statements (amendments 2009):* effective for annual periods beginning on or after 1 January 2009. The cost method has been removed. The distinction between pre-acquisition and post-acquisition profits is no longer required when dividends are received from a subsidiary; they are all recognised as income.

NZ IAS 36 *Impairment of Assets (amendments 2009):* effective for annual periods beginning on or after 1 January 2009. The amendment introduced a new impairment indicator for investments in subsidiaries where a dividend has been recognised.

NZ IFRS 1 *First-Time Adoption to New Zealand Equivalents to International Financial Reporting Standards (amendments 2008):* effective for annual periods beginning on or after 1 January 2009. This amendment allows the investment in subsidiary to be carried at the deemed cost of previous NZ GAAP at 1 July 2006.

NZ IFRS 7 *Financial Instrument:* Disclosures (amendments 2009): effective for annual periods beginning on or after 1 January 2009. The amendments require enhanced disclosures about fair value measurement. Disclosure on fair value measurement includes a three-level fair value hierarchy based on significance of inputs used. This disclosure is in note 24 Fair value.

NZ IFRS 8 *Operating Segments:* effective for annual periods beginning on or after 1 January 2009. This standard replaced NZ IAS 14 Segment Reporting. NZ IFRS 8 only applies to entities whose debt or equity instruments are traded in a public market or files with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market. NZ IFRS 8 does not apply and the Segment Reporting note has been removed.

The following amendments to standards have been adopted early:

NZ IAS 1 *Presentation of Financial Statements (amendments 2010):* effective for annual periods beginning on or after 1 January 2011. The amendment permits disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income to be presented in the Statement of Changes in Equity or in the notes. Public Trust and the Group have chosen to disclose this in the notes.

NZ IAS 24 *Related Party Disclosures (revised 2009):* effective for annual periods beginning on or after 1 January 2011. The amendments simplify the definition of a related party, clarifying its intended meaning, eliminating inconsistencies from the definition and provide a partial exemption from the disclosure requirements for government-related entities.

Statement of *Accounting Policies (continued)*

For the year ended 30 June 2010

Application of accounting standards

The following new standard has been issued but not yet effective for the year ended 30 June 2010, and has not been applied in preparing these financial statements:

NZ IFRS 9 *Financial Instruments:* effective for annual periods beginning on or after 1 January 2013. This standard will initially be applied in the financial statements for the year ending 30 June 2014. This standard requires all financial assets to be classified on the basis of the entity's business model for managing the financial asset and the contractual cash flow characteristics.

The adoption of the above standard in future periods is not expected to have a material impact on recognition, measurement and disclosures. The actual impact has not yet been determined.

Use of judgements and estimates

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

Significant management judgements, estimates and assumptions are disclosed under the applicable Notes to the Financial Statements.

Supplementary Information

Crown guarantee

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

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

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

Notes to the *Financial Statements*

For the year ended 30 June 2010

1 Cash and cash equivalents

	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Cash and bank	16,268	3,338	16,247	3,321
Money market deposit at call	10,258	11,200	10,258	11,200
Overdraft	-	(2,946)	-	(2,946)
Cash and cash equivalents in the Statement of Cash Flows	**26,526**	**11,592**	**26,505**	**11,575**

2 Investment securities

	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Designated at fair value through profit or loss				
Interest bearing securities				
Local authorities	80,089	110,216	80,089	110,216
Banks	120,697	184,334	120,697	184,334
New Zealand Government	-	4,974	-	4,974
State owned enterprises	8,057	5,003	8,057	5,003
Crown entities	4,126	-	4,126	-
Mortgage backed securities	72,268	116,412	72,268	116,412
Corporates	152,335	244,413	152,335	244,413
	437,572	665,352	437,572	665,352
Loans and receivables				
Interest bearing securities				
Banks	188,120	97,381	188,120	97,381
	625,692	**762,733**	**625,692**	**762,733**

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

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

3 Derivative financial instruments

	NOTES	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Assets					
Interest rate swaps					
Held for trading		35	870	35	870
Cash flow hedge accounted	20	2	82	2	82
Fair value hedge accounted	20	2,317	2,726	2,317	2,726
Forward rate agreements - held for trading		31	4	31	4
		2,385	**3,682**	**2,385**	**3,682**
Liabilities					
Interest rate swaps					
Held for trading		209	9	209	9
Economically hedged		6,940	10,193	6,940	10,193
Cash flow hedge accounted	20	1,485	3,862	1,485	3,862
Fair value hedge accounted	20	-	1	-	1
Forward rate agreements - held for trading		13	68	13	68
		8,647	**14,133**	**8,647**	**14,133**

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

4 Trade receivables

	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Accrued interest	-	1	-	1
Crown	413	361	413	361
Receivables of uncertain timing	2,697	2,435	2,697	2,435
Less: collective impairment allowance (see below)	(124)	(80)	(124)	(80)
Fees receivable and accrued	2,063	1,550	1,413	986
Other	2	178	2	178
	5,051	**4,445**	**4,401**	**3,881**
Collective impairment allowance				
Opening balance	(80)	(28)	(80)	(28)
Charge for the year	(44)	(52)	(44)	(52)
Closing balance	**(124)**	**(80)**	**(124)**	**(80)**

Receivables of uncertain timing

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

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

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

5 Advances secured by mortgage

	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Gross value	256,595	311,284	256,595	311,284
Less: Individual impairment allowance	(11,183)	(14,544)	(11,183)	(14,544)
Less: Collective impairment allowance	(3,964)	(4,418)	(3,964)	(4,418)
	241,448	**292,322**	**241,448**	**292,322**
Individual impairment allowance				
Opening balance	(14,544)	(10,853)	(14,544)	(10,853)
Charge for the year	(5,366)	(10,743)	(5,366)	(10,743)
Bad debts written off	7,232	6,589	7,232	6,589
Unused allowance reversed	1,532	476	1,532	476
Interest accrued on impaired advances	(37)	(13)	(37)	(13)
Closing balance	**(11,183)**	**(14,544)**	**(11,183)**	**(14,544)**
Collective impairment allowance				
Opening balance	(4,418)	-	(4,418)	-
Charge for the year	-	(4,418)	-	(4,418)
Bad debts written off	-	-	-	-
Unused allowance reversed	454	-	454	-
Closing balance	**(3,964)**	**(4,418)**	**(3,964)**	**(4,418)**

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

6 Sundry receivables

	NOTES	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Expected reimbursements	17	-	87	-	87
Fringe benefit tax		34	-	34	-
Resident withholding tax		4	-	4	-
Other		71	81	71	81
		109	**168**	**109**	**168**

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

7 Current tax

	NOTES	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Opening balance		670	846	670	846
Prior period adjustment		-	(132)	-	(132)
Use of money interest		56	-	56	-
Tax expense through profit or loss		-	-	-	-
Tax expense through cash flow hedging reserve (other comprehensive income)	18	-	-	-	-
Cash paid (received)		-	(44)	-	(44)
Closing balance		**726**	**670**	**726**	**670**

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

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

8 Property, plant & equipment

Group & Parent	PLANT, FURNITURE AND FITTINGS 2010 $000	IT EQUIPMENT AND OPERATING SOFTWARE 2010 $000	CAPITAL WORK IN PROGRESS 2010 $000	TOTAL 2010 $000
Cost				
Opening balance	15,098	5,727	168	20,993
Additions	551	637	103	1,291
Transfer between classes	-	-	(268)	(268)
Transfer to expenses	-	-	-	-
Disposals	(350)	-	-	(350)
Closing balance	15,299	6,364	3	21,666
Depreciation				
Opening balance	(9,239)	(4,102)	-	(13,341)
Depreciation for the year	(1,153)	(831)	-	(1,984)
Disposals	325	-	-	325
Closing balance	(10,067)	(4,933)	-	(15,000)
Carrying value of property, plant & equipment	**5,232**	**1,431**	**3**	**6,666**

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

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

9 Intangibles

	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Intangible IT assets				
Cost				
Opening balance	8,607	8,245	8,607	8,245
Additions	70	130	70	130
Transfer from work in progress	-	247	-	247
Transfer to expenses	-	-	-	-
Disposals	-	(15)	-	(15)
Closing balance	8,677	8,607	8,677	8,607
Amortisation				
Opening balance	(7,971)	(7,784)	(7,971)	(7,784)
Amortisation for the year	(196)	(195)	(196)	(195)
Disposals	-	8	-	8
Closing balance	(8,167)	(7,971)	(8,167)	(7,971)
Goodwill arising on acquisition				
Cost				
Opening balance	2,505	2,505		
Addition	-	-		
Closing balance	2,505	2,505		
Impairment losses				
Opening balance	-	-		
Impairment losses	-	-		
Closing balance	-	-		
Carrying value of intangibles	**3,015**	**3,141**	**510**	**636**

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

Goodwill for Corporate Trustee Services was tested during the year with key judgements and assumptions as follows:

- The recoverable amount of the CGU was calculated on the basis of value in use, using a discounted cash flows model and the resultant gross value allocated to the various physical and intangible assets.
- Future cash flows were projected out five years, based on the previous years' actual results and approved business plans for the year ending 30 June 2011, with key assumptions being funds under supervision, and operating costs.
- Fee revenue was assumed to remain consistent with the 2010 fee revenue adjusted for changes in funds under supervision over the projection period. Management determined budgeted contribution margin based on past performance and its expectations of market development.
- Growth assumptions taking into account the competitive nature of the market have been assumed.
- A pre-tax discount rate of 14.7% (2009: 20%) was applied to compute present value. A further reduction of 20% was then applied as a prudential margin to reflect other risks such as liquidity risk.

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.

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

10 Investments in subsidiaries

	COUNTRY OF INCORPORATION	PERCENT HELD 2010	PERCENT HELD 2009
New Zealand Permanent Trustees Limited	New Zealand	100%	100%
Plan for Life Limited[1]	New Zealand	100%	100%
Public Trust Charitable Holdings Nominee Limited[1]	New Zealand	100%	-
Public Trust Limited[1]	New Zealand	100%	100%
Specialist Trustee Services Limited[1]	New Zealand	100%	100%
Star Software Limited[1]	New Zealand	-	100%
Accordia Nominees Limited[3]	New Zealand	100%	-
Capital Nominees Limited[3]	New Zealand	100%	100%
CBG Trustee Company Limited[3]	New Zealand	100%	-
FXNL Nominees Limited[3]	New Zealand	100%	100%
Group U Nominees Limited[2]	New Zealand	100%	100%
Lancashire Limited[3]	New Zealand	100%	100%
Masterportfolio Nominees Limited[3]	New Zealand	100%	100%
Mint Nominees Limited[2]	New Zealand	100%	100%
Moorhouse Central Limited[3]	New Zealand	100%	100%
Newburg Nominees Limited[3]	New Zealand	100%	100%
Newcliff Limited[3]	New Zealand	100%	100%
New Zealand Rural Property Trust Nominees Limited[3]	New Zealand	100%	-
NZPT Custodians (Grosvenor) Limited[2]	New Zealand	100%	100%
NZPT Custodians Limited[2]	New Zealand	100%	100%
NZPT (Infiniti) Asset Trust Security Trustee Limited[2]	New Zealand	100%	100%
NZPT (Infiniti) Security Trustee Limited[2]	New Zealand	100%	100%
NZPT Marac ABCP Security Trustee Limited[2]	New Zealand	100%	100%
Pathfinder Nominees Limited[3]	New Zealand	100%	100%
Permanent Nominees Limited[3]	New Zealand	100%	100%
Perpetual Asset Management Nominees Limited[3]	New Zealand	100%	-
Plato Nominees Limited[3]	New Zealand	100%	100%
PM Capital NZ Nominees Limited[3]	New Zealand	100%	-
Portfolio Nominees Limited[3]	New Zealand	100%	100%
Proteus Limited[3]	New Zealand	100%	100%
Public Nominees Limited[3]	New Zealand	100%	100%
Sirius Wealth Management Nominees Limited[2]	New Zealand	100%	100%
Tepler Nominees Limited[2]	New Zealand	100%	100%
Windley Nominees Limited[3]	New Zealand	100%	100%

1 These entities are non-trading and have no assets and liabilities. Star Software Limited's name changed to Public Trust Charitable Holdings Nominee Limited during 2009/10.

