Public Trust

Statement of Intent

For the financial years ending 30 June 2011 through 30 June 2013

June 2010

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Appendices

Chairman's Foreword

We present the 2010/11 Statement of Intent (SOI) for Public Trust.

Business Transformation in a Changing Environment

Public Trust has recognised that a fundamental transformation is required to ensure the financial sustainability of the organisation, and is part way through a Change Programme which commenced in 2007.

Our 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.

Whilst requiring significant investment, the Change Programme has improved organisational capability and is delivering tangible results including year-on-year growth in core fee revenue. High customer satisfaction levels are being sustained and increasing sales volumes realised as a result of the Programme, indicating that we are on the right path to deliver enhanced value for both the Crown and our customers.

The regulatory environment in which Public Trust operates is undergoing significant change. Public Trust is required to comply with most aspects of the Non Bank Deposit Takers (NBDT) regime and a programme of work is well underway. Similarly, a programme of work is progressing to ensure that Public Trust meets the requirements of the Financial Advisers Act 2008 (FAA) and the Financial Service Providers (Registration and Dispute Resolution) Act 2008 within the required timeframe of July 2011. The organisation is implementing a new advice offering, together with a redesigned sales process, to better meet our customers' estate and financial planning needs.

The regulatory changes represent a significant opportunity for Public Trust to leverage current capabilities and further enhance the customer experience and product choice. Embracing regulatory change will also create the opportunity to improve overall competitive positioning.

In 2010/11, the Change Programme will be focused on delivering the following outcomes:

- A continuing improvement in people capability;
- Productivity gains from process improvements;
- Enhancing the customer experience to better meet their needs and build stronger relationships;
- Improving operating performance by focusing on core trustee revenue increases and tightly managing costs; and
- Leveraging regulatory requirements to gain competitive advantage through the introduction of new product and service offerings to meet customer needs.

Public Trust has contractual arrangements in place with the Ministry of Justice to provide non-commercial protective fiduciary services, including free wills. A review of these arrangements is nearing completion and will confirm the range and extent of non-commercial services the Crown wishes to purchase from Public Trust. The outputs in the Statement of Forecast Service Performance reflect the services purchased by the Crown.

Performance

Financial performance for the 2007/08 and 2008/09 years was dominated by substantial Common Fund investment losses which occurred as a result of the impact of the global economic crisis. Principal areas of loss have arisen from mortgage write-downs and mark-to-market valuation changes on interest bearing and mortgage-backed securities.

During the 2009/10 financial year, there has been an improvement in financial performance, with a net profit of $3.7 million reported for the six months to December 2009 compared with an $11.3 million deficit for the same period in 2008/09. The improvement resulted primarily from the reversal of previously recorded unrealised investment losses. Notwithstanding this, Public Trust's strategy of focusing on enhancing products and customer service has resulted in an increase in core fee revenue during the first half of the 2009/10 financial year. Year-on-year productivity gains of around 10% have been achieved by our customer servicing employees. Costs are being contained as a result of controls over personnel and other operating costs and there has been a reduction in mortgage impairments.

Public Trust's overall equity position has been somewhat restored over the period as a result of the $30 million of additional capital provided by the Crown in August 2009 and improved financial results. The Board remains committed to continuing to build capital to ensure that Public Trust has an appropriate capital structure and complies with the NBDT regime requirements.

The planning period sees a continued improvement in core operating performance, investment in the Change Programme and the expected reversal of unrealised mark-to-market investment losses. A strong growth in core trustee revenues and the ongoing management of operating costs is offset in the short-term by an expected continued decline in Common Fund margin. The decrease in Common Fund margin is due to both market conditions and the implementation of a strategy to reduce investment risks. The 2010/11 performance is impacted by a continued decline in Common Fund revenues, the revenue and cost impact of FAA implementation and a reduction in Investment Gains over the 2009/10 year offset by the continued improvement in fee revenues.

Outlook

Indicators show there are signs of a modest recovery globally and in New Zealand. A large proportion of the continued risks and uncertainties around the economic outlook for New Zealand are associated with global economic trends, especially in relation to financial markets. Ongoing volatility in property and investment markets will continue to create uncertainty during 2010/11.

Public Trust faces a number of significant challenges in the magnitude of the organisational change required and in effectively responding to external factors such as the high level of regulatory change underway.

We are confident that Public Trust can make positive progress to better meet New Zealanders' trustee needs.

On behalf of the Board,

Trevor D Janes

Chair

Robin Hill

Deputy Chair

30 June 2010

1 Profile of Public Trust

Purpose and statutory objectives

Public Trust's primary purpose is:

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

In fulfilling the functions which support its purpose, Public Trust is required, under the Public Trust Act 2001, to have the principal objective of operating as an effective business, and, to this end:

- Be as efficient as comparable businesses that are not owned by the Crown;
- Prudently manage its assets and liabilities;
- Maintain financial viability in the long term;
- Be a good employer; and
- Be an organisation that exhibits a sense of social responsibility by having regard to the interests of the communities in which it operates.

Vision

Public Trust's vision is to be the leader in the trustee services market.

Values

Public Trust's success depends on adherence to the following fundamental values:

- Understanding – through understanding and empathy we put our customers first.
- Dependable – we will always be there, doing what we say we will do.
- Proactive – we constantly look for new ideas and ways to help.
- United – we are one team supporting each other.
- Commercial – we act commercially with a heart.

What we do

Public Trust is New Zealand's largest and oldest trustee organisation, set up in 1873 with a unique mandate to protect the future of New Zealanders. Public Trust offers independent, professional advice and a wide range of legal and financial services to New Zealanders at different stages of their lives, and assists with carrying out their wishes after they have died.

In these capacities, Public Trust works with a range of customers, including charitable trust and term estates, managing their funds and helping to improve their lives in many different ways. Public Trust also acts as an independent trustee for a number of other investment schemes, protecting the interests of investors.

