Statement of Performance Expectations

For the period 1 July 2015 to 30 June 2016

with you for generations to come

Public Trust

STATEMENT OF PERFORMANCE EXPECTATIONS

Set up in 1873, Public Trust is New Zealand's largest and oldest trustee organisation.

Public Trust provides comprehensive, enduring trustee and estate management services.

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.

Public Trust and its principal subsidiary, New Zealand Permanent Trustees Limited, comprise the Public Trust Group for the purposes of this Statement of Performance Expectations (SPE). New Zealand Permanent Trustees Limited operates within the legislative framework governing companies, and is also required to comply with the New Zealand Permanent Trustees Limited Act 1991.

This SPE meets the requirements of section 149 of the Crown Entities Act 2004. It is for the period 1 July 2015 to 30 June 2016.

On behalf of the Board of Public Trust:

Sarah Roberts

Board Chair

26 June 2015

Fiona Oliver

Deputy Chair

26 June 2015

www.publictrust.co.nz

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INTRODUCTION

This Statement of Performance Expectations aligns with and supports Public Trust's current Statement of Intent (2015 to 2018).

In the Statement of Intent we outlined our strategic objectives. In summary, our commercial success will depend on:

- a simplified and focused business, committed to a customer centric service ethic in our core competencies;
- a cultural shift in the way we source and service customers; moving from an order-taking approach to a business development ethos;
- streamlined processes to improve efficiencies and drive non-value-adding costs out of the business; and
- substantial investment in IT and systems to allow more mobile and flexible service delivery.

Ultimately, we are positioning the business for growth, transforming it into a modern, sustainable and effective enterprise.

We have made good progress in setting the groundwork from which to deliver our strategic objectives, including substantively simplifying our service offering to core services streamlining our processes and substantially de-risking the Common Fund.

The size of the Common Fund has been reduced and the quality of underlying assets improved by selling higher risk assets and adopting lower risk investment policies. These actions have resulted in a strong capital position.

A cost reduction programme has been in place since 2012 removing more than $9 million of annually recurring costs. This has been achieved largely through a reduction of personnel and holding other costs flat. Further costs saving initiatives are underway and these will deliver benefits later in 2015.

Although Public Trust will continue to minimise its cost base, the business ultimately requires revenue growth to be financially viable in the long term. Demand for our services will be generated through targeted marketing and "special growth" initiatives.

Public Trust's Business Improvement Programme is progressing with the replacement of the current core business applications to deliver a modern technology platform that is scalable and enables Public Trust to effectively and efficiently meet customer needs. This is targeted for implementation in late 2015, and will see an overhaul of end to end business processes to align with the new business applications and target operating model.

Notwithstanding that there is still significant work to be done, we are confident that Public Trust is set on a course of action to transform the organisation into an effective, streamlined business that delivers quality customer service and is commercially sustainable.

CONTRIBUTION TO CROWN OUTPUTS

Under the Public Trust Act 2001, Public Trust is required to operate as an effective business and to exhibit a sense of social responsibility in fulfilling its obligations.

Public Trust has one reportable output as defined under section 149E(1)(a) of the Crown Entity Act. This contributes to the achievement of Ministry of Justice outcomes, and is presented below. Other Public Trust activity and related performance measures are presented in our Statement of Intent 2015-2018.

The services provided to the Ministry of Justice by Public Trust align with the Crown's expected outcomes in relation to the accessibility of the justice system to all who require it. The intermediate outcomes for Public Trust are:

- access to quality justice services is known and available;
- individuals' rights are explained and defined; and
- the rights of represented individuals are protected and acted upon.

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 outputs are measured as below.

Outcome	Measure
Access to quality justice services	Nationwide network of Public Trust offices available during business hours
Individuals' rights are explained and defined	All services comply with Court Orders, PPPR legislation All services provided at an appropriate quality at in a timely manner
The rights of represented individuals are protected and acted upon	All formal complaints dealt with under the established Public Trust complaints procedure

Services agreement

The non-commercial services to be provided to the Ministry of Justice by Public Trust under the Services Agreement are classified below. Together these are referred to as "the Services". The Services provided by Public Trust align with the Crown's expected outcomes in relation to the accessibility of the justice system to all who require it.

Providing Protection of Personal Property Rights Act 1988 administration, audit and advice services to incapacitated persons, or under Public Trust agencies.