2 These entities are subsidiaries held by New Zealand Permanent Trustees Limited

2 & 3 These entities are nominee companies established to undertake business on behalf of Corporate Trustee clients. They are not consolidated in the Group's financial statements.

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

11 Deferred tax asset

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

Group	STATEMENT OF FINANCIAL POSITION 2010 $000	STATEMENT OF FINANCIAL POSITION 2009 $000	PROFIT OR LOSS 2010 $000	PROFIT OR LOSS 2009 $000
Deferred tax assets				
Receivables of uncertain timing	366	337	29	12
Individual impairment allowance for advances secured by mortgage	3,355	4,363	(1,009)	1,108
Collective impairment allowance for advances secured by mortgage	1,189	1,325	(136)	1,325
Other trade payables	47	48	(1)	6
Employee benefits	1,463	1,423	40	10
Remedial work and litigation provision	42	170	(128)	(82)
Vacant space provision	10	15	(5)	(7)
Property, plant & equipment and intangibles	119	71	47	56
Prepaid estate administration	18	25	(7)	31
	6,609	7,777	(1,170)	2,459
Deferred tax liabilities				
Expected reimbursements	-	(26)	26	13
	-	(26)	26	13
Recognised in profit or loss			**(1,144)**	**2,472**
Unrelieved losses	17,325	19,167		
Net deferred tax asset	**23,934**	**26,918**		
Net deferred tax asset not allowed for	**(23,934)**	**(26,918)**		
Net deferred tax asset recognised	**-**	**-**		
Net deferred tax asset				
Opening balance	26,918	11,330		
Recognised in profit or loss	(460)	1,038		
Recognised in cash flow hedging reserve (other comprehensive income)	(682)	1,434		
Future income tax benefit	395	13,116		
Utilisation of losses	(2,237)	-		
Closing balance	**23,934**	**26,918**		
Net deferred tax asset not allowed for				
Opening balance	(26,918)	(11,330)		
Recognised in profit or loss	460	(1,038)		
Recognised in cash flow hedging reserve (other comprehensive income)	682	(1,434)		
Future income tax benefit	(395)	(13,116)		
Release of utilised loss	2,237	-		
Closing balance	**(23,934)**	**(26,918)**		

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

11 Deferred tax asset (continued)

Parent	STATEMENT OF FINANCIAL POSITION 2010 $000	STATEMENT OF FINANCIAL POSITION 2009 $000	PROFIT OR LOSS 2010 $000	PROFIT OR LOSS 2009 $000
Deferred tax assets				
Receivables of uncertain timing	366	337	29	12
Individual impairment allowance for advances secured by mortgage	3,355	4,363	(1,009)	1,108
Collective impairment allowance for advances secured by mortgage	1,189	1,325	(136)	1,325
Other trade payables	47	48	(1)	6
Employee benefits	1,463	1,423	40	10
Remedial work and litigation provision	42	170	(128)	(82)
Vacant space provision	10	15	(5)	(7)
Property, plant & equipment and intangibles	119	71	47	56
Prepaid estate administration	18	25	(7)	31
	6,609	7,777	(1,170)	2,459
Deferred tax liabilities				
Expected reimbursements	-	(26)	26	13
	-	(26)	26	13
Recognised in profit or loss			**(1,144)**	**2,472**
Unrelieved losses	17,325	19,167		
Net deferred tax asset	**23,934**	**26,918**		
Net deferred tax asset not allowed for	**(23,934)**	**(26,918)**		
Net deferred tax asset recognised	-	-		
Net deferred tax asset				
Opening balance	26,918	11,330		
Recognised in profit or loss	(460)	1,038		
Recognised in cash flow hedging reserve (other comprehensive income)	(682)	1,434		
Future income tax benefit	395	13,377		
Utilisation of losses	(1,975)	-		
Subsidiary's loss relief	(262)	(261)		
Closing balance	**23,934**	**26,918**		
Net deferred tax asset not allowed for				
Opening balance	(26,918)	(11,330)		
Recognised in profit or loss	460	(1,038)		
Recognised in cash flow hedging reserve (other comprehensive income)	682	(1,434)		
Future income tax benefit	(395)	(13,377)		
Release of utilised loss	1,975	-		
Release of utilised loss - transferred to subsidiary	262	261		
Closing balance	**(23,934)**	**(26,918)**		

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

11 Deferred tax asset (continued)

The deferred tax assets and liabilities will when crystallised, be settled in the same jurisdiction and therefore settled net. It is appropriate therefore, to present these balances settled off against one another.

The Group's planning horizon extends for a period of five years and is based on the Business Plan approved by the Board. Probable future profits is taken to mean the expected future profits that can be reasonably forecast within that planning horizon. The Group reassess unrecognised deferred tax assets annually. At balance date, continuing uncertainty in financial markets means there is insufficient certainty in the timing of the recovery of previously unrealised investment losses to justify carrying a deferred tax asset (2009: nil).

12 Liabilities to clients – term deposits

	NOTES	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Term deposits		412,529	563,834	412,529	563,834
Term deposits subject to hedging		31,047	38,509	31,047	38,509
Fair value adjustment for term deposits subject to hedging	20	2,231	2,620	2,231	2,620
		445,807	**604,963**	**445,807**	**604,963**

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

13 Prepaid estate administration

	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Opening balance	774	762	774	762
Services provided	(99)	(118)	(99)	(118)
Increase in estimated cost of service	18	20	18	20
Unwinding of discount and impact of change in interest rates	(18)	110	(18)	110
Closing balance	**675**	**774**	**675**	**774**

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

The inflation rate used in the estimation of the liability is consistent with the annual CPI inflation rate. This was 2.2% as at 30 June 2010 (2009: 2.2%). The estimated future cash flows are discounted at the lowest point on the New Zealand Government Bond yield curve of 5.3% at 30 June 2010 (2009: 6.5%).

14 Trade payables

	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Trade creditors and accrued expenses	2,218	2,358	2,117	2,279
Capital creditors	85	271	85	271
Other	225	243	225	243
	2,528	**2,872**	**2,427**	**2,793**

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

15 Other payables

	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Withholding taxes payable	447	911	447	911
Fringe benefit tax	-	134	-	134
Goods and services tax	106	44	106	44
Lease incentives	103	42	103	42
Employees and employees related	1,163	556	1,163	556
Other	-	151	-	151
	1,819	**1,838**	**1,819**	**1,838**

16 Employee benefits

	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Annual leave	1,332	1,296	1,332	1,296
Sick leave	59	59	59	59
Long-service leave	2,734	2,696	2,734	2,696
Performance incentive payments	546	350	546	350
	4,671	**4,401**	**4,671**	**4,401**

The long-service leave assumed a salary increase of 2.8% (2009: 2.8%). A 1% increase in salary would increase the provision by $198,000 (2009: $185,000).

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

17 Provisions

	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Restructuring				
Opening balance	341	131	341	131
Additions	1,400	696	1,400	696
Amount applied	(1,537)	(454)	(1,537)	(454)
Reversal of provision not used	-	(32)	-	(32)
Closing balance	204	341	204	341
Remedial work and litigation				
Opening balance	637	840	567	840
Additions	323	468	288	398
Amount applied	(734)	(250)	(637)	(250)
Reversal of provision not used	(77)	(421)	(77)	(421)
Closing balance	149	637	141	567
Vacant space				
Opening balance	50	72	50	72
Additions	10	-	10	-
Amount applied	(27)	(28)	(27)	(28)
Discount	1	6	1	6
Closing balance	34	50	34	50
Total	**387**	**1,028**	**379**	**958**

Restructuring

The restructuring provision relates primarily to the termination of employment. It is expected the sums provided will be paid within one year.

Remedial work and litigation

The remedial work and litigation provision relates to a number of matters where fault with the Group's service delivery has been identified or alleged or other contractual disputes have arisen. Final resolution may take a number of years.

No insurance reimbursements expected upon the final resolution of some of these matters have been recognised within sundry receivables (2009: $87,000).

Vacant space

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

The future estimated cash flows are discounted at an appropriate point on the New Zealand Government stock yield curve of 3.7% at 30 June 2010 (2009: 3.8%).

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

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

18 Equity

Capital management

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

- protect the interests of depositors and creditors
- protect the interest of the Crown
- ensure the safety of the capital position
- 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 and 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 operates within a risk management framework designed to ensure that the overall risk position is consistent with the Group's minimum capital adequacy requirements. At balance date, the Group, while not bound by regulatory capital requirements, has a voluntary capital adequacy measurement and monitoring agreement with the Crown. This is based on internationally recognised banking standards and takes into account risks arising from credit, market and operational factors.

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 eight per cent for NBDTs with a credit rating from an approved credit rating agency. These requirements will come into force on 1 December 2010. The actual position in terms of the proposed prudential capital requirements of the NBDT regime 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 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, together with the related tax.

The transfer to profit or loss is part of interest from interest bearing securities.

The ineffective portion in fair value of cash flow hedges recognised in net unrealised gains/losses on financial instruments within the profit or loss is $6,000 loss (2009: $96,000 loss).

	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Cash flow hedging reserve				
Opening balance	(5,157)	(377)	(5,157)	(377)
Net gains (losses) from changes in fair value	2,174	(3,815)	2,174	(3,815)
Less: Tax effect of above movement	-	-	-	-
Transferred to profit or loss	101	(965)	101	(965)
Less: Tax effect of above movement	-	-	-	-
Closing balance	**(2,882)**	**(5,157)**	**(2,882)**	**(5,157)**

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

19 Maturity analysis of assets and liabilities

The following table shows assets and liabilities analysed according to when they are expected to be recovered, settled or the maturity dates as applicable. For discussions on the management of liquidity of financial assets and financial liabilities, refer to note 23 Liquidity risk.

