Statement of Performance Expectations

1 July 2016 - 30 June 2017

with you for generations to come

Public Trust

Statement of Authorisation

This Statement of Performance Expectations meets the requirements of section 149 of the Crown Entities Act 2004 and reflects Public Trust's proposed performance targets and prospective financial information for the period 1 July 2016 to 30 June 2017. It should be read in conjunction with the Statement of Intent for 2016 – 2020.

The purpose of the prospective financial statements is to facilitate Parliament's consideration of the planned performance of Public Trust. Use of this information for other purposes may not be appropriate. There is no intention to update the prospective financial statements subsequent to presentation.

The Public Trust Board is responsible for, and has deemed appropriate for issue, the prospective financial statements presented, including the appropriateness of the assumptions underlying the prospective financial statements and all other required disclosures.

On behalf of the Board of Public Trust:

Sarah Roberts
Board Chair

Fiona Oliver
Deputy Chair, Audit Committee

22 June 2016

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Public Trust has been
part of kiwi life for over
140 years

Our principal objectives

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

Our principal objective , as defined in the Public Trust Act 2001 is to operate as an effective business. To this end we need to:

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

— prudently manage our assets and liabilities;

— maintain financial viability in the long term;

— be a good employer; and

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

What we do

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

Estate planning

We're one of the largest providers of wills in New Zealand. Writing a will and setting up enduring powers of attorney (EPA) are the initial steps in the estate planning process. Wills set out the wishes of our customers for how their affairs are to be managed after they're gone, while EPAs set out who can take care of their personal or financial matters if they can't.

Trusts

We work with individuals, businesses and corporates to manage their funds and assets held in trust. This includes family trusts, inheritance trusts, pre-paid funeral trusts, charitable trusts and ongoing estates. We also safeguard student fees on behalf of private training establishments through our Fee Protect service.

Estate management

We administer and manage approximately 2,000 immediately distributable and ongoing estates each year, carrying out the wishes of customers as set out in their wills and making sure assets are transferred to beneficiaries as smoothly and efficiently as possible.

Executor Assist

We offer our estate management expertise to private executors and solicitors through our Executor Assist product, which has been designed to help with some or all of the tasks associated with being an executor. We can assist with probate applications, collection of assets, payment of liabilities, tax returns or completely manage the estate on the customer's behalf.

PPPR and personal management services

We provide personal management services under the Protection of Personal and Property Rights Act 1988 (PPPR), which exists to assist and protect adults who do not have an EPA in place and are unable to make or communicate decisions or manage their own affairs due to incapacity. We also offer a tailored personal management service called Personal Assist which helps customers manage their financial and property matters, including paying bills, managing bank accounts, buying or selling assets, arranging home repairs and applying for pensions.

Corporate Trustee Services

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

Investment services for fiduciary customers

We provide investment management services for a range of customers ensuring they can access effective and appropriate investment services. Our Common Fund is government guaranteed, subject to strict investment guidelines, and comprises trust accounts for fiduciary customers and term deposits which we pool and invest directly.

Social good

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

Contribution to Crown outputs

Public Trust has one reportable output under section 149E(1)(a) of the Crown Entities Act, which contributes to the achievement of Ministry of Justice outcomes, and is presented below. Other activity and related performance measures can be found in our Statement of Intent 2016-2020.

The reportable output is that the services provided to the Ministry of Justice by Public Trust align with the Crown's expected outcomes in relation to increased trust in the justice system and the provision of more responsive, accessible and cost effective services.

Many of the services Public Trust provides contribute to this output, as we:

— provide access to justice services that individuals are unable to obtain within their own means; and

— provide quality and responsive/timely services.

Public Trust and the Crown (acting through the Minister of Justice) have a Services Agreement under which the Crown purchases a range of non-commercial protective fiduciary services.

Under the Agreement, certain non-commercial services are paid for 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.

We provide services to people who are not well placed to look after their own affairs and to people who, because they have limited financial means, are unlikely to have their needs met by private sector trustee organisations.

Measuring our performance

The Services Agreement specifies the value of the services we provide and this is monitored through regular reporting to the Ministry of Justice.

The quality and impact of the services we provide and their contribution to Justice sector outcomes are measured as below.

Outcome	Measure
Access to justice services that individuals are unable to obtain within their own means	Public Trust's Contact Centre is available 95% of the time between 8.00am – 5.30pm, Monday to Friday. Online resources available with less than 40 hours down time per annum. Nationwide network of customer centres available during business hours.
Provide quality and responsive/timely services	Customer satisfaction rating (as measured through an independent survey) is greater than 80%. 80% of complaints are closed within 30 days and less than 5% of complaints are referred to external dispute resolution provider.

Services agreement

The non-commercial services to be provided by Public Trust under the Services Agreement are classified below. Together these are referred to as "the Services". These Services provided by Public Trust align with the Crown's expected outcomes in relation to increased trust in the justice system and more responsive, accessible and cost effective services.

Providing Protection of Personal and Property Rights Act 1988 administration, audit and advice services to incapacitated persons, either as property manager or property attorney under an Enduring Power of Attorney.