Public Trust is best known in relation to the provision of wills, estate planning and administration services. The number of current wills that are held by Public Trust is over 250,000 and Public Trust is involved in preparing over 25,000 wills each year (both new wills and revisions to existing wills). These volumes mean Public Trust is the single largest provider of wills in New Zealand.

Public Trust also looks after more Estates than any other organisation in New Zealand – around 2,200 new estates each year.

While many New Zealanders are familiar with the work of Public Trust in these areas, the span of services is much broader than just wills and estates. Public Trust's personnel have been helping New Zealanders for over 135 years and now offer the following products and services:

- Family, education and funeral trusts. Public Trust manages over 4,000 family trusts.
- Charitable trusts. Public Trust manages over 440 charitable trusts that between them have a cumulative total of around $360 million in assets. The range of trusts is diverse and they generate funds for a wide range of purposes including science, medicine and agriculture and specialist community services such as services for disabled people.
- Corporate trustee services. Public Trust has over $28 billion of funds under supervision on behalf of investors.
- Public Trust administers approximately $3.7 billion in assets including around $1.3 billion in investment funds.
- Home loans and conveyancing. Total mortgage lending to Public Trust customers is around $250 million.
- Student fee protection. Over 383 private training establishments are signed up to Public Trust's Fee Protect service. Fee Protect safeguards the fees of more than 50,000 students totalling over $92 million.

In addition to the above, other products and services include:

- Administration, audit and advice services for incapacitated persons pursuant to the Protection of Personal and Property Rights (PPPR) Act 1988.
- Advice and research relating to enquiries on behalf of incapacitated persons on matters relating to the PPPR Act.
- Financial and retirement planning.
- Life insurance.
- Tax planning and advice.
- Advice and support for managing personal financial, investment and property matters (Personal Assist).
- Enduring powers of attorney.

The services noted above are tailored to meet the requirements of three key market segments:

- The **Personal** segment (services which generally focus on the origination and management of individual clients business through the protection of assets and personal rights, and wealth transfer).
- The **Business** segment (services which generally focus on originating and managing business from commercial entities such as charitable trusts, NGO's and government sector through complex trusteeship and administration).
- The **Corporate** segment (serving the corporate and business market with a full range of trustee services across a diverse range of products, covering over 250 appointments in the securities and financial markets).

For the most part, the services described above are provided to customers on a commercial basis and Public Trust competes against a wide range of firms (e.g. trustee companies) and individuals (e.g. lawyers) who provide one or more of the services.

Public Trust differs from other providers in that it has certain public and social responsibilities including the provision of non-commercial protective fiduciary services. The Crown provides funding for these non-commercial services (the details of which are set out in the Statement of Forecast Service Performance).

The purpose of the non-commercial protective fiduciary services is to ensure that people have access to professional trustee and administration services in situations where they might otherwise not be able to obtain appropriate services from the market. This includes situations where individuals are not in a position to afford services provided by the market, as well as situations where the personal circumstances of the individual (e.g. mental incapacity) mean that they are not well placed to make their own arrangements.

In fulfilling its roles and responsibilities, Public Trust serves a key policy objective by facilitating the appointment of a permanent, skilled and independent executor/trustee in those situations where such characteristics are required. These include situations where there might be perceived or potential conflicts between the interests of commercial trustee services providers and clients, lack of impartiality and/or where there is a strong need for permanency surrounding the provision of administration and trustee services.

Who we are

Public Trust has 490 employees and 28 customer centres located throughout New Zealand. It is a statutory corporation under the Public Trust Act 2001 (the Act) and is deemed to be a statutory entity for the purposes of the Crown Entities Act 2004 and the Public Finance Act 1989. Public Trust is governed by a Board, appointed by the Minister of Justice, acting with the agreement of the Minister of Finance (together, the responsible Ministers).

The Act specifies that Public Trust is to have the principal objective of operating as an effective business, while at the same time exhibiting a sense of social responsibility having regard to the interests of the communities in which it operates. To meet this objective, the professional skills and qualifications of Public Trust staff covers a range of disciplines, including trustee specialists, administrators, lawyers, accountants, and sales and service personnel.

Public Trust and its principal subsidiary, New Zealand Permanent Trustees Limited, comprise the Public Trust group for the purposes of this Statement of Intent. New Zealand Permanent Trustees Limited operates within the legislative framework governing companies, and is required to comply with the New Zealand Permanent Trustees Limited Act 1991.

The principal functions and objectives of Public Trust as set out in the Act are outlined in Appendix A.

The operating environment

The financial sector has signalled that the worst of the global downturn is over with signs of a modest recovery in New Zealand. While the economy is improving, the recovery will be gradual and consumer confidence has only recently started to increase. Employment conditions have improved for the first time in two years, although employment forecasts are predicted to stay unchanged in the immediate future.

The regulatory landscape in which Public Trust operates is in the process of significant change. This is resulting in increased regulatory requirements and greater compliance costs. However, there are also opportunities to enhance the customer experience and improve competitive positioning. The Financial Advisers Act 2008 and NBDT regime are of particular importance.

Risk management and mitigation is a focus across the wider business. Public Trust has a comprehensive risk management framework covering the full spectrum of risks including credit, liquidity, market and operational areas. Key performance indicators are employed to provide signs of potential business risks and issues. Strategies and processes are in place to identify and promptly act upon any potential performance issues.

Public confidence in many aspects of the finance sector is low due to the recent failure of finance companies and the mixed performance of the share market and the property market. Industry forecasts are for property and investment markets to continue to generate a high level of uncertainty for future financial performance.

In the face of this, Public Trust remains a trusted and long-standing financial services provider that has not experienced the same damage to reputation as other market participants during these turbulent times. This provides Public Trust with a competitive advantage which can be used to build and strengthen relationships with customers.