Group	2010 STATEMENT OF FINANCIAL POSITION $000	2010 LESS THAN 12 MONTHS $000	2010 GREATER THAN 12 MONTHS $000	2009 STATEMENT OF FINANCIAL POSITION $000	2009 LESS THAN 12 MONTHS $000	2009 GREATER THAN 12 MONTHS $000
Assets						
Cash and cash equivalents	26,526	26,526	-	11,592	11,592	-
Investment securities	625,692	350,020	275,672	762,733	379,992	382,741
Derivative financial instruments	2,385	287	2,098	3,682	1,155	2,527
Advances to clients	8,694	7,840	854	6,267	5,505	762
Trade receivables	5,051	3,158	1,893	4,445	2,758	1,687
Advances secured by mortgage	241,448	57,256	184,192	292,322	58,699	233,623
Total financial assets	**909,796**	**445,087**	**464,709**	**1,081,041**	**459,701**	**621,340**
Sundry receivables	109	109	-	168	168	-
Prepayments	836	791	45	477	456	21
Current tax	726	726	-	670	670	-
Property, plant & equipment	6,666	-	6,666	7,652	-	7,652
Intangibles	3,015	-	3,015	3,141	-	3,141
Total assets	**921,148**	**446,713**	**474,435**	**1,093,149**	**460,995**	**632,154**
Liabilities						
Liabilities to clients - at call or short term	436,231	436,231	-	479,792	479,792	-
Liabilities to clients - term deposits	445,807	386,684	59,123	604,963	536,791	68,172
Prepaid estate administration	675	-	675	774	-	774
Total liabilities to clients	**882,713**	**822,915**	**59,798**	**1,085,529**	**1,016,583**	**68,946**
Trade payables	2,528	2,528	-	2,872	2,872	-
Other payables	1,819	1,749	70	1,838	1,838	-
Derivative financial instruments	8,647	3,539	5,108	14,133	3,537	10,596
Prepaid income	288	288	-	346	346	-
Employee benefits	4,671	2,207	2,464	4,401	1,988	2,413
Provisions	387	239	148	1,028	341	687
Total liabilities	**901,053**	**833,465**	**67,588**	**1,110,147**	**1,027,505**	**82,642**

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

19 Maturity analysis of assets and liabilities (continued)

Parent	2010 STATEMENT OF FINANCIAL POSITION $000	2010 LESS THAN 12 MONTHS $000	2010 GREATER THAN 12 MONTHS $000	2009 STATEMENT OF FINANCIAL POSITION $000	2009 LESS THAN 12 MONTHS $000	2009 GREATER THAN 12 MONTHS $000
Assets						
Cash and cash equivalents	26,505	26,505	-	11,575	11,575	-
Investment securities	625,692	350,020	275,672	762,733	379,992	382,741
Derivative financial instruments	2,385	287	2,098	3,682	1,155	2,527
Advances to clients	8,694	7,840	854	6,267	5,505	762
Trade receivables	4,401	2,508	1,893	3,881	2,194	1,687
Due from subsidiary	119	119	-	-	-	-
Advances secured by mortgage	241,448	57,256	184,192	292,322	58,699	233,623
Total financial assets	**909,244**	**444,535**	**464,709**	**1,080,460**	**459,120**	**621,340**
Sundry receivables	109	109	-	168	168	-
Prepayments	836	791	45	477	456	21
Current tax	726	726	-	670	670	-
Property, plant & equipment	6,666	-	6,666	7,652	-	7,652
Intangibles	510	-	510	636	-	636
Investments in subsidiaries	4,654	-	4,654	4,654	-	4,654
Total assets	**922,745**	**446,161**	**476,584**	**1,094,717**	**460,414**	**634,303**
Liabilities						
Liabilities to clients - at call or short term	436,231	436,231	-	479,792	479,792	-
Liabilities to clients - term deposits	445,807	386,684	59,123	604,963	536,791	68,172
Prepaid estate administration	675	-	675	774	-	774
Total liabilities to clients	**882,713**	**822,915**	**59,798**	**1,085,529**	**1,016,583**	**68,946**
Trade payables	2,427	2,427	-	2,793	2,793	-
Other payables	1,819	1,749	70	1,838	1,838	-
Derivative financial instruments	8,647	3,539	5,108	14,133	3,537	10,596
Employee benefits	4,671	2,207	2,464	4,401	1,988	2,413
Provisions	379	239	140	958	341	617
Loan from subsidiary	6,315	6,315	-	5,773	5,773	-
Total liabilities	**906,971**	**839,391**	**67,580**	**1,115,425**	**1,032,853**	**82,572**

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

20 Interest rate risk

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

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

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

Cash flow hedging

Changes in the 90-day bank bill rate will, all other things being equal, lead to changes in on-call liability interest rates. Changes in the base interest rates will therefore lead to a change in the associated interest expense cash flow. The Group's on-call client liabilities carry an interest rate that may be varied on a daily basis. Interest rate swaps have been entered into to mitigate this risk.

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

Fair value hedging

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

Group & Parent	2010 $000	2009 $000
Gains (losses) on interest rate swaps	(365)	2,221
Gains (losses) on long-dated term deposits	388	(2,270)

Financial risk assessment

In the prior year, value-at-risk (VaR) was used to assess the interest rate risk. VaR is no longer provided to the key management personnel of the Group. 2009 comparatives have been restated to align with the current period's presentation.

The following table provides the impact on total comprehensive income and equity from reasonably possible movements in interest rates:

Group & Parent	2010 $000	2009 $000
Impact on fair value (+100 basis points)	2,244	2,869
Impact on cash flows (+100 basis points)	(690)	763

The cash flow impact is on interest rates due to reset within one year of balance date. The values stated are on a pre-tax basis.

The assumptions applied in the interest rate sensitivity analysis are:

- all other variables remaining constant
- no fair value impact on financial instruments that are not carried at fair value through profit or loss
- no fair value impact on interest rate swaps and term deposits subject to fair value hedge accounting because any fair value change in one has an approximate equal and opposite effect on the other.

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

20 Interest rate risk (continued)

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

Group 2010	STATEMENT OF FINANCIAL POSITION $000	TOTAL $000	1 YEAR OR LESS $000	1 TO 2 YEARS $000	2 TO 3 YEARS $000	3 TO 5 YEARS $000	OVER 5 YEARS $000
Assets							
Cash and cash equivalents	26,526	26,526	26,526	-	-	-	-
Interest bearing securities	625,692	654,022	547,532	82,500	23,990	-	-
Advances to clients	8,694	8,694	8,694	-	-	-	-
Advances secured by mortgage	241,448	233,001	173,378	38,928	13,751	6,944	-
Other financial assets	5,051	5,051	5,051	-	-	-	-
	907,411	927,294	761,181	121,428	37,741	6,944	-
Liabilities							
Liabilities to clients - at call or short term	436,231	436,231	436,231	-	-	-	-
Liabilities to clients - term deposits	445,807	439,432	382,540	23,781	15,902	9,209	8,000
	882,038	875,663	818,771	23,781	15,902	9,209	8,000
Derivatives							
Forward rate agreements	18	-	-	-	-	-	-
Interest rate swaps	(6,280)	-	108,650	(95,260)	(21,250)	(140)	8,000
	(6,262)	-	108,650	(95,260)	(21,250)	(140)	8,000
Re-pricing gap		**51,631**	**51,060**	**2,387**	**589**	**(2,405)**	**-**

Group 2009	STATEMENT OF FINANCIAL POSITION $000	TOTAL $000	1 YEAR OR LESS $000	1 TO 2 YEARS $000	2 TO 3 YEARS $000	3 TO 5 YEARS $000	OVER 5 YEARS $000
Assets							
Cash and cash equivalents	11,592	11,592	11,592	-	-	-	-
Interest bearing securities	762,733	803,259	676,670	38,700	62,500	25,389	-
Advances to clients	6,267	6,267	6,267	-	-	-	-
Advances secured by mortgage	292,322	275,375	177,735	47,634	30,586	19,420	-
Other financial assets	4,445	4,445	4,445	-	-	-	-
	1,077,359	1,100,938	876,709	86,334	93,086	44,809	-
Liabilities							
Liabilities to clients - at call or short term	479,792	479,792	479,792	-	-	-	-
Liabilities to clients - term deposits	604,963	595,181	529,630	30,590	7,998	18,963	8,000
	1,084,755	1,074,973	1,009,422	30,590	7,998	18,963	8,000
Derivatives							
Forward rate agreements	(64)	-	-	-	-	-	-
Interest rate swaps	(10,387)	-	159,925	(56,460)	(87,375)	(24,090)	8,000
	(10,451)	-	159,925	(56,460)	(87,375)	(24,090)	8,000
Re-pricing gap		**25,965**	**27,212**	**(716)**	**(2,287)**	**1,756**	**-**

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

20 Interest rate risk (continued)

Parent 2010	STATEMENT OF FINANCIAL POSITION $000	TOTAL $000	1 YEAR OR LESS $000	1 TO 2 YEARS $000	2 TO 3 YEARS $000	3 TO 5 YEARS $000	OVER 5 YEARS $000
Assets							
Cash and cash equivalents	26,505	26,505	26,505	-	-	-	-
Interest bearing securities	625,692	654,022	547,532	82,500	23,990	-	-
Advances to clients	8,694	8,694	8,694	-	-	-	-
Advances secured by mortgage	241,448	233,001	173,378	38,928	13,751	6,944	-
Other financial assets	4,520	4,520	4,520	-	-	-	-
	906,859	926,742	760,629	121,428	37,741	6,944	-
Liabilities							
Liabilities to clients - at call or short term	436,231	436,231	436,231	-	-	-	-
Liabilities to clients - term deposits	445,807	439,432	382,540	23,781	15,902	9,209	8,000
Loan from subsidiary	6,315	6,315	6,315	-	-	-	-
	888,353	881,978	825,086	23,781	15,902	9,209	8,000
Derivatives							
Forward rate agreements	18	-	-	-	-	-	-
Interest rate swaps	(6,280)	-	108,650	(95,260)	(21,250)	(140)	8,000
	(6,262)	-	108,650	(95,260)	(21,250)	(140)	8,000
Re-pricing gap		**44,764**	**44,193**	**2,387**	**589**	**(2,405)**	**-**

Parent 2009	STATEMENT OF FINANCIAL POSITION $000	TOTAL $000	1 YEAR OR LESS $000	1 TO 2 YEARS $000	2 TO 3 YEARS $000	3 TO 5 YEARS $000	OVER 5 YEARS $000
Assets							
Cash and cash equivalents	11,575	11,575	11,575	-	-	-	-
Interest bearing securities	762,733	803,259	676,670	38,700	62,500	25,389	-
Advances to clients	6,267	6,267	6,267	-	-	-	-
Advances secured by mortgage	292,322	275,375	177,735	47,634	30,586	19,420	-
Other financial assets	3,881	3,881	3,881	-	-	-	-
	1,076,778	1,100,357	876,128	86,334	93,086	44,809	-
Liabilities							
Liabilities to clients - at call or short term	479,792	479,792	479,792	-	-	-	-
Liabilities to clients - term deposits	604,963	595,181	529,630	30,590	7,998	18,963	8,000
Loan from subsidiary	5,773	5,773	5,773	-	-	-	-
	1,090,528	1,080,746	1,015,195	30,590	7,998	18,963	8,000
Derivatives							
Forward rate agreements	(64)	-	-	-	-	-	-
Interest rate swaps	(10,387)	-	159,925	(56,460)	(87,375)	(24,090)	8,000
	(10,451)	-	159,925	(56,460)	(87,375)	(24,090)	8,000
Re-pricing gap		**19,611**	**20,858**	**(716)**	**(2,287)**	**1,756**	**-**

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

21 Currency risk

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

The Group may be exposed to foreign currency risk on investments denominated in a currency other than the Group's functional currency, New Zealand dollars, which is also the presentation currency. The currencies in which foreign investment transactions are primarily denominated are Australian dollars. The Group economically hedges their material exposure in foreign currency investments. Exposure to foreign exchange fluctuations is managed by hedging to New Zealand dollars using forward exchange contracts.

Where applicable, management monitors the Group's exposure to changes in foreign currencies on a daily basis.