Measure	2014/15 actual	2015/16 estimate	2016/17 forecast
Hours to manage and advise individuals under the Protection of Personal Property Rights Act	6,602	5,000	5,000

Administration of small estates and trusts, including providing advice and assistance to deal with assets that do not warrant formal administration, whether or not a Will has been made.

Measure	2014/15 actual	2015/16 estimate	2016/17 forecast
Hours to manage and advise on small estates and trusts	5,433	3,000	3,000

The examination of statements filed in court by any manager who is not a trustee corporation under section 46 of the Protection of Personal Property Rights Act 1988.

Measure	2014/15 actual	2015/16 estimate	2016/17 forecast
Hours taken to examine statements	911	920	920

Revenues and expenses

Expected revenue 2016/17: $1.8m (GST exclusive)

Proposed expenses 2016/17: $2.0m (GST exclusive)

The maximum potential revenue under the agreement is $2.627m. Within the overall cap, individual customer caps apply, creating the potential for "unfunded" work. Court mandated work may also exceed expected levels, also creating potential for "unfunded" work.

Prospective consolidated statement of financial position

AS AT 30 JUNE	Forecast 2016 $000	Plan 2017 $000
Assets		
Cash and cash equivalents	10,796	11,796
Investment securities	502,331	444,562
Derivative financial instruments	18	18
Advances to clients	3,100	2,067
Trade receivables & work in progress	7,473	7,403
Advances secured by mortgage	5,000	3,692
Total financial assets	**528,718**	**469,538**
Sundry receivables	15	15
Prepayments	853	854
Current tax	328	328
Property, plant & equipment	3,218	4,219
Intangibles	24,545	24,406
Total assets	**557,677**	**499,360**
Liabilities		
Liabilities to clients - at call or short term	445,656	407,989
Liabilities to clients - term deposits	58,146	35,790
Prepaid estate administration	276	276
Total liabilities to clients	**504,078**	**444,055**
Trade payables	3,088	3,088
Current tax	-	-
Other payables	1,077	1,077
Derivative financial instruments	3,031	3,031
Prepaid income	54	54
Employee benefits	3,339	3,339
Provisions	2,108	2,108
Total liabilities	**516,775**	**456,752**
Equity		
Contributed equity	90,174	90,174
Cash flow hedging reserve	(181)	(181)
Retained earnings	**(49,091)**	**(47,385)**
Total equity	**40,902**	**42,608**
Total liabilities plus equity	**557,677**	**499,360**

Prospective consolidated statement of changes in equity

FOR THE PERIOD 1 JULY 2015 TO 30 JUNE 2017

	Forecast **2016** $000	Plan **2017** $000
Equity at the start of the year	39,213	40,902
Comprehensive income		
Other comprehensive income		
- movement in cash flow hedging reserve	134	1
Profit after tax	1,555	1,705
Total Comprehensive Income	1,689	1,705
Equity at end of the year	**40,902**	**42,608**

Prospective consolidated statement of profit or loss and other comprehensive income

FOR THE PERIOD 1 JULY 2015 TO 30 JUNE 2017

	Forecast **2016** $000	Plan **2017** $000
Revenue		
Revenue from financial instruments		
Interest from interest bearing securities	17,642	12,634
Interest from advances secured by mortgage	2,284	301
	19,926	12,934
Less: Interest expense	8,500	5,745
	11,426	7,189
Fees and commission revenue	43,522	47,353
Less: Fees and commission expense	2,753	2,808
Other revenue	223	223
Revenue from the Crown	1,800	1,800
Net revenue	**54,218**	**53,758**
Expenses		
Employee benefits	32,020	32,793
Operating lease costs	2,767	2,812
Depreciation	1,333	1,488
Amortisation of intangibles	744	2,801
Impairment losses on advances secured by mortgages	201	-
Other expenses	15,472	12,158
Total expenses	**52,537**	**52,052**
Net (losses) gains on financial instruments	(127)	(1)
Profit (loss) before tax for the year	**1,554**	**1,705**
Tax expense	1	-
Profit (loss) after tax for the year	**1,555**	**1,705**
Other comprehensive income		
Items that may be reclassified to profit and loss:		
Movement in cash flow hedging reserve	134	-
Total comprehensive income for the year	**1,689**	**1,705**

Prospective consolidated statement of cash flows

FOR THE PERIOD 1 JULY 2015 TO 30 JUNE 2017

	Forecast **2016** $000	Plan **2017** $000
Cash flows from operating activities		
Fees and other revenue	43,150	49,446
Interest revenue	19,926	12,934
Taxation	86	-
Payments to suppliers & employees	(57,397)	(50,170)
Interest expense	(8,500)	(5,745)
Net GST	(396)	(400)
Net cash flows from operating activities	**(3,131)**	**6,065**
Cash flows from investing activities		
Net flows from non-trading investments	28,674	60,110
Purchase of property, plant & equipment	(602)	(2,489)
Purchase of intangibles	(11,557)	(2,663)
Net cash flows from investing activities	**16,515**	**54,958**
Cash flows from financing activities		
Net (payments to)/receipts from clients	(12,589)	(60,023)
Contribution from the Crown	-	-
Net cash flows from financing activities	**(12,589)**	**(60,023)**
Net increase (decrease) in cash and cash equivalents	795	1,000
Cash and cash equivalents at beginning of the year	10,000	10,795
Cash and cash equivalents at the end of the year	**10,795**	**11,795**

Notes to the prospective consolidated financial statements

1 | GENERAL INFORMATION

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

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

Actual financial results are likely to vary from the prospective financial information presented and this variance may be material.