2 Strategic Priorities

Where we are heading

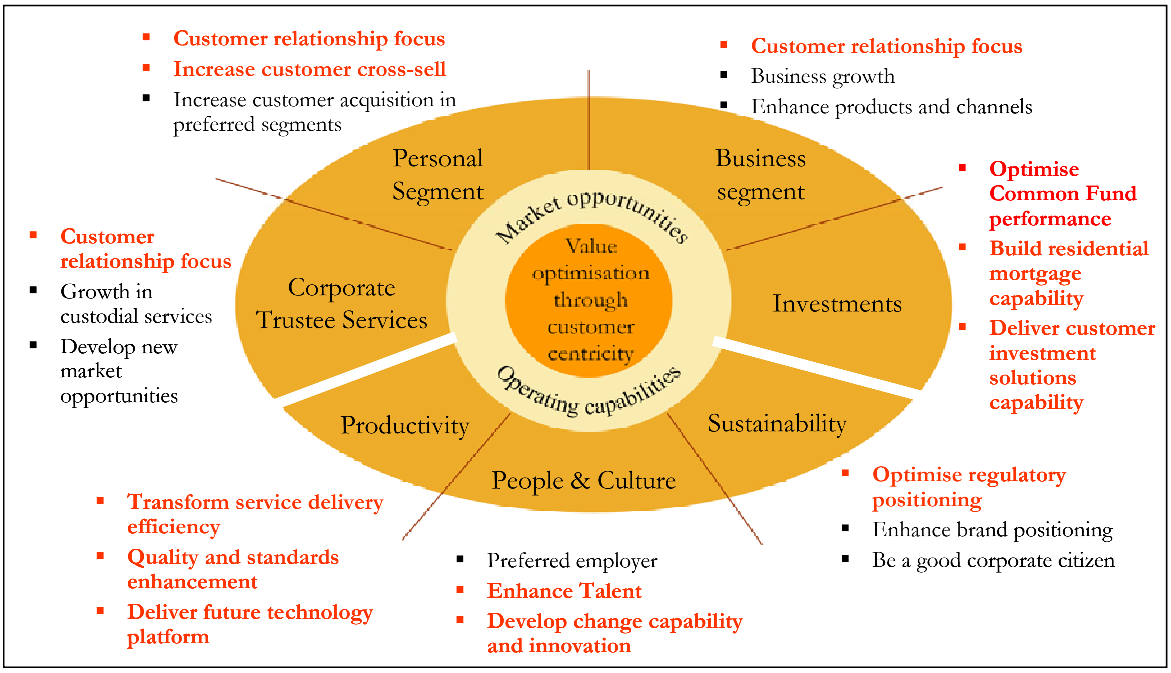
Public Trust must build capability in the organisation to meet the needs of customers and enhance Shareholder value. Public Trust employees are the key to the organisation becoming customer centric and building productive relationships with customers.

The primary focus of the 2010 Strategic Plan is to:

- Improve people capabilities and processes to transform Public Trust into a commercially successful organisation.
- Enhance the customer experience, resulting in stronger relationships with customers.
- Improve operating performance through increasing core fee revenue and productivity, while tightly managing costs.
- Leverage regulatory requirements to gain competitive advantage through the introduction of new and desirable product and service offerings.

Key strategies

The strategies summarised below are designed to transform Public Trust's service offering and delivery model. Seven strategic goals are supported by 21 strategies that have been identified by Public Trust as part of the review of the market and regulatory environment within which the organisation operates.



Successful deployment of the key strategies will result in a financially sustainable business.

The Board's estimate of the current commercial value of the Crown's investment in Public Trust is $34.5 million as at 30 April 2010.

The valuation was prepared by Public Trust's Finance Team and the key assumptions were externally reviewed. The valuation was calculated utilising the discounted cash flow methodology on an after-tax basis. The methodology is based on the nominal future cash flows set out in Public Trust's 5-year Business Plan, with forward projection made for years 6 to 10 and assumes a discount rate of 9.9%.

The prior year's commercial valuation as at 30 April 2009, using the discounted cash flow methodology and a consistent discount rate of 9.9% was $35.0m.

3 Contribution to Government Outcomes and Social Responsibility

Under the Public Trust Act 2001, Public Trust is required to exhibit a sense of social responsibility in discharging its responsibilities. Public Trust's obligations in this regard go deeper than just behaving in a socially responsible manner. The scope of Public Trust's activities, and the circumstances under which services are provided, set Public Trust apart from other entities that it competes against in the marketplace. Unlike its competitors, Public Trust plays a special role in meeting a range of Government and social objectives.

Contribution to Government outcomes

Public Trust contributes to Justice Sector outcomes through the provision of a range of non-commercial protective fiduciary services. These are, in part, funded by the Crown through a Memorandum of Understanding (referred to as the Agreement) which is agreed annually between Public Trust and the Crown (through the Minister of Justice). The details of the protective fiduciary services provided pursuant to the Agreement are set out more fully in the Statement of Forecast Service Performance. In brief, the services include the provision of wills, the administration of small estates and trusts, and the provision of services in relation to the Protection of Personal and Property Rights Act 1988 (PPPR Act).

Public Trust's strategic goals also align to justice sector outcomes, principally through the focus on key customer segments and the transformation of the customer experience in the Personal segment. Public Trust's strategic goals relating to people, operations and sustainability are aligned with key Government focus areas.

As set out in the Agreement, the provision of non-commercial protective fiduciary services contributes to the following broad objectives:

- The orderly management of the affairs and disposition of the estate of deceased persons protecting the rights of beneficiaries, avoiding dispute and the degradation of productive assets.
- The provision of "last resort" access to independent trustee and advocate services for the protection of the affairs and assets of minors, incapacitated persons and persons of limited means.
- The provision of long-term independent trustee and advocate services for persons and entities needing protection or support as prescribed in various statutes.

Public Trust provides these services in a socially responsible manner by ensuring services are delivered with the same level of quality and professional focus as services that are paid for at commercial rates by other Public Trust customers.

The objectives that are articulated in the Agreement, and noted above, can be seen in the wider context of contributing to justice sector outcomes.