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

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

22 Credit risk

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

The following carrying amounts of financial assets represent the maximum credit exposure.

	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Mortgage backed securities	72,268	116,412	72,268	116,412
Registered banks	337,728	296,990	337,707	296,973
Corporates	152,335	244,413	152,335	244,413
Local authorities	80,089	110,216	80,089	110,216
State owned enterprises	8,057	5,003	8,057	5,003
Crown entities	4,126	-	4,126	-
New Zealand Government	-	4,974	-	4,974
Client overdrafts	7,751	5,505	7,751	5,505
Advances to client beneficiaries	943	762	943	762
Real estate mortgages secured by underwriting agreement	4,603	5,590	4,603	5,590
Real estate mortgages	236,845	286,732	236,845	286,732
Receivables of uncertain timing	2,573	2,355	2,573	2,355
Other	2,478	2,089	1,947	1,525
Total financial assets subject to credit risk	**909,796**	**1,081,041**	**909,244**	**1,080,460**

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

Group	2010 ADVANCES TO CLIENTS $000	2010 TRADE RECEIVABLES $000	2010 ADVANCES SECURED BY MORTGAGE $000	2009 ADVANCES TO CLIENTS $000	2009 TRADE RECEIVABLES $000	2009 ADVANCES SECURED BY MORTGAGE $000
Neither past due nor impaired	8,694	4,782	218,852	6,267	4,239	254,039
Past due but not impaired	-	269	14,162	-	206	22,043
Impaired	-	124	23,581	-	80	35,202
Gross	8,694	5,175	256,595	6,267	4,525	311,284
Less: Allowance for impairment	-	(124)	(15,147)	-	(80)	(18,962)
Net	**8,694**	**5,051**	**241,448**	**6,267**	**4,445**	**292,322**

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

22 Credit risk (continued)

Parent	2010 ADVANCES TO CLIENTS $000	2010 TRADE RECEIVABLES $000	2010 ADVANCES SECURED BY MORTGAGE $000	2009 ADVANCES TO CLIENTS $000	2009 TRADE RECEIVABLES $000	2009 ADVANCES SECURED BY MORTGAGE $000
Neither past due nor impaired	8,694	4,213	218,852	6,267	3,734	254,039
Past due but not impaired	-	188	14,162	-	147	22,043
Impaired	-	124	23,581	-	80	35,202
Total	8,694	4,525	256,595	6,267	3,961	311,284
Less: Allowance for impairment	-	(124)	(15,147)	-	(80)	(18,962)
Net	**8,694**	**4,401**	**241,448**	**6,267**	**3,881**	**292,322**

Further analyses of these loans and receivables are below.

Advances to clients

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

The credit quality of advances to clients that are neither past due nor impaired is considered to be high as Public Trust is trustee and administrator of the debtor clients and generally has first call over the funds of that debtor. There has been no renegotiation of amounts that would be past due or impaired in 2010 (2009: nil).

Client overdrafts

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

Advances to client beneficiaries

Advances to client beneficiaries are repayable on demand and secured by statutory charge supplemented by an assignment of their interest in the relevant estate. Advances to client estates are secured by statutory charge which may, where estate assets are not vested in the Group, be supplemented by registered charge.

To mitigate the risk:

- restrictions exist on when advances can be made
- advances are limited to half the value of the beneficiary's share in the estate
- the Group administers the estate of these clients and has title or security to their assets
- approval and review of the advance or overdraft requires delegated authority.

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

22 Credit risk (continued)

Trade receivables

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

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

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

	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Past due 1-30 days	89	91	82	50
Past due 31-60 days	71	49	30	40
Past due 61-90 days	19	11	15	11
Past due more than 90 days	90	55	61	46
Total	**269**	**206**	**188**	**147**

Receivables of uncertain timing

Receivables of uncertain timing represent certain claims for estate administration services where payment is not due until an uncertain point in the future. The Group administers the estate of these receivables and has title to the estate and their assets. The credit quality of these receivables is rated as high. All payments are received when assets in the estate are sold. The carrying value of the receivables is minor relative to the value of the estates.

Every month, the collectability of all amounts greater than a specified level is individually reviewed. For the remainder of the balance, a sample is taken and their collectability is assessed. This review determines the requirement for any impairment allowance, either individually or collectively.

Advances secured by mortgage

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

All advances are subject to risk grading assessments. Security for advances secured by mortgage comprises a registered first mortgage over freehold property. Standard policy is that mortgage advances should not exceed 80% of the value of the property as at the time of making the loan. This percentage is the upper limit and individual advances are subject to a number of further conditions.

Residential loans may exceed 80% of the valuation in exceptional circumstances. In such cases the mortgage security will be supplemented by Mortgage Lenders Insurance.

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

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

22 Credit risk (continued)

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

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

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

In addition a collective impairment allowance is raised for impairment losses inherent in the loan portfolio arising from loss events that have occurred prior to the reporting date but the events were not known and/or the impairment not transparent as at reporting date. The amount of the collective impairment allowance is based on the historical statistical incidence of impairment in the loan portfolio of Public Trust and the banking industry.

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

Group & Parent	2010 $000	2009 $000
A	93,838	66,467
B	89,888	141,805
C	49,454	67,085
	233,180	**275,357**

The carrying amount of advances secured by mortgage that would otherwise be past due or impaired whose terms have been renegotiated is nil (2009: $1.4 million).

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

Group & Parent	2010 $000	2009 $000
Past due 1-30 days	8,647	18,131
Past due 31-60 days	2,570	90
Past due 61-90 days	2,889	300
Past due more than 90 days	56	3,522
Total	**14,162**	**22,043**

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

22 Credit risk (continued)

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

Group & Parent	2010 GROSS VALUE $000	2010 IMPAIRMENT $000	2010 NET VALUE $000	2009 GROSS VALUE $000	2009 IMPAIRMENT $000	2009 NET VALUE $000
Residential investment	12,239	(5,902)	6,337	19,674	(9,787)	9,887
Commercial	5,505	(3,068)	2,437	11,623	(2,786)	8,837
Development	4,715	(2,181)	2,534	-	-	-
Residential	1,122	(32)	1,090	3,905	(1,971)	1,934
	23,581	**(11,183)**	**12,398**	**35,202**	**(14,544)**	**20,658**

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

Group & Parent	2010 GROSS VALUE $000	2010 IMPAIRMENT $000	2010 NET VALUE $000	2009 GROSS VALUE $000	2009 IMPAIRMENT $000	2009 NET VALUE $000
Residential investment	72,329	(876)	71,453	96,804	(1,682)	95,122
Commercial	67,406	(2,140)	65,266	70,295	(2,108)	68,187
Development	8,162	(552)	7,610	-	-	-
Rural	7,356	(203)	7,153	7,760	(107)	7,653
Residential	77,927	(193)	77,734	100,498	(521)	99,977
	233,180	**(3,964)**	**229,216**	**275,357**	**(4,418)**	**270,939**

Investment securities and derivatives

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

The overall credit risk of the investment portfolio is measured using the Weighted Average Rating Factor method. This, together with any changes in security ratings, is reported to the Investment Committee on a bi-monthly basis.

Interest rate derivative counterparty swaps credit risk is managed by:

- Undertaking derivative transactions with banks rated AA- and above and including an allowance for that exposure in the calculations of the credit exposure to that particular bank, which in turn is governed by credit limits.
- Acquiring interest rate swaps with several different banks, diversifying the counterparty exposure. In any event, the valuation of interest rate swaps will consider where necessary any impairment due to risk of counterparty default.

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

22 Credit risk (continued)

Credit ratings

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

	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Long-term credit rating				
AAA	45,367	99,409	45,367	99,409
AA	109,405	147,120	109,405	147,120
AA-	119,740	69,375	119,740	69,375
A+	25,083	66,843	25,083	66,843
A	19,066	12,093	19,066	12,093
A-	19,195	-	19,195	-
BBB+	27,430	16,124	27,430	16,124
BB+	-	8,706	-	8,706
BB	6,621	3,556	6,621	3,556
B-	3,884	-	3,884	-
CCC	8,684	-	8,684	-
Unrated local authority	12,857	24,927	12,857	24,927
	397,332	448,153	397,332	448,153
Short-term credit rating				
A1+	249,206	271,399	249,185	271,382
A1	-	53,445	-	53,445
A2	8,057	5,003	8,057	5,003
	257,263	329,847	257,242	329,830
Unrated - other financial assets	255,201	303,041	254,670	302,477
Total financial assets	**909,796**	**1,081,041**	**909,244**	**1,080,460**

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

23 Liquidity risk

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

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

The liquidity position of the Group is monitored daily and reported to the Investment Committee on a bi-monthly basis.

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

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

All advances to clients are repayable on demand. There is a portion where collection is expected to be received after one year.

Trade receivables include receivables of uncertain timing. Where collection is expected beyond 12 months, it is assumed they will be collected more than five years from balance date.

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

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

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

23 Liquidity risk (continued)

Group 2010	STATEMENT OF FINANCIAL POSITION $000	CONTRACTUAL CASH FLOWS $000	1 YEAR OR LESS $000	1 TO 2 YEARS $000	2 TO 3 YEARS $000	3 TO 5 YEARS $000	OVER 5 YEARS $000
Cash and cash equivalents	26,526	26,526	26,526	-	-	-	-
Investment securities	625,692	711,436	367,438	144,174	65,228	58,903	75,693
Advances to clients	8,694	9,015	7,838	81	93	941	62
Trade receivables	5,051	6,146	3,136	-	-	-	3,010
Advances secured by mortgages	241,448	344,873	59,638	38,576	50,608	31,196	164,855
Total non-derivative financial assets	907,411	1,097,996	464,576	182,831	115,929	91,040	243,620
Interest rate swaps							
Held for trading	35	24	24	-	-	-	-
Cash flow hedge accounted	2	(18)	(10)	(3)	(3)	(2)	-
Fair value hedge accounted	2,317	3,005	989	686	427	568	335
Forward rate agreements	31	48	48	-	-	-	-
Total derivative financial assets	2,385	3,059	1,051	683	424	566	335
Total financial assets	909,796	1,101,055	465,627	183,514	116,353	91,606	243,955
Liabilities to clients - at call or short term	436,231	436,231	436,231	-	-	-	-
Liabilities to clients - term deposits	445,807	458,821	394,447	26,951	17,540	11,192	8,691
Trade payables	2,528	2,528	2,528	-	-	-	-
Total non-derivative financial liabilities	884,566	897,580	833,206	26,951	17,540	11,192	8,691
Interest rate swaps							
Held for trading	209	318	(620)	938	-	-	-
Economically hedged	6,940	7,250	4,251	2,393	606	-	-
Cash flow hedge accounted	1,485	1,636	1,030	409	174	23	-
Forward rate agreements	13	21	21	-	-	-	-
Total derivative financial liabilities	8,647	9,225	4,682	3,740	780	23	-
Total financial liabilities	893,213	906,805	837,888	30,691	18,320	11,215	8,691
Total contractual maturities		**194,250**	**(372,261)**	**152,823**	**98,033**	**80,391**	**235,264**