2 | BASIS OF PREPARATION

These prospective financial statements are for the year ended 30 June 2017. They have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) as it relates to prospective financial statements. They comply with New Zealand Financial Reporting Standard No. 42 - *Prospective Financial Statements*.

Measurement basis

The prospective financial statements have been prepared on a historical cost basis except for certain financial assets and financial liabilities which have been forecast at fair value.

Functional and presentation currency

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

Use of judgements and estimates

The preparation of prospective financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, revenue and expenses.

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

Significant assumptions

The prospective financial statements are based on the following significant assumptions listed in order of importance in relation to their impact on the prospective financial statements:

1. The 2016 forecast data includes the actuals to February 2016 and 4 months of forecast.
2. Revenue growth for corporate trustee services and trustee fees, driven by business development and pricing initiatives, while Customer Investment Services revenue declines to reflect the impact of downward market pressures on pricing. The revenue forecasts may be affected by economic or market forces.
3. Cost reduction is achieved through reducing non value adding costs.
4. Operating costs include expected wage/salary growth and general inflation. Actual cost growth may vary from these estimates.
5. The 2016/17 Purchase Agreement between the Ministry of Justice and Public Trust has been confirmed and executed by both parties dated 30 June 2015.
6. Mortgage losses are based on current loss expectations. These forecasts are uncertain and risk exists due to the on-going volatility in property and investment markets.
7. Claims for failure of service delivery continue at low levels. Provisions or contingent liabilities are forecast on best estimates and are an area of uncertainty in the forecasts.

8. The cost of completing the strategic change programme is in line with forecast. The final cost of this programme may vary from these estimates.
9. Expenses include a continued investment in organisational change.
10. The investment portfolio will be operated within approved asset allocation and risk policies.

3 | ACCOUNTING POLICIES

Basis of consolidation

The consolidated prospective financial statements comprise the financial statements of Public Trust and its subsidiaries.

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

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

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

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

Financial instruments

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

— financial assets at fair value through profit or loss;

— financial assets comprising loans and receivables;

— financial liabilities at fair value through profit or loss;

— other financial liabilities.

Offsetting financial instruments

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

Recognition and derecognition

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

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

Effective interest rate method

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

Financial assets at fair value through profit or loss

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

— held for trading, having been acquired principally for the purpose of resale in the short term; or

— part of a group of financial instruments that are managed, including performance evaluation, on a fair value basis.

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

— investments in interest bearing securities; and

— derivative financial instruments classified as held for trading.

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

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

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

Derivative financial instruments

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

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

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

Where derivative financial instruments form part of an effective hedge relationship, they are valued on the basis of the mid-price of the bid/offer spread for the relevant interest rates. Any related revaluation of a hedged item is similarly valued on the same basis.

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

Derivative financial instruments designated as hedging instruments – cash flow hedges

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

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

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

Derivative financial instruments designated as hedging items – fair value hedges

Term deposit assets that are the hedged item in a fair value hedge accounting relationship are carried at amortised cost plus an adjustment to arrive at the fair value ascribed to the risk being hedged.

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

— term deposits;

— advances to clients;

— trade receivables;

— work in progress; and

— advances secured by mortgage.

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

Cash and cash equivalents

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

Investment securities

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

Advances to clients

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

Trade receivables

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

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

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

Work in progress

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

Advances secured by mortgage

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

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

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

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

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

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

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

Financial liabilities at fair value through profit or loss

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

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

Term deposit liabilities

Term deposits liabilities are carried at amortised cost.

Other financial liabilities

Other financial liabilities include:

- liabilities to clients (except for those term deposit liabilities that are the hedged item in a fair value hedge accounting relationship); and
- trade payables.

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

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

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

Foreign currency transactions

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

Intangible assets

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

Goodwill

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

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

Intangible IT assets

Intangible IT assets comprise computer software that is not integral to the operating systems of computer and server equipment. 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.

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

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

Impairment of non–financial assets other than goodwill

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

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

Any impairment losses are recognised in profit or loss.

Impairment of goodwill

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

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

Prepaid income

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

Prepaid estate administration

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

Employee benefits

Annual leave

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

Sick leave

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

Long-service leave

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

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.

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 prospective 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 Prospective Consolidated 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 Prospective Consolidated Statement of Cash Flows these are referred to as trading investments.

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

Commitments

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

with you for
generations
to come

Public Trust

Registered office

Public Trust Corporate Office
40 – 42 Queens Drive, Lower Hutt 6315
PO Box 31543, Lower Hutt 5040

P 0800 371 471 **F** 0800 371 001

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

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