It is an important principle of justice that it must be accessible to all who require it. Accessibility has two key requirements:

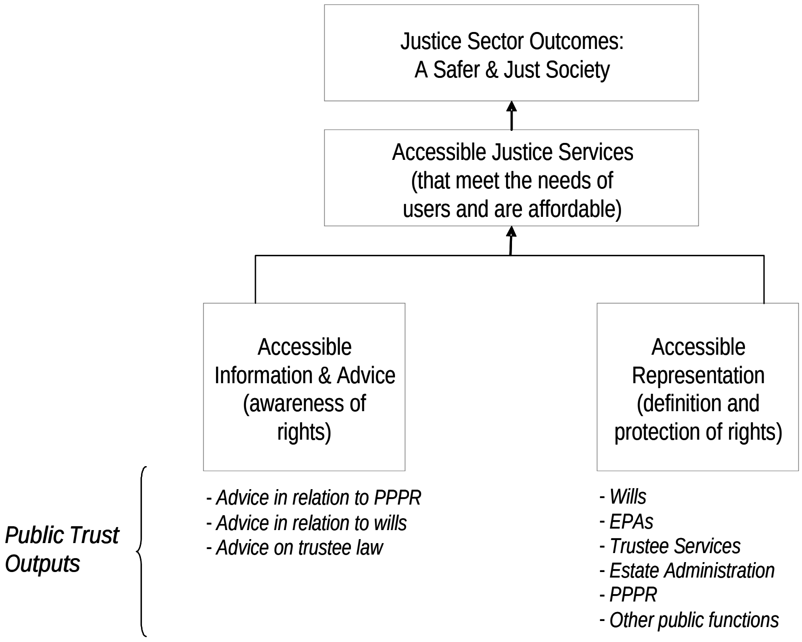
- Awareness of rights (accessible information and advice); and
- Definition and protection of rights (accessible representation).

Much of Public Trust's activity assists in making people aware of their rights and in defining and giving effect to personal rights. For example:

- Wills define rights regarding the estates of deceased persons.
- An enduring power of attorney (EPA) allows individuals to place their trust in Public Trust as an enduring and independent professional adviser to make decisions on their behalf in situations where they are no longer able to do this for themselves.

- Under various statutes, including the PPPR Act, Public Trust is appointed by the Courts to manage and administer the rights of those who are not in a position to care for themselves, or for whom the market does not provide an appropriate option.

The diagram below illustrates the linkages between some of Public Trust's outputs and the two requirements noted above in relation to accessible justice services.



Advice and representation can only be accessible if it is readily available in a timely manner and is relatively affordable. Public Trust has provided a free wills service and other protective fiduciary services that are funded as part of the Agreement with the Crown. This arrangement is intended to ensure timely and affordable access to protective fiduciary services. Public Trust is in discussion with the Ministry of Justice regarding a review of these services. The Statement of Forecast Service Performance for 2010/11 is included later in this SOI.

Corporate Social Responsibility

Acting in a socially responsible manner is a key obligation for Public Trust under the Act.

The nature of the services Public Trust provides requires the highest standards of professional ethics. The values upon which Public Trust's success depends include putting the interests of customers first and being trustworthy. Public Trust has an Ethics Framework which supports these values.

In addition, Public Trust has a Corporate Social Responsibility (CSR) strategy, to operate the business in a responsible and sustainable manner by developing and implementing CSR policies. CSR includes taking a leadership position in community, investment and social issues relevant to our business. CSR involves taking accountability for the impact of Public Trust on social and environmental outcomes, and the impacts on stakeholders, including our own employees.

Public Trust reports against its linkages with the community and its good employer obligations (outlined below) and, as discussed above, many of Public Trust's outputs serve important Government policy objectives.

Current CSR initiatives include Public Trust's leased vehicle contract which seeks to minimise energy requirements through smaller engine sizes and a scheme to offset carbon emissions. Public Trust also exhibits energy consciousness in the operation of its premises and information technology resources.

Good employer

Public Trust operates with human resource policies that contain provisions generally accepted as necessary for the fair and proper treatment of employees in all aspects of their employment. These policies cover:

- The provision of good and safe working conditions;
- An equal employment opportunities programme aimed at identifying and eliminating all aspects of policies, procedures and other institutional barriers causing or perpetuating, or tending to cause or perpetuate, inequality in respect of the employment of any persons or group of persons;
- The impartial and transparent recruitment and selection of suitably qualified persons for appointment;
- Recognition of the aims, employment requirements and involvement of Māori as employees of Public Trust;
- Opportunities for the enhancement of individual employees abilities;
- Recognition of the aims, employment requirements and involvement of ethnic or minority groups; and
- The employment requirements of persons with disabilities.

As part of its Annual Report, Public Trust will continue to report its achievement against the outcomes relating to the fair and proper treatment of its employees.

4 Monitoring and Evaluation

Public Trust has established a series of measures and targets to align with its strategic goals and objectives. Measures and targets reflect the commercial expectations of Public Trust. Non-commercial performance measures are covered in the Statement of Forecast Service Performance. Measures address outcomes from the perspectives of ownership, efficiency and effectiveness, capability, and customer and market.

Actual performance in relation to these measures will be reported in the Annual Report.

Performance measures

The main financial and non-financial measures and standards of forecast performance for Public Trust for the financial years ending 30 June 2010 to 30 June 2013 are shown below, along with actual results for 2007/08 and 2008/09 data, for comparative purposes.