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

23 Liquidity risk (continued)

Group 2009	STATEMENT OF FINANCIAL POSITION $000	CONTRACTUAL CASH FLOWS $000	1 YEAR OR LESS $000	1 TO 2 YEARS $000	2 TO 3 YEARS $000	3 TO 5 YEARS $000	OVER 5 YEARS $000
Cash and cash equivalents	11,592	11,592	11,592	-	-	-	-
Investment securities	762,733	873,342	399,410	155,731	110,519	125,566	82,116
Advances to clients	6,267	6,538	5,606	62	45	105	720
Trade receivables	4,445	5,488	2,742	-	-	-	2,746
Advances secured by mortgages	292,322	427,213	62,950	51,248	43,711	74,772	194,532
Total non-derivative financial assets	1,077,359	1,324,173	482,300	207,041	154,275	200,443	280,114
Interest rate swaps							
Held for trading	870	883	883	-	-	-	-
Cash flow hedge accounted	82	130	(192)	(2)	150	174	-
Fair value hedge accounted	2,726	2,738	1,550	734	279	110	65
Forward rate agreements	4	4	4	-	-	-	-
Total derivative financial assets	3,682	3,755	2,245	732	429	284	65
Total financial assets	1,081,041	1,327,928	484,545	207,773	154,704	200,727	280,179
Liabilities to clients - at call or short term	479,792	479,792	479,792	-	-	-	-
Liabilities to clients - term deposits	604,963	621,707	546,980	34,039	10,294	21,121	9,273
Trade payables	2,872	2,872	2,872	-	-	-	-
Total non-derivative financial liabilities	1,087,627	1,104,371	1,029,644	34,039	10,294	21,121	9,273
Interest rate swaps							
Held for trading	9	9	9	-	-	-	-
Economically hedged	10,193	10,536	5,297	3,342	1,465	432	-
Cash flow hedge accounted	3,862	3,973	2,773	950	202	48	-
Fair value hedge accounted	1	3	(7)	(2)	4	5	3
Forward rate agreements	68	68	68	-	-	-	-
Total derivative financial liabilities	14,133	14,589	8,140	4,290	1,671	485	3
Total financial liabilities	1,101,760	1,118,960	1,037,784	38,329	11,965	21,606	9,276
Total contractual maturities		**208,968**	**(553,239)**	**169,444**	**142,739**	**179,121**	**270,903**

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

23 Liquidity risk (continued)

Parent 2010	STATEMENT OF FINANCIAL POSITION $000	CONTRACTUAL CASH FLOWS $000	1 YEAR OR LESS $000	1 TO 2 YEARS $000	2 TO 3 YEARS $000	3 TO 5 YEARS $000	OVER 5 YEARS $000
Cash and cash equivalents	26,505	26,505	26,505	-	-	-	-
Investment securities	625,692	711,436	367,438	144,174	65,228	58,903	75,693
Advances to clients	8,694	9,015	7,838	81	93	941	62
Trade receivables	4,401	5,496	2,486	-	-	-	3,010
Due from subsidiary	119	119	119	-	-	-	-
Advances secured by mortgages	241,448	344,873	59,638	38,576	50,608	31,196	164,855
Total non-derivative financial assets	906,859	1,097,444	464,024	182,831	115,929	91,040	243,620
Interest rate swaps							
Held for trading	35	24	24	-	-	-	-
Cash flow hedge accounted	2	(18)	(10)	(3)	(3)	(2)	-
Fair value hedge accounted	2,317	3,005	989	686	427	568	335
Forward rate agreements	31	48	48	-	-	-	-
Total derivative financial assets	2,385	3,059	1,051	683	424	566	335
Total financial assets	909,244	1,100,503	465,075	183,514	116,353	91,606	243,955
Liabilities to clients - at call or short term	436,231	436,231	436,231	-	-	-	-
Liabilities to clients - term deposits	445,807	458,821	394,447	26,951	17,540	11,192	8,691
Trade payables	2,427	2,427	2,427	-	-	-	-
Loan from subsidiary	6,315	6,315	6,315	-	-	-	-
Total non-derivative financial liabilities	890,780	903,794	839,420	26,951	17,540	11,192	8,691
Interest rate swaps							
Held for trading	209	318	(620)	938	-	-	-
Economically hedged	6,940	7,250	4,251	2,393	606	-	-
Cash flow hedge accounted	1,485	1,636	1,030	409	174	23	-
Forward rate agreements	13	21	21	-	-	-	-
Total derivative financial liabilities	8,647	9,225	4,682	3,740	780	23	-
Total financial liabilities	899,427	913,019	844,102	30,691	18,320	11,215	8,691
Total contractual maturities		**187,484**	**(379,027)**	**152,823**	**98,033**	**80,391**	**235,264**

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

23 Liquidity risk (continued)

Parent 2009	STATEMENT OF FINANCIAL POSITION $000	CONTRACTUAL CASH FLOWS $000	1 YEAR OR LESS $000	1 TO 2 YEARS $000	2 TO 3 YEARS $000	3 TO 5 YEARS $000	OVER 5 YEARS $000
Cash and cash equivalents	11,575	11,575	11,575	-	-	-	-
Investment securities	762,733	873,342	399,410	155,731	110,519	125,566	82,116
Advances to clients	6,267	6,538	5,606	62	45	105	720
Trade receivables	3,881	4,924	2,178	-	-	-	2,746
Advances secured by mortgages	292,322	427,213	62,950	51,248	43,711	74,772	194,532
Total non-derivative financial assets	1,076,778	1,323,592	481,719	207,041	154,275	200,443	280,114
Interest rate swaps							
Held for trading	870	883	883	-	-	-	-
Cash flow hedge accounted	82	130	(192)	(2)	150	174	-
Fair value hedge accounted	2,726	2,738	1,550	734	279	110	65
Forward rate agreements	4	4	4	-	-	-	-
Total derivative financial assets	3,682	3,755	2,245	732	429	284	65
Total financial assets	1,080,460	1,327,347	483,964	207,773	154,704	200,727	280,179
Liabilities to clients - at call or short term	479,792	479,792	479,792	-	-	-	-
Liabilities to clients - term deposits	604,963	621,707	546,980	34,039	10,294	21,121	9,273
Trade payables	2,793	2,793	2,793	-	-	-	-
Loan from subsidiary	5,773	5,773	5,773	-	-	-	-
Total non-derivative financial liabilities	1,093,321	1,110,065	1,035,338	34,039	10,294	21,121	9,273
Interest rate swaps							
Held for trading	9	9	9	-	-	-	-
Economically hedged	10,193	10,536	5,297	3,342	1,465	432	-
Cash flow hedge accounted	3,862	3,973	2,773	950	202	48	-
Fair value hedge accounted	1	3	(7)	(2)	4	5	3
Forward rate agreements	68	68	68	-	-	-	-
Total derivative financial liabilities	14,133	14,589	8,140	4,290	1,671	485	3
Total financial liabilities	1,107,454	1,124,654	1,043,478	38,329	11,965	21,606	9,276
Total contractual maturities		**202,693**	**(559,514)**	**169,444**	**142,739**	**179,121**	**270,903**

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

23 Liquidity risk (continued)

Cash flow hedges

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

	TOTAL	1 YEAR OR LESS $000	1 TO 2 YEARS $000	2 TO 3 YEARS $000	3 TO 5 YEARS $000	OVER 5 YEARS $000
Group & Parent 2010						
Cash inflows (assets)	(18)	(10)	(3)	(3)	(2)	-
Cash outflows (liabilities)	1,636	1,030	409	174	23	-
Net cash inflows (outflows)	**(1,654)**	**(1,040)**	**(412)**	**(177)**	**(25)**	**-**
Group & Parent 2009						
Cash inflows (assets)	130	(192)	(2)	150	174	-
Cash outflows (liabilities)	3,973	2,773	950	202	48	-
Net cash inflows (outflows)	**(3,843)**	**(2,965)**	**(952)**	**(52)**	**126**	**-**

	TOTAL	1 YEAR OR LESS $000	1 TO 2 YEARS $000	2 TO 3 YEARS $000	3 TO 5 YEARS $000	OVER 5 YEARS $000
Group & Parent 2010						
Profit or loss	(1,654)	(1,040)	(412)	(177)	(25)	-
Group & Parent 2009						
Profit or loss	(3,843)	(2,965)	(952)	(52)	126	-

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

24 Fair value

Bases to fair value

Cash and cash equivalents, Advances to clients, Trade receivables, Overdraft, Trade payables, Due from subsidiary (Parent), Loan from subsidiary (Parent)

All these financial instruments are at call or are able to be settled in the short term. Accordingly, they are carried at cash settlement value. Due to the short-term nature of the instruments, the fair value is assumed to equate to the carrying value.

Receivables of uncertain timing

These financial instruments have been discounted to present value and therefore are shown at fair value. The accounting policies describe how fair value is determined.

Investment securities

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

The fair value hierarchy is as follows:

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

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

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

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

24 Fair value (continued)

Where applicable the judgement involved in the valuation of certain level 3 securities will take into account a number of factors including: an assessment of the prepayment speed, credit spread, arrears history, any actual or expected losses, credit rating of the issuers, expected time to maturity, loan to value ratios, insurance status and credit rating of the insurer where applicable. Assumptions for individual securities will differ based on their individual characteristics.

For an issue of the mortgage backed securities portfolio, there is no quoted market price or pricing available from a third party agent and a valuation technique is used. The fair value is determined by reference to a third party's current market price of a similar instrument not held in the portfolio, which has a substantively similar subordination and credit rating structure. The credit margin of this benchmark instrument is adjusted to reflect the unique nature of the mortgage backed security held. These adjustments relate principally to whether the underlying pool of mortgages is residential or commercial and takes account of the expected average life of each tranche which is calculated by assessing the prepayment history. The expected cash flows of the investment are then discounted using quoted market discount rates and the adjusted credit margin. Key assumptions are applied in the valuation technique in relation to expected average life, credit margins and discount rates. The expected average life assumes the issuer does not exercise the call option at the first call date but on a date based on expected prepayment and cash flows in the pool.

For one portion of mortgage backed securities, the valuation technique has been revised following an external review, to better reflect the fair value of the securities. The main changes in key assumptions and judgements are:

- prepayment rates – previous historical observed average prepayment replaced by the current market outlook as observed by a third party
- call option – the previous assumption of the issuer exercising their option to repurchase the securities during the life of the structure is replaced by an assumption that the securities will repay gradually over a longer time frame
- credit margin – the credit margin is based on New Zealand comparator securities with similar weighted average lives. Previously the margin was based on an extrapolation of credit curves in the New Zealand or Australian mortgage backed securities market.

For another issue of mortgage backed securities, the valuation technique has also been revised. The use of a comparator security is no longer possible following the credit down grade during the year. Valuation is now achieved by looking through to the underlying mortgage portfolio. The key assumptions and judgements are:

- insurance status of the mortgages
- probability of default based on the arrears history by mortgage type
- a decline in the valuation by mortgage type
- weighted average life is determined by a third party
- the credit margin is based on two comparator securities with similar weighted average lives.

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

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

24 Fair value (continued)

Advances secured by mortgage

Advances secured by mortgage are valued on the following basis:

Mortgages subject to impairment are removed from consideration. The remaining mortgages are subject to the following processes:

- For those advances where the variable rate is able to be adjusted to take account of changed credit risk within the mortgage portfolio (mainly residential mortgages), the projected future cash flows are discounted at the current variable rate. These advances will, therefore, have a fair value equating to their nominal value except to the extent that the individual advances are subject to an unexpired fixed interest rate term.
- For those advances where the variable rate is not able to be adjusted to take account of changed credit risk, the projected future cash flows, reflecting the terms of the individual contracts, are discounted at the current quoted variable rate which reflects adjusted perception of credit risk. To the extent that the current rate reflects a credit margin greater than that which can be contractually imposed, a difference will arise between nominal value and fair value.
- Additional factors have been taken into account, including an increment to reflect transaction cost avoidance and decrements to reflect potential volatility and illiquidity.