	Actual Results		Forecast			
	2007/08	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**2012/13**
Ownership perspective						
Profit (Loss) after Tax for the Year	$(32.1)m	$(47.5)m	$5.4m	**$0.4m**	$1.3m	$3.5m
Return on Equity [1]	n/a	n/a	n/a	**1.8%**	5.4%	13.2%
Distributions to Crown	nil	nil	nil	**nil**	nil	nil
Efficiency and effectiveness perspective						
Cost/Income Ratio [2]	90.1%	95.8%	95.8%	**96.6%**	95.9%	93.3%
Capability perspective						
Employee Engagement [3]	48%	55%	55%	**56%**	57%	58%
Customer and market perspective						
Market Shares: [4]						
- Wills	12.0%	12.0%	15.0%	**15.0%**	15.0%	15.4%
- Estates	13.5%	14.0%	14.1%	**14.5%**	15.0%	15.4%
Customer Satisfaction [5]	8.1	8.1	8.1	**8.2**	8.3	8.4
Net Promoter Score [6]	n/a	n/a	17	**18**	20	21

Notes:

1. Return on Equity is surplus (deficit) (including investment gains/(losses)) after tax divided by the average of opening and closing equity. Return on Equity (ROE) is not calculated in 2007/08 due to the quantum of net deficit after tax. ROE for 2008/09 and 2009/10 are not calculated due to the negative equity position at 30 June 2009.
2. Total Expenses (excluding Change and Restructuring costs and mortgage losses) / Revenue (excluding investment gains/losses).
3. Independent survey of employee engagement (Global benchmark = 34%, New Zealand benchmark = 42%).
4. Independently conducted survey of market share.
5. Independently conducted survey of customer satisfaction (Range: 1 = poor, 10 = excellent).
6. No comparative measure in 2007/08 or 2008/09.

Consultation and reporting

Consultation

Public Trust fully supports ongoing consultation and engagement with responsible Ministers.

Under the "no surprises" policy for Crown entities, Public Trust will proactively communicate with responsible Ministers regarding issues and decisions that fall outside normal operations and which would have a material effect on its financial position. Policies on consultation with responsible Ministers are set out in Appendix C of this Statement of Intent.

Reporting

Public Trust has a number of requirements regarding formal reporting, and these are set out in Appendix C. These comprise preparation and presentation of the Annual Report, the Statement of Intent and the Interim Report. Reports will contain sufficient information to enable an informed assessment to be made of the operations and performance of Public Trust for the relevant period.

Public Trust is not required to report on matters concerning individual trusts and estates.

5 Forecast Financial Statements for the Financial Year ended 30 June 2011

Statement of Forecast Financial Position of the Group
As at 30 June 2011

	($000s) **Forecast Outturn 2009/10**	($000s) **Forecast 2010/11**
Assets		
Cash and cash equivalents	10,000	10,000
Investment securities	659,088	561,841
Derivative financial instruments	2,500	2,500
Advances to clients	5,775	5,774
Trade receivables	4,500	4,500
Advances secured by mortgage	255,830	254,928
Total financial assets	937,693	839,543
Sundry receivables	100	100
Prepayments	1,000	1,000
Current tax	726	726
Property, plant & equipment	8,053	10,052
Intangibles	3,041	2,941
Total assets	**950,613**	**854,362**
Liabilities		
Liabilities to clients - at call or short term	409,500	365,400
Liabilities to clients - term deposits	500,500	446,600
Prepaid estate administration	750	700
Total liabilities to clients	910,750	812,700
Trade payables	2,100	2,100
Other payables	2,300	2,300
Derivative financial instruments	9,000	9,000
Prepaid income	350	350
Employee benefits	4,533	4,669
Provisions	600	550
Total liabilities	**929,633**	**831,669**
Equity		
Contributed equity	90,174	90,174
Cash flow hedging reserve	(2,597)	(1,273)
Retained earnings	(66,597)	(66,208)
Total equity	**20,980**	**22,693**
Total liabilities plus equity	**950,613**	**854,362**

Statement of Forecast Changes in Equity of the Group
For the period 1 July 2010 to 30 June 2011

	($000s) Forecast Outturn 2009/10	($000s) Forecast 2010/11
Contributed equity		
Opening balance	60,174	90,174
Contribution by the Crown	30,000	-
Closing balance	**90,174**	**90,174**
Cash flow hedging reserve		
Opening balance	(5,157)	(2,597)
Other comprehensive income	2,560	1,324
Closing balance	**(2,597)**	**(1,273)**
Retained earnings		
Opening balance	(72,015)	(66,597)
Profit after tax	5,418	389
Closing balance	**(66,597)**	**(66,208)**
Equity at end of year	**20,980**	**22,693**

Statement of Forecast Comprehensive Income of the Group
For the period 1 July 2010 to 30 June 2011

	($000s) Forecast Outturn 2009/10	($000s) Forecast 2010/11
Revenue		
Revenue from financial instruments		
Interest from interest bearing securities	27,174	30,855
Interest from advances secured by mortgage	19,904	15,205
	47,078	46,060
Less: Interest expense	28,135	29,024
	18,943	17,036
Fees and commission revenue	39,024	41,703
Less: Fees and commission expense	1,296	1,350
Other revenue	210	210
Revenue from the Crown	4,500	4,500
Revenue before expenses	**61,381**	**62,099**
Expenses		
Employee benefits	39,976	40,940
Operating lease costs	4,600	4,600
Depreciation	2,076	2,400
Amortisation of intangibles	100	100
Impairment losses on advances secured by mortgages	1,830	1,640
Other expenses	17,091	17,450
Total expenses	**65,673**	**67,130**
Net realised gains (losses) on investments	(521)	-
Net unrealised gains (losses) on investments	10,231	5,420
Net gains (losses) on investments	9,710	5,420
Profit before tax for the year	5,418	389
Tax expense	-	-
Profit after tax for the year	**5,418**	**389**
Other comprehensive income		
Movement in cash flow hedging reserve	2,560	1,324
Other comprehensive income for the year	2,560	1,324
Total comprehensive income for the year	**7,978**	**1,713**

Statement of Forecast Cash Flows of the Group
For the period 1 July 2010 to 30 June 2011

	($000s) Forecast Outturn 2009/10	($000s) Forecast 2010/11
Cash flows from operating activities		
Trading receipts		
Fees and other revenue	43,678	46,413
Interest	47,022	46,060
Trading payments		
Expenses	63,223	63,454
Interest	28,135	29,024
GST	800	800
Cash flows from operating activities before changes in trading investments	**(1,458)**	**(805)**
Net flows from trading investments	(179)	-
Net cash flows from operating activities	(1,637)	(805)
Cash flows from investing activities		
Net flows from non-trading investments	147,298	103,254
Purchase of property, plant & equipment	(2,409)	(4,399)
Purchase of intangibles	(68)	-
Net cash flows from investing activities	144,821	98,855
Cash flows from financing activities		
Net receipts from clients	(174,776)	(98,050)
Contribution from the Crown	30,000	-
Net cash flows from financing activities	(144,776)	(98,050)
Net increase (decrease) in cash and cash equivalents	(1,592)	-
Cash and cash equivalents at beginning of the year	11,592	10,000
Cash and cash equivalents at end of year	**10,000**	**10,000**

Significant Assumptions Underlying the Forecast Financial Statements

The forecast financial statements were authorised for issue on 25 June 2010 by the Board of Public Trust. The Board of Public Trust is responsible for the forecast financial statements presented, including the appropriateness of the assumptions underlying the forecast financial statements and all other disclosures.

The forecast financial statements have been prepared to meet the requirements of the Crown Entities Act 2004 and are in accordance with the Statement of Accounting Policies outlined in Appendix B. The information in these forecasts may not be appropriate for purposes other than those described.

Actual financial results achieved may vary from the information presented and this variance may be material.

The forecast financial statements are based on the following 2010 Business Plan assumptions:

1. Continued growth in revenue resulting from a number of initiatives.
2. New pricing initiatives will move Public Trust prices to be comparable with competitors.
3. Expenses include a continued investment in change projects; including process re-design initiatives to improve operational efficiency.
4. The 2010/11 Memorandum of Understanding between the Crown and Public Trust, funded by the Ministry of Justice, has yet to be confirmed. Funding is assumed to remain at $4.5 million.
5. It is expected that a significant amount of the unrealised investment losses incurred in 2007/08 and 2008/09 will reverse to profit by maturity date. However, the reversal of losses on the sub-category of mortgage backed securities is less certain as it is dependant on the future performance of the underlying mortgages.
6. The investment portfolio will be operated within approved asset allocation and risk policies.
7. Public Trust will be required to comply with most aspects of the NBDT regime.
8. The Financial Advisers Act 2008 and the Financial Service Providers (Registration and Dispute Resolution) Act 2008 will come into affect during the planning period. The revenue and cost implications have been incorporated into the five-year forecast.
9. Risks exist that could affect the achievement of the results in the forecast financial statements:
    - The forecasts include provisions for mortgage losses at a reduced rate than those in the 2009/10 forecast – in the current economic climate these forecasts are highly uncertain and downside risks exist.
    - The ongoing volatility in property and investment markets continues to create a higher than usual degree of uncertainty for forecast financial performance. Downside risks exist from further mortgage provisions and adverse revaluations of mortgage backed securities.
    - The revenue forecasts may be affected by economic or market developments.
    - Forecast operating costs are based on assumptions about wage/salary growth and general inflation, based on current forecasts of relatively weak economic performance in the next 12-24 months. If economic recovery occurs earlier than expected, cost growth pressures may arise.
    - Public Trust is subject to claims for failure of service delivery. Provisions or contingent liabilities are forecast on best estimates and are an area of uncertainty in the forecasts.

6 Statement of Forecast Service Performance

Introduction

Each year, Public Trust and the Crown (acting through the Minister of Justice) enter into a Memorandum of Understanding (referred to as the Agreement) under which the Crown purchases a range of non-commercial protective fiduciary services. Under the Agreement, 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 of these services is managed by the Ministry of Justice on behalf of the Crown.

This statement sets out service levels for the year ending June 2011. It is important to note that these service levels have yet to be confirmed as part of the Memorandum of Understanding for 2010/11. Public Trust and the Ministry of Justice are reviewing the scope of the services.

Pursuant to section 143 (1) (a) Crown Entities Act 2004, the Minister of Finance has exempted Public Trust from a Statement of Service Performance regarding Public Trust outputs other than those specified in the Memorandum of Understanding with the Crown.

Output Agreement

The non-commercial services to be provided by Public Trust under the Output Agreement are classified as Provision of Protective Fiduciary Services, and the outputs are described as follows:

1. Advice on wills and the preparation of wills.
2. Non-commercial services with respect to the protection of personal property rights.
3. Advice on behalf of incapacitated persons for the protection of personal property rights.
4. Non-commercial services for the administration of small and/or complex estates and trusts.
5. Other non-commercial public functions.

Further details of each output and of the key performance measures applicable for the year to 30 June 2011 are set out below:

Output 1:	**Wills Advice and Preparation**	Advice to New Zealanders on the benefits of Will-making and preparation of a Will if so requested.	
Performance Criteria	**Quantity**	▪ New and revised wills written.	
		Quarter 1	**Quarter 2 – Quarter 4**
		An average of 1,750, new and revised wills written per month, subject to the terms and conditions of the 2009/10 Memorandum of Understanding	To Be Confirmed following review of the scope of services provided
	Quality	▪ Standards set through computerised template and documented with current knowledge system. Updated to incorporate any relevant changes to legislation. ▪ Internal legal audit of 25 wills per quarter will be undertaken with an error rate of no more than one requiring re-writing. ▪ Customer satisfaction survey conducted half yearly. ▪ Customer satisfaction rating of >7.5 (range: 1 = completely unsatisfactory, 10 = perfect).	
	Timeliness	95% of wills will be available for signing within 7 days of taking instructions.	