Liabilities to clients – call or short term

The fair value of liabilities to clients at call is equivalent to the carrying value. Due to the short-term nature of the instruments, the fair value is assumed to equate to the carrying value.

Liabilities to clients – term deposits

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

- Deposits are aggregated into convenient groupings by month.
- The cash flows of each group are determined and then discounted at the relevant benchmark interest rate prevailing at balance date.

Derivatives

The fair value of derivatives is based on quoted market prices, discounted cash flows or option pricing models as appropriate.

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

24 Fair value (continued)

Group 2010	FAIR VALUE THROUGH PROFIT OR LOSS (DESIGNATED ON INITIAL RECOGNITION) CARRYING VALUE $000	FAIR VALUE THROUGH PROFIT OR LOSS (DESIGNATED ON INITIAL RECOGNITION) FAIR VALUE $000	FAIR VALUE THROUGH PROFIT OR LOSS (HELD FOR TRADING) CARRYING VALUE $000	FAIR VALUE THROUGH PROFIT OR LOSS (HELD FOR TRADING) FAIR VALUE $000
Financial assets				
Cash and cash equivalents	-	-	-	-
Investment securities	437,572	437,572	-	-
Derivative financial instruments	-	-	66	66
Advances to clients	-	-	-	-
Trade receivables	-	-	-	-
Advances secured by mortgages	-	-	-	-
Total financial assets	**437,572**	**437,572**	**66**	**66**
Financial liabilities				
Liabilities to clients - at call or short term	-	-	-	-
Liabilities to clients - term deposits	-	-	-	-
Trade payables	-	-	-	-
Derivative financial instruments	-	-	7,162	7,162
Total financial liabilities	**-**	**-**	**7,162**	**7,162**

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

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

HEDGE ACCOUNTING		LOANS AND RECEIVABLES		FINANCIAL LIABILITIES AT AMORTISED COST		TOTAL	
CARRYING VALUE $000	FAIR VALUE $000	CARRYING VALUE $000	FAIR VALUE $000	CARRYING VALUE $000	FAIR VALUE $000	CARRYING VALUE $000	FAIR VALUE $000
-	-	26,526	26,526	-	-	26,526	26,526
-	-	188,120	189,312	-	-	625,692	626,884
2,319	2,319	-	-	-	-	2,385	2,385
-	-	8,694	8,694	-	-	8,694	8,694
-	-	5,051	5,051	-	-	5,051	5,051
-	-	241,448	240,823	-	-	241,448	240,823
2,319	**2,319**	**469,839**	**470,406**	**-**	**-**	**909,796**	**910,363**
-	-	-	-	436,231	436,231	436,231	436,231
33,278	33,270	-	-	412,529	413,844	445,807	447,114
-	-	-	-	2,528	2,528	2,528	2,528
1,485	1,485	-	-	-	-	8,647	8,647
34,763	**34,755**	**-**	**-**	**851,288**	**852,603**	**893,213**	**894,520**

HEDGE ACCOUNTING		LOANS AND RECEIVABLES		FINANCIAL LIABILITIES AT AMORTISED COST		TOTAL	
CARRYING VALUE $000	FAIR VALUE $000	CARRYING VALUE $000	FAIR VALUE $000	CARRYING VALUE $000	FAIR VALUE $000	CARRYING VALUE $000	FAIR VALUE $000
-	-	11,592	11,592	-	-	11,592	11,592
-	-	97,381	97,647	-	-	762,733	762,999
2,808	2,808	-	-	-	-	3,682	3,682
-	-	6,267	6,267	-	-	6,267	6,267
-	-	4,445	4,445	-	-	4,445	4,445
-	-	292,322	299,707	-	-	292,322	299,707
2,808	**2,808**	**412,007**	**419,658**	**-**	**-**	**1,081,041**	**1,088,692**
-	-	-	-	479,792	479,792	479,792	479,792
41,129	41,125	-	-	563,834	566,633	604,963	607,758
-	-	-	-	2,872	2,872	2,872	2,872
3,863	3,863	-	-	-	-	14,133	14,133
44,992	**44,988**	**-**	**-**	**1,046,498**	**1,049,297**	**1,101,760**	**1,104,555**

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

24 Fair value (continued)

Parent 2010	FAIR VALUE THROUGH PROFIT OR LOSS (DESIGNATED ON INITIAL RECOGNITION)		FAIR VALUE THROUGH PROFIT OR LOSS (HELD FOR TRADING)	
	CARRYING VALUE $000	FAIR VALUE $000	CARRYING VALUE $000	FAIR VALUE $000
Financial assets				
Cash and cash equivalents	-	-	-	-
Investment securities	437,572	437,572	-	-
Derivative financial instruments	-	-	66	66
Advances to clients	-	-	-	-
Trade receivables	-	-	-	-
Due from subsidiary	-	-	-	-
Advances secured by mortgages	-	-	-	-
Total financial assets	**437,572**	**437,572**	**66**	**66**
Financial liabilities				
Liabilities to clients - at call or short term	-	-	-	-
Liabilities to clients - term deposits	-	-	-	-
Trade payables	-	-	-	-
Derivative financial instruments	-	-	7,162	7,162
Loan from subsidiary	-	-	-	-
Total financial liabilities	**-**	**-**	**7,162**	**7,162**

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

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

HEDGE ACCOUNTING		LOANS AND RECEIVABLES		FINANCIAL LIABILITIES AT AMORTISED COST		TOTAL	
CARRYING VALUE $000	FAIR VALUE $000	CARRYING VALUE $000	FAIR VALUE $000	CARRYING VALUE $000	FAIR VALUE $000	CARRYING VALUE $000	FAIR VALUE $000
-	-	26,505	26,505	-	-	26,505	26,505
-	-	188,120	189,312	-	-	625,692	626,884
2,319	2,319	-	-	-	-	2,385	2,385
-	-	8,694	8,694	-	-	8,694	8,694
-	-	4,401	4,401	-	-	4,401	4,401
-	-	119	119	-	-	119	119
-	-	241,448	240,823	-	-	241,448	240,823
2,319	**2,319**	**469,287**	**469,854**	**-**	**-**	**909,244**	**909,811**
-	-	-	-	436,231	436,231	436,231	436,231
33,278	33,270	-	-	412,529	413,844	445,807	447,114
-	-	-	-	2,427	2,427	2,427	2,427
1,485	1,485	-	-	-	-	8,647	8,647
-	-	-	-	6,315	6,315	6,315	6,315
34,763	**34,755**	**-**	**-**	**857,502**	**858,817**	**899,427**	**900,734**

HEDGE ACCOUNTING		LOANS AND RECEIVABLES		FINANCIAL LIABILITIES AT AMORTISED COST		TOTAL	
CARRYING VALUE $000	FAIR VALUE $000	CARRYING VALUE $000	FAIR VALUE $000	CARRYING VALUE $000	FAIR VALUE $000	CARRYING VALUE $000	FAIR VALUE $000
-	-	11,575	11,575	-	-	11,575	11,575
-	-	97,381	97,647	-	-	762,733	762,999
2,808	2,808	-	-	-	-	3,682	3,682
-	-	6,267	6,267	-	-	6,267	6,267
-	-	3,881	3,881	-	-	3,881	3,881
-	-	292,322	299,707	-	-	292,322	299,707
2,808	**2,808**	**411,426**	**419,077**	**-**	**-**	**1,080,460**	**1,088,111**
-	-	-	-	479,792	479,792	479,792	479,792
41,129	41,125	-	-	563,834	566,633	604,963	607,758
-	-	-	-	2,793	2,793	2,793	2,793
3,863	3,863	-	-	-	-	14,133	14,133
-	-	-	-	5,773	5,773	5,773	5,773
44,992	**44,988**	**-**	**-**	**1,052,192**	**1,054,991**	**1,107,454**	**1,110,249**

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

24 Fair value (continued)

Group & Parent	2010 $000
Level 1	
Assets	
Investment securities	
Banks	100,542
Corporates	51,506
Total for level 1 assets	**152,048**
Level 2	
Assets	
Investment securities	
Local authorities	80,089
Banks	20,155
State owned enterprises	8,057
Crown entities	4,126
Corporates	20,972
Derivative financial instruments	
Interest rate swaps	
Held for trading	35
Cash flow hedge accounted	2
Fair value hedge accounted	2,317
Forward rate agreements	31
Total for level 2 assets	**135,784**
Liabilities	
Derivative financial instruments	
Interest rate swaps	
Held for trading	209
Economically hedged	6,940
Cash flow hedge accounted	1,485
Forward rate agreements	13
Total for level 2 liabilities	**8,647**

Group & Parent	2010 $000
Level 3	
Assets	
Investment securities	
Mortgage backed securities	72,268
Corporates	79,857
Total for level 3 assets	**152,125**
Level 3 reconciliation	
Opening balance	227,247
Total gains/(losses) recognised in profit or loss[1]	3,846
Movement in amortisation	(266)
Movement in accrued interest	(293)
Purchases	305,276
Sales	(64,368)
Maturities	(319,317)
Transfers into or out of level 3	-
Closing balance	**152,125**
Total unrealised gains/(losses) for assets held at balance date[1]	3,631

[1] Recognised within net gains/losses on financial assets/liabilities at fair value through profit or loss designated upon initial recognition (note 26).

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

Group & Parent	2010 $000
10 points change in credit margin	263
90 days increase in weighted average life	1,292

Comparatives are not required to be disclosed for the fair value hierarchy note in the first year of application of amendments to NZ IFRS 7 *Financial Instruments: Disclosures.*

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

25 Other price risk

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

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

Credit spreads

The Group holds a number of investments in bonds and other interest bearing securities. The value of these instruments is a function of underlying interest rates plus a credit margin. A reasonably possible change in credit margins is approximately 10 basis points, although under extreme circumstances this could be significantly more, as has happened in the last year when credit margins decreased on average 100 basis points. The following table presents by classes of investment securities, the effect on profit or loss and therefore equity if there was a change in the credit margin of 10 basis points.

Group & Parent	2010 $000	2009 $000
Local authorities	129	231
Banks	123	286
State owned enterprises	7	3
Crown entities	1	-
Mortgage backed securities	135	254
Corporates	331	405
	726	**1,179**

Prepayment pattern

The Group holds a number of investments in which the issuer has the right to repay earlier than the contractual repayment term. A factor in the valuation of such instruments is the expected pattern of repayment due to the exercise of this right. If the period shortens there is a gain and if it lengthens there is a loss. For every 90 days that the actual repayment pattern differs from the anticipated pattern there will be a change in value of $532,000 (2009: $941,000).

In 2009 the change in value was based on one month. This has changed to 90 days because the repayment term for some investments has increased in 2010, therefore a month change in repayment period would not have provided a proper comparison with 2009.

All of the above values are stated on a pre-tax basis as there is no taxation payable in the current year. It is considered that the same basis apply for the comparative year to enable a proper comparison to be made.