Output 2:	**Protection of Personal and Property Rights Non-Commercial Services**	Administration, audit and advice services to incapacitated persons pursuant to the Protection of Personal and Property Rights Act 1988 (PPPR Act) 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**	▪ 7,000 actions. ▪ 6,800 hours administering financial affairs under the PPPR Act.
	Quality	▪ Administration of financial affairs: o 95% reappointment as manager following review of management by Family Court. o No unresolved complaints from relatives and caregivers, relating to individual interests of the beneficiaries.
	Timeliness	▪ Examination of Private Manager Statements: o No complaints received of late filing of Private Manager Statements to Courts.

Output 3:	**Advice for the Protection of Personal and Property Rights**	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**	▪ 700 hours spent providing services on behalf of incapacitated persons. ▪ 1,400 enquiries.
	Quality	▪ Complaints from customers will be less than 1% of cases dealt with.
	Timeliness	▪ All enquiries will be acknowledged within 5 working days of receipt. ▪ Urgent cases will be responded to within 1 working day. ▪ 95% of complex cases will be actioned within 5 working days.

Output 4:	**Small Estates and Trusts**	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**	▪ 6,300 hours (or corresponding volume) spent administering small and/or complex estates and trusts administered. ▪ 840 tax returns. ▪ 770 hours spent providing advice.
	Quality	▪ 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 1% of contract files per Customer Centre per quarter. ▪ Beneficiary satisfaction rating of >7.5 (range: 1 = completely unsatisfactory; 10 = perfect).
	Timeliness	▪ All enquiries will be acknowledged within 5 working days of receipt. ▪ Urgent cases will be responded to within 1 working day. ▪ 95% of complex cases will be actioned within 5 working days.

Output 5:	**Administration of Assets and Other Public Functions**	Representation, audit, review, administration of the assets and rights 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**	▪ 15 hours spent providing services involving public functions in relation to assets and rights of missing, unknown or incapable persons. ▪ 10 contracts.
	Quality and Timeliness	▪ 98% compliance with agreed mandatory aspects of administration of assets and other public functions.

Location and accessibility (applicable to outputs 1 – 5)

- A nationwide network of Public Trust offices (available during normal business hours).
- Public Trust web site.
- 0800 phone lines available during normal business hours.

Forecast revenues and expenses

- Revenues earned $4.5 million (GST exclusive)
- Expenses incurred * $8.8 million (GST exclusive)

** Includes direct costs and allocated overhead costs, and is based on 2009/10 volumes.*

Appendix A: Principal Functions and Objectives

Principal Functions

Public Trust's principal functions, as defined in section 8(1) of the Public Trust Act 2001, are to:

- "*develop, promote, conduct, or otherwise participate in the business of providing comprehensive estate management and administrative services, including associated legal, financial, and other services; and*
- *carry out, perform, or otherwise fulfil functions conferred on Public Trust by this Act or any other Act*;
- *carry out, perform, or otherwise fulfil other functions requested by the Minister, acting in agreement with the Minister of Finance, and agreed to by Public Trust*;
- *develop, promote, conduct, or otherwise participate in such other business as Public Trust determines with the approval of the Minister, acting in agreement with the Minister of Finance*".

Objectives of Public Trust

The Act (section 9) specifies that Public Trust is "to have the principal objective of operating as an effective business", and to this end has objectives for:

- *"being as efficient as comparable businesses that are not owned by the Crown; and*
- *prudently managing its assets and liabilities; and*
- *maintaining financial viability in the long-term; and*
- *being a good employer; and*
- *being an organisation that exhibits a sense of social responsibility by having regard to the interests of the communities in which it operates".*

Appendix B: Statement of Accounting Policies

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 forecast financial statements for the parent entity (not presented in the Statement of Intent) and consolidated forecast 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 forecast 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 forecast financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) as appropriate for profit-oriented entities.

Measurement Basis

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

Audit

The forecast financial statements are not audited.

Accounting Policies

Basis of consolidation

The consolidated forecast 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 forecast financial statements and the elimination of intra-group balances and transactions including unrealised gains and losses.

The forecast 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.

Acquisition prior to 1 July 2009

The purchase method of accounting is used by the Group to account for the acquisition of subsidiaries in a business combination.

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

Acquisition after 1 July 2009

Where applicable, the acquisition method will be applied to account for the acquisition of new subsidiaries in a business combination. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the any equity interests issued by the Group. The consideration transferred includes the fair values of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred.

Financial instruments

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

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

Offsetting financial instruments

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

Recognition and derecognition of financial instruments

All financial instrument purchases and disposals are accounted for on a trade date basis.

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

Effective interest rate method

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

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 comprises:

- Investment in interest bearing securities.
- Derivatives.

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

After initial recognition, financial assets at fair value through profit or loss are carried at their fair values.

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

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

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

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

Derivative financial instruments

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

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

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

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

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

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

After initial recognition, gains and losses from subsequent remeasurement to fair value are recognised in the profit or loss except, where the derivatives are designated and effective as hedge accounting instruments. Hedge accounting instruments are accounted for as set out below.

Where the instrument is recognised in the 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 investments.

Derivatives designated as hedging instruments – Cash flow hedges

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

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 reclassified to profit or loss.

Derivatives designated as hedging instruments – Fair value hedges

Derivatives, whose purpose is to match the changes in fair value of long-dated term deposits as interest rates change, are designated as fair value hedges. To the extent that individual hedges are effective at inception and remain so, changes in the fair value of the derivatives, together with any changes in fair value of the relevant (hedged) risk of the term deposits are recognised in the 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 the 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 forecast financial statements, not presented in the Statement of Intent).
- Advances secured by mortgage.

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

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

Advances to clients

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

Trade receivables

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

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

All other trade receivables are short-term in nature, do not carry any interest and are accordingly stated at their nominal value.

Advances secured by mortgage

Advances secured by mortgage are initially recognised at cost including origination fees, plus any transaction costs that are directly attributable to the issue of the advance. Advances secured by mortgage including origination fees and transaction costs are subsequently measured at amortised cost using the effective interest rate method, less an allowance for impairment. Amortised cost is calculated by amortising advances secured by mortgage including fees and costs to the 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 the 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 un-collectible, it is written off against the carrying amount. The related impairment allowance previously provided for is reversed in the 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 the 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 form parts of a qualifying offset agreement.

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

Term deposits – subject to fair value hedges

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

Other financial liabilities

Other financial liabilities comprise all financial liabilities other than derivatives in a loss position.

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

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

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

Foreign currency transactions

Transactions in foreign currencies are translated to New Zealand dollars at the rate of exchange prevailing at the transaction date. At reporting date, foreign currency monetary assets and liabilities other than those reported at fair value through profit or loss, are translated into New Zealand dollars using the exchange rate prevailing at the reporting date. Exchange differences arising on the settlement or translation at balance date of foreign currency monetary items are recognised in the 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 the 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 the 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 an entity is recognised in the Group's Statement of Financial Position. It is initially recognised at cost and subsequently carried at cost, less any accumulated impairment losses, subject to the concession to allow pre-existing goodwill to be carried at its carrying amount at the date of transition to NZ IFRS.

Goodwill impairment

Goodwill is subject to an annual recoverable amount impairment test. Any impairment is expensed to the 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 profit or loss.

Parent investment in subsidiary

In the parent's financial statements (not presented in the Statement of Intent), investment in a 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 review for impairment at each financial year-end.

Dividends from the subsidiary are recognised in the profit or loss of the parent's financial statements when the right to receive is established. 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 and retirement benefits on an actuarial basis. Projected cash flows are estimated in accordance with both national and entity experience. The resulting projected cash flows are discounted in accordance with market yields on New Zealand Government bonds as at the balance sheet date.

Provisions

Restructuring

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

Vacant space

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

Remedial work and litigation

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

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

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

Expense

The expense relating to any provision is recognised in the 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 the profit or loss on a straight-line basis over the year(s) of the lease.

Lease incentives

Any lease incentives are amortised over the estimated occupancy periods and offset against lease expenditure in the 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 the 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 forecast financial statements. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction (other than a business combination) that at the time of the transaction affects neither accounting, nor taxable profit or loss.

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

Goods and services tax

All revenues and expenses are recognised net of goods and services tax (GST). Any GST on expenses that is not recoverable is recognised in the 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 the 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 (not presented in the Statement of Intent) where material.

Changes in accounting policies

There have been no changes in accounting policies. The accounting policies have been consistently applied throughout the periods in the forecast financial statements.

Application of accounting standards

The following new standards, amendments to standards or interpretations have been issued but are not yet effective for the year ending 30 June 2011, and have not been applied in preparing these forecast financial statements:

- NZ IFRS 9 *Financial Instruments:* effective for annual periods beginning on or after 1 January 2013. This standard will be applied in the forecast financial statements for the year ending 30 June 2014.
- NZ IAS 24 *Related Party Disclosures (amendments):* effective for annual periods beginning on or after 1 July 2011. This revised standard will be applied in the forecast financial statements for the year ending 30 June 2012.

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

Use of judgements and estimates

The presentation of forecast 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 in page 18 of the Statement of Intent.

SUPPLEMENTARY INFORMATION

Crown Guarantee

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

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

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

Appendix C: Consultation and Reporting

Establishment of Public Trust subsidiaries

Under section 96(b) of the Crown Entities Act, Public Trust will:

a. Advise the responsible Ministers of any proposal to establish a subsidiary in New Zealand.

b. Consult the responsible Ministers on any proposal to establish a subsidiary outside New Zealand.

Consultation on other matters

Public Trust will in relation to any single or connected series of transactions consult with the responsible Ministers on items outside normal operations and having a material impact on Public Trust's financial position not contemplated in the Business Plan including:

a. Any substantial capital investment in Public Trust activities within the nature and scope of those outlined in this Statement of Intent.

b. Any requirement for substantial additions to its capital reserves.

c. The sale or other disposal of the whole or any substantial part of the business or undertaking of Public Trust or its subsidiaries.

d. The purchase or other acquisition of shares in any company or equity interests in any other organisation which are material, involving a significant overseas equity investment or are outside the nature and scope of Public Trust's activities outlined in this Statement of Intent.

e. Where Public Trust or its subsidiaries hold 20% or more of the shares in any company or other body corporate (not being a subsidiary of Public Trust), the sale or other disposal of any shares in that company.

Public Trust will also consult with the responsible Ministers:

a. Before adopting or amending a Public Trust Statement of Investment Policy and Objectives for the Common Fund; or

b. On specific items included in the Business Plan as agreed between it and the responsible Ministers from time to time.

Exception

Advice to or consultation with the responsible Ministers is not required in relation to the establishment of a subsidiary or the acquisition or disposal of shares, interests or assets:

a. In relation to any estate managed or administered by Public Trust; or

b. Intended to form, or forming, part of the Common Fund (in accordance with its Statement of Investment Policy and Objectives) or any group investment fund established or kept by Public Trust.

Reporting

An Annual Report will be prepared and presented to the responsible Ministers in accordance with section 150 of the Crown Entities Act 2004. The report will include forecast financial statements and an audit report, statement of responsibility and such other information required by the Crown Entities Act 2004.

The Annual Report will contain sufficient information to enable an informed assessment to be made of the operations and performance of Public Trust for the relevant financial year.

A half-yearly report will be prepared and presented to the responsible Ministers. The report will include unaudited forecast financial statements and such details as are necessary to permit an informed assessment of the performance of Public Trust during the reporting period.

A summary of the Business Plan of Public Trust and a draft Statement of Intent will be made available to the responsible Ministers for discussion not later than one month prior to the commencement of the first financial year to which the Business Plan and Statement of Intent relate.

Public Trust will not, without consulting the responsible Ministers, amend the Statement of Investment Policy and Objectives for the Common Fund.

Public Trust will provide other information requested by responsible Ministers in accordance with section 133 of the Crown Entities Act 2004, subject to section 46 of the Public Trust Act 2001.