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

26 Revenues arising and expenses incurred in arriving at profit or loss

In addition to the items reported in the Statement of Comprehensive Income, profit or loss is stated after charging or crediting the following:

	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Fees and other revenue				
Fees from trust and other fiduciary activities	35,371	31,399	33,175	29,245
Fees from other services	7,610	8,609	9,153	10,052
Other revenue	1,495	910	1,125	631
Financial assets and financial liabilities not at fair value through profit or loss				
Interest revenue	26,777	28,632	26,777	28,632
Interest expense	(27,209)	(61,104)	(27,425)	(61,380)
Fee revenue	528	1,569	528	1,569
Fee expense	(122)	(203)	(122)	(203)
Net gains (losses)				
Financial assets/liabilities fair value through profit or loss				
Designated on initial recognition	8,116	(21,456)	8,116	(21,456)
Held for trading	2,158	(7,560)	2,158	(7,560)
Loans and receivables	(165)	-	(165)	-

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

Expenses	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Audit fees	243	234	238	229
Audit fees for non-consolidated managed funds	129	105	129	105
Other fees paid to auditors	47	50	47	50
Litigation settlement	222	29	222	29
Donations	20	13	20	13
Contribution to defined contribution plans	388	569	388	569
Fees on trust and other fiduciary activities	1,155	925	1,155	925

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

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

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

Employee remuneration

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

Remuneration band	GROUP & PARENT 2010 NUMBER OF EMPLOYEES	GROUP & PARENT 2009 NUMBER OF EMPLOYEES
$100,000 to $109,999	21	30
$110,000 to $119,999	19	11
$120,000 to $129,999	5	7
$130,000 to $139,999	8	4
$140,000 to $149,999	5	6
$150,000 to $159,999	3	3
$160,000 to $169,999	2	4
$170,000 to $179,999	4	1
$180,000 to $189,999	-	1
$190,000 to $199,999	1	-
$200,000 to $209,999	-	2
$210,000 to $219,999	1	-
$230,000 to $239,999	1	1
$240,000 to $249,999	1	1
$250,000 to $259,999	1	2
$410,000 to $419,999	1	-
$460,000 to $469,999	-	1

Remuneration is inclusive of payments for leave entitlements and, for those employees who left Public Trust's service during the year, exclusive of any compensation or other benefits paid in respect of employment cessation.

Key management personnel

Key management personnel comprises 11 (2009:10) members of the Board and 9 (2009:7) employees in the Executive Leadership Team.

Key management personnel compensation comprises:	GROUP & PARENT 2010 $000	GROUP & PARENT 2009 $000
Short-term employee benefits	2,177	2,055
Post-employment benefits	19	3
Other long-term benefits	-	-
Termination benefits	56	-
	2,252	**2,058**

Within post-employment benefits are contributions of $19,000 (2009: $3,000) to defined contribution plans.

Employment cessation payments

During the year, 48 employees received or will receive $1,747,000 (2009: 33 employees received a total of $1,334,000) relating to the cessation of their employment with Public Trust.

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

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

	GROUP & PARENT 2010		GROUP & PARENT 2009	
Remuneration paid or payable to Board members:	BOARD $000	SUB-COMMITTEE $000	BOARD $000	SUB-COMMITTEE $000
Donal Curtin[1]	35	-	42	-
Trevor Janes[2]	25	1	1	-
Robin Hill	26	5	26	5
Candis Craven[3]	21	4	21	2
David Edwards[4]	-	-	18	1
Rodger Finlay[2]	21	1	1	-
Sue McCormack[5]	4	-	-	-
Fiona Oliver[6]	14	1	-	-
Fiona Pimm[7]	7	-	21	-
Hinerangi Raumati[6]	14	1	-	-
Sarah Roberts	21	6	21	1
Hon. Matthew Robson[4]	-	-	18	1
Murray Weatherston[7]	7	2	21	11
	195	**21**	**190**	**21**

1 Retired in April 2010
2 Appointed in June 2009
3 Appointed in January 2008
4 Retired in April 2009
5 Appointed in May 2010
6 Appointed in November 2009
7 Retired in October 2009

Insurance and indemnities

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

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

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

27 Tax expense (benefit)

	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Profit (loss) before tax	4,818	(47,319)	3,945	(48,191)
Cash flow hedging reserve movement	2,275	(4,780)	2,275	(4,780)
	7,093	**(52,099)**	**6,220**	**(52,971)**
Income tax at 30%	2,128	(15,630)	1,866	(15,891)
Add (deduct) tax effect of temporary differences				
Non-deductible expenses	25	53	25	53
Non-taxable income	(11)	(11)	(11)	(11)
Prior period adjustment	(395)	132	(395)	132
Deferred tax expense relating to temporary differences	(460)	1,038	(460)	1,038
Deferred tax arising from losses written off	133	13,116	395	13,377
Deferred tax arising from change in tax rate from 30% to 28%	1,237	-	1,237	-
Utilisation of losses	(1,975)	-	(1,975)	-
Utilisation of losses by transfer to subsidiary	-	-	(262)	(261)
	682	**(1,302)**	**420**	**(1,563)**
Tax effect of movement in the cash flow hedging reserve	(682)	1,434	(682)	1,434
Tax expense (benefit)	**-**	**132**	**(262)**	**(129)**
Tax expense comprises:				
Current tax	-	-	-	-
Prior period adjustment	-	132	-	132
Deferred tax expense relating to temporary differences	460	(1,038)	460	(1,038)
Deferred tax non-recognition in respect to temporary differences	(460)	1,038	(460)	1,038
Deferred tax arising from losses	(133)	(13,116)	(395)	(13,377)
Deferred tax non-recognition in respect to losses	133	13,116	395	13,377
Utilisation of losses by transfer to subsidiary	-	-	(262)	(261)
Tax expense (benefit)	**-**	**132**	**(262)**	**(129)**

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

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

	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Profit (loss) after tax	**4,818**	**(47,451)**	**4,207**	**(48,062)**
Items relating to property, plant & equipment				
Depreciation	1,984	1,944	1,984	1,944
(Gains) losses on disposal of property, plant & equipment	25	99	25	99
GST on capital payables	(30)	(94)	(30)	(94)
Items relating to intangibles				
Amortisation	196	195	196	195
Items relating to investment in subsidiary				
Management fee accrual	-	-	(119)	1,695
Subsidiary's utilisation of tax losses from the Parent	-	-	(262)	(261)
Items relating to non-trading financial assets and financial liabilities				
Realised (gains) losses on disposal	407	(942)	407	(942)
Unrealised (gains) losses	(8,369)	22,334	(8,369)	22,334
Amortisation of premiums and discounts	3,394	(159)	3,394	(159)
Movement in accrued interest	(5,276)	(1,249)	(5,276)	(1,249)
Movement in impairment allowances	(3,771)	8,161	(3,771)	8,161
Write off of advances secured by mortgage	7,241	6,589	7,241	6,589
Movement in amortisation of origination fees and transaction costs	(50)	(156)	(50)	(156)
Other items				
(Increase) decrease in trading derivative assets	810	12	810	12
(Increase) decrease in trade receivables	(650)	(377)	(564)	(380)
(Increase) decrease in sundry receivables	59	7	59	7
(Increase) decrease in prepayments	(359)	467	(359)	467
(Increase) decrease in current tax	(56)	176	(56)	176
Increase (decrease) in trade payables	(158)	(95)	(180)	(143)
Increase (decrease) in other payables	(23)	118	(23)	118
Increase (decrease) in trading derivative liabilities	(3,108)	9,980	(3,108)	9,980
Increase (decrease) in prepaid income	(58)	(65)	-	-
Increase (decrease) in employee benefits	270	(177)	270	(177)
Increase (decrease) in provisions	(641)	(15)	(579)	(85)
Net cash flows from operating activities	**(3,345)**	**(698)**	**(4,153)**	**69**

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

29 Related parties

Crown-related parties

By virtue of ownership the Crown is considered to have significant influence over Public Trust (refer to Governance section). 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 $4.3 million (2009: $4.5 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 subsidised by the Crown to ensure that, among other things, reasons of affordability do not prevent or preclude New Zealanders from obtaining key services relating to the management of their estates and personal affairs. The Statement of Service Performance reports against these outputs. Payment for these services is managed by the Ministry of Justice on behalf of the Crown.

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

Group & Parent 2010	NET INTEREST REVENUE $000	PURCHASES $000	SALES/ MATURITIES $000
New Zealand Government	96	37,044	42,112
State owned enterprises	4,289	265,506	137,500
Crown entities	142	4,151	-
	4,527	**306,701**	**179,612**
Group & Parent 2009			
New Zealand Government	217	19,737	18,000
State owned enterprises	472	47,394	42,845
	689	**67,131**	**60,845**

Group Investment Funds

Public Trust manages 32 (2009: 29) Group Investment Funds and this management relationship confers significant influence on the funds. During the year three Group Investment Funds and four portfolio investor proxies (PIP) were established. The PIP are bare trusts where certain unit holders invest through a nominee company, Public Trust Charitable Nominee Limited (the Nominee Company). The Nominee Company is a wholly owned subsidiary of Public Trust and holds investments in the investing funds on behalf of unit holders.

The following specific transactions took place during the year in relation to the Group Investment Funds.

Group & Parent	2010 $000	2009 $000
Reimbursement of expenses	1,494	1,463
Management fee received	3,734	3,658
Interest paid	3	6
Interest received	11	29
Receivable at balance date	15	14
Total bank balances with the Common Fund at balance date	33	136

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

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

29 Related parties (continued)

New Zealand Permanent Trustees Limited

New Zealand Permanent Trustees Limited is a wholly owned subsidiary of Public Trust. The amounts outstanding at balance date are shown in the Parent's Statement of Financial Position. Public Trust receives a management fee from New Zealand Permanent Trustees Limited for services provided. For the year ended 30 June 2010, this was $1,543,000 (2009: $1,443,000). All transactions between Public Trust and New Zealand Permanent Trustees Limited were on normal terms and conditions. They are fully eliminated on consolidation. No outstanding amounts have been written down or provided for, as they are considered fully collectible.

Public Trust Office Superannuation Fund

The Trustees of the Public Trust Office Superannuation Fund (PTSF) wound up the fund following a resolution made by Public Trust under the Trust Deed. The PTSF ceased receiving contributions from 1 July 2009 and members received their withdrawal entitlements under the Trust Deed during the year. The PTSF was administered by Mercer Human Resource Consulting.

The PTSF is a related party of Public Trust by virtue of the appointment of the PTSF's trustees. Public Trust could appoint up to two (out of five) trustees. There are no remunerated transactions between Public Trust and the PTSF. The PTSF was open to all salaried employees at Public Trust.

Key management personnel

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

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

Group & Parent	2010 $000	2009 $000
Closing balance	595	395
Interest paid during the year	53	35

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 *Financial Statements (continued)*

For the year ended 30 June 2010

30 Comparison of budget to actual

Assets and liabilities

Liabilities to clients decreased by $202.8 million compared with a budgeted decrease of $120.6 million. There has been a reduction in the size of the Common Fund which has been due to efforts to reduce risk in line with Public Trust strategy and also an increase in the competition for retail deposits.

Revenue

Revenue was $1.0 million below budget reflecting disruption experienced due to the implementation of the change programme. Fee-earning revenue was above budgeted levels, representing an increase of $3.8 million over the previous year. Management and corporate fee revenues were both above budget. However, this was offset by below-budget Personal and Business fee revenue across most products.

Expenses

Employee benefits exceeded budget as restructuring expenses arising from implementation of the change programme were $2.5 million higher than anticipated and annual leave accruals were above budget.

Impairment losses on advances secured by mortgage

Mortgage losses were above budget. Individual and collective impairment allowances have continually been assessed and adjusted to reflect changing conditions.

Investment gains

Investment gains were $10.1 million above budget as unrealised investment losses recognised in the previous two financial years have started to reverse due to significant improvement in credit market conditions. Public Trust policy is to hold securities to maturity and further losses from prior years will reverse to profit when the investment securities mature.

Profit and equity

Profit before change programme costs, mortgage impairment losses and investment losses was $0.5 million below budget mainly as a result of restructuring costs associated with the change programme. The Crown contributed further capital of $30 million during the year and this has improved the equity position. Public Trust has a capital shortfall against both existing and NBDT guidelines and reserves are being built through organic growth.

Cash flows

Cash flows from operating activities before net flows from trading investments were $4.9 million below budget reflecting higher than budgeted costs primarily relating to the change programme, and a lower than budgeted net interest margin as a result of increased competition in the retail deposit sector.

Net cash inflows from investing activities were $110.6 million above budget reflecting disposal of investment securities to fund net client withdrawals of $87 million and higher than budgeted cash and cash equivalents at balance date.

Notes to the *Financial Statements (continued)*

For the year ended 30 June 2010

31 Post balance date events

The issuer of a financial asset carried at fair value at 30 June 2010 was placed in receivership on 31 August 2010. Subsequently the Crown indicated that the asset would be covered by the Government Deposit Guarantee Scheme and repaid in full. The resultant revaluation gain as at 31 August 2010 was $642,000.

Statement of *Service Performance*

For the year ended 30 June 2010

The principal functions of Public Trust are to carry out the duties prescribed in the Public Trust Act 2001. Public Trust and the Responsible Minister (with the agreement of the Minister of Finance) have entered into an output agreement in respect of the 2009/10 financial year. Under that agreement certain non-commercial services are either paid for or subsidised by the Crown to ensure that, among other things, reasons of affordability do not prevent or preclude New Zealanders from obtaining key services relating to the management of their estates and personal affairs. Payment for these services is managed by the Ministry of Justice on behalf of the Crown.

The non-commercial services provided by Public Trust under the output agreement are classified as Provision of Protective Fiduciary Services, and defined as follows:

(a) advice on Wills and the preparation of Wills

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

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

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

(e) other non-commercial public functions.

Performance criteria are contained in the output agreement. The description of each output and the key performance measures for the year to 30 June 2010 are set out below. Quality and timeliness measures stated in the Statement of Intent refer to general performance criteria only (i.e. that services will comply with legislation, regulatory and industry standards). These are supported by more specific measures for each output in the Memorandum of Understanding, and these measures are reported on below.

Output Class: Provision of Protective Fiduciary Services

Output 1: Wills advice and preparation

Description

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

Performance criteria

Quantity

PERFORMANCE MEASURE	ACHIEVEMENT
8,000 new and 16,000 revised Wills made appointing Public Trust as executor.	Achieved. 9,198 new Wills. Not achieved. 14,642 revised Wills.

Quality and timeliness

PERFORMANCE MEASURE	ACHIEVEMENT
Standards are set through the computerised Wills Expert System (WES) and documented in Wills making “best practice”. Customer satisfaction research reviewed once per year and on any changes to legislation.	Reviewed quarterly.
Internal legal audit of 25 Wills per month will be undertaken with an error rate of no more than one requiring rewriting.	340 Wills checked with 4 Wills requiring redrafting.
Customer satisfaction rating of >8.0 (range: 1 = poor, 10 = excellent).	Average of 7.4 Quarter 1 7.4, Quarter 2 8.1, Quarter 3 7.1 and Quarter 4 7.0
95% of Wills will be available for signing within seven days of taking instructions.	94.5% of Wills available for signing within seven days.

Statement of *Service Performance (continued)*

For the year ended 30 June 2010

Output 2: Protection of Personal and Property Rights Non-Commercial Services

Description

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

Performance criteria

Quantity

PERFORMANCE MEASURE	ACHIEVEMENT
6,500 actions and 7,600 hours administering financial affairs under the Protection of Personal and Property Rights Act.	6,707 actions. 6,729 hours.
2,500 hours of private manager examinations.	3,400 hours.

Quality and timeliness

PERFORMANCE MEASURE	ACHIEVEMENT
Administration of financial affairs: 95% reappointment as manager following review of management by Family Court.	100% reappointment following review.
Administration of financial affairs: no complaints from relatives and caregivers, relating to individual interests of the beneficiaries.	No complaints received in this category.
Examination of Private Manager Statements: no complaints received for late filing of Private Manager Statements to Courts.	Achieved.

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

Description

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

Performance criteria

Quantity

PERFORMANCE MEASURE	ACHIEVEMENT
1,300 enquiries on behalf of incapacitated persons.	1,305 enquiries.
1,200 hours spent providing services on behalf of incapacitated persons.	609 hours spent providing service on behalf of incapacitated persons.

Quality and timeliness

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

Statement of *Service Performance (continued)*

For the year ended 30 June 2010

Output 4: Small estates and trusts

Description

Administration of small and/or complex estates and trusts for which reasonable charges do not cover costs. Providing advice and assistance to deal with assets that do not warrant formal administration, whether or not a Will has been made.

Performance criteria

Quantity

PERFORMANCE MEASURE	ACHIEVEMENT
1,000 new estates and 7,500 continuing estates.	2,205 new estates. 5516 continuing estates.
7,500 hours (or corresponding volumes) spent administering small and/or complex estates and trusts administered.	6,013 hours spent administering small and/or complex estates and trusts.
800 hours spent providing advice on small and/or complex estates and trusts.	4,116 hours spent providing advice on small and/or complex estates and trusts.
1,300 automated tax returns.	414 tax returns.

Quality and timeliness

PERFORMANCE MEASURE	ACHIEVEMENT
90% compliance with Public Trust processes, Best Practice standards and Output Agreement Charging Policies – to be assessed by a review process of a random sample of three contract files per Customer Services Officer per quarter.	100% of the audit process undertaken by experienced accountant on all files to ensure compliance with charging policies.
Beneficiary satisfaction rating of >8.0 (range: 1 = poor, 10 = excellent)	No longer measured.
All enquiries will be acknowledged within five days of receipt.	6,002 enquiries answered promptly and within the defined time frames.
Urgent cases will be responded to within one working day.	6,002 enquiries answered promptly and within the defined time frames.
95% of complex cases will be actioned within five working days.	100% of complex cases were actioned/commenced within defined time frame.

Output 5: Administration of assets and other public functions

Description

Representation, audit, review, administration of the assets of missing, unknown or incapable owners arising from Parts 7 & 8 of the Public Trust Act 2001 and several other statutes that represent a public function, for which Public Trust has no prospect of being paid or charges are insufficient to cover costs.

Performance criteria

Quantity

PERFORMANCE MEASURE	ACHIEVEMENT
10 hours spent providing services involving public functions in relation to assets and rights of missing, unknown or incapable persons.	42 hours spent providing services.
10 contracts providing services involving public functions in relation to assets and rights of missing, unknown or incapable persons.	66 contracts.

Quality and timeliness

PERFORMANCE MEASURE	ACHIEVEMENT
98% compliance with agreed mandatory aspects of administration of assets and other public functions.	No longer measured.

Outputs 1-5: Location and accessibility

PERFORMANCE MEASURE	ACHIEVEMENT
Staff will be available nationally during normal business hours.	Achieved.
Website will be available 24 hours per day with no more than 0.5% downtime.	Total downtime of 0.3%.
0800 phone lines available during normal business hours.	Achieved. 0% downtime.

Outputs 1-5: Appropriation (GST exclusive)

BUDGET	ACHIEVEMENT
Total appropriation $4,500,000	Cost to the Crown $4,254,000
Expenses incurred (includes direct and allocated overhead costs and based on forecast volumes for 2009/10) $11,700,000	$8,626,000

Chartered Accountants

Audit *Report*

TO THE READERS OF PUBLIC TRUST AND GROUP'S FINANCIAL STATEMENTS AND STATEMENT OF SERVICE PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2010

The Auditor-General is the auditor of Public Trust and Group. The Auditor-General has appointed me, Warren Allen, using the staff and resources of Ernst & Young, to carry out the audit on her behalf. The audit covers the financial statements and statement of service performance included in the annual report of Public Trust and Group for the year ended 30 June 2010.

Unqualified opinion

In our opinion:

- The financial statements of Public Trust and Group on pages 30 to 94:
  - comply with generally accepted accounting practice in New Zealand; and
  - fairly reflect:
    - Public Trust and Group's financial position as at 30 June 2010; and
    - the results of operations and cash flows for the year ended on that date.
- The statement of service performance of Public Trust and Group on page 28 and pages 95 to 97:
  - complies with generally accepted accounting practice in New Zealand; and
  - fairly reflects for its output class:
    - standards of delivery performance achieved, as compared with the forecast standards outlined in the statement of forecast service performance adopted at the start of the financial year; and
    - actual revenue earned and output expenses incurred, as compared with the forecast revenues and output expenses outlined in the statement of forecast service performance adopted at the start of the financial year.

The audit was completed on 24 September 2010, and is the date at which our opinion is expressed.

The basis of our opinion, which refers to disclosures about the value of unlisted mortgage backed securities, is explained below. In addition, we outline the responsibilities of the Board and the Auditor, and explain our independence.

Basis of opinion

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

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

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

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

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Board;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement and statement of service performance disclosures are adequate.

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

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

Chartered Accountants

Disclosures about the value of unlisted mortgage backed securities

In forming our unqualified opinion, we considered the adequacy of the disclosures in note 24 on page 78 about the value of unlisted mortgage backed securities of $29.3 million for which there is not an active liquid market and for which no quoted price is available. Although the fair value of these investments is based on the best available information, in the absence of an active, liquid market and quoted market prices, a high degree of uncertainty exists about that value which could have a material effect on the Statement of Comprehensive Income and Statement of Financial Position. We consider the disclosures to be adequate.

Responsibilities of the Board and the Auditor

The Board is responsible for preparing financial statements and a statement of service performance in accordance with generally accepted accounting practice in New Zealand. The financial statements must fairly reflect the financial position of Public Trust and Group as at 30 June 2010 and the results of operations and cash flows for the year ended on that date. The statement of service performance must fairly reflect, for each class of outputs, Public Trust and Group's standards of delivery performance achieved and revenue earned and expenses incurred, as compared with the forecast standards, revenue and expenses adopted at the start of the financial year. The Board's responsibilities arise from the Crown Entities Act 2004 and the Public Trust Act 2001.

We are responsible for expressing an independent opinion on the financial statements and statement of service performance and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and the Crown Entities Act 2004.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

In addition to the audit of Public Trust, we have carried out the audit assignments of the Public Trust Investment Funds and Group Investment Funds, the completion of agreed upon procedures in relation to the Public Trust Investment Funds and a review of the Public Trust Investment Funds prospectus. Other than the audit and these assignments, we have no relationship with or interests in Public Trust or any of its subsidiaries.

Warren Allen

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

24 September 2010

Directory

Shareholders

The Minister of Justice (Hon Simon Power)
and Minister of Finance (Hon Bill English)

Board

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

Executive Leadership Team

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

Registered office

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info@publictrust.co.nz **www.publictrust.co.nz**

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

www.publictrust.co.nz