Measure	2013/14 actual	2014/15 estimate	2015/16 forecast
Number of actions undertaken for individuals who have Protection of Personal Property Rights	6,417	7,501	5,744

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

Measure	2013/14 actual	2014/15 estimate	2015/16 forecast
Hours to manage and advise on small estates and trusts	5,025	5,507	3,969

Revenue and expenses

Expected revenue 2015/16: $1.959m.

Proposed expenses 2015/16: $1.912m.

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 FINANCIAL INFORMATION

The prospective financial statements have been prepared to meet the requirements of the Crown Entities Act 2004 and were authorised for issue by the Public Trust Board on 26 June 2015. 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 the issue of this Statement of Performance Expectations.

The prospective financial statements have been prepared on the basis of assumptions as to future events that the Public Trust Board reasonably expect to occur and actions that the Public Trust Board reasonably expects to take as at the date of issue. The Public Trust Board is responsible for the prospective financial statements presented, including the appropriateness of the assumptions underlying the prospective financial statements and all other disclosures.

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

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;
- 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; and
- 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

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;
- prudently managing its assets and liabilities;
- maintaining financial viability in the long-term;
- 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".

PROSPECTIVE STATEMENT OF FINANCIAL POSITION

Statement of Forecast Financial Position of the Group As at 30 June	Forecast 2014/15	Plan 2015/16
Assets		
Cash and cash equivalents	25,000	26,000
Investment securities	436,154	414,337
Derivative financial instruments	-	-
Advances to clients	3,823	3,794
Trade receivables & Work in progress	7,313	6,947
Advances secured by mortgage	46,310	31,529
Total financial assets	**518,600**	**482,607**
Sundry receivables	64	65
Prepayments	763	771
Current tax	244	244
Property, plant & equipment	4,813	4,539
Intangibles	14,105	17,174
Total assets	**538,589**	**505,399**
Liabilities		
Liabilities to clients - at call or short term	410,968	395,982
Liabilities to clients - term deposits	69,286	53,932
Prepaid estate administration	430	400
Total liabilities to clients	**480,684**	**450,314**
Trade payables	2,869	2,898
Current tax	-	-
Other payables	966	976
Derivative financial instruments	6,798	3,399
Prepaid income	346	350
Employee benefits	4,111	4,029
Provisions	683	690
Total liabilities	**496,457**	**462,654**
Equity		
Contributed equity	90,174	90,174
Cash flow hedging reserve	(1,561)	(1,251)
Retained earnings	(46,481)	(46,179)
Total equity	**42,132**	**42,744**
Total liabilities plus equity	**538,589**	**505,399**

The notes to the prospective financial statements form part of this statement.

PROSPECTIVE STATEMENT OF CHANGES IN EQUITY

Statement of Forecast Changes in Equity of the Group For the period 1 July 2014 to 30 June 2016	Forecast 2014/15	Plan 2015/16
Equity at the start of the year	**42,856**	**42,132**
Comprehensive income		
Other comprehensive income		
- movement in cash flow hedging reserve	(1,281)	310
Profit after tax	557	302
Total Comprehensive Income	(724)	612
Equity at end of the year	**42,132**	**42,744**

The notes to the prospective financial statements form part of this statement.

PROSPECTIVE STATEMENT OF COMPREHENSIVE INCOME

The notes to the prospective financial statements form part of this statement.

Statement of Forecast Comprehensive Income of the Group For the period 1 July 2014 to 30 June 2016	**Forecast 2014/15**	**Plan 2015/16**
Revenue		
Revenue from financial instruments		
Interest from interest bearing securities	19,768	18,867
Interest from advances secured by mortgage	4,051	2,721
	23,818	21,588
Less: Interest expense	11,831	10,590
	11,987	10,998
Fees and commission revenue	41,973	45,541
Less: Fees and commission expense	2,681	2,734
Other revenue	63	50
Revenue from the Crown	2,627	1,959
Revenue before expenses	**53,970**	**55,814**
Expenses		
Employee benefits	33,389	32,700
Operating lease costs	3,125	3,188
Depreciation	1,501	1,604
Amortisation of intangibles	792	1,867
Net losses (gains) on disposals of property, plant & equipment and intangibles	99	100
Impairment losses on advances secured by mortgages	-	218
Other expenses	14,506	15,835
Total expenses	**53,412**	**55,512**
Net gains (losses) on financial instruments	(1)	-
Profit (loss) before tax for the year	557	302
Tax expense	-	-
Profit (loss) after tax for the year	**557**	**302**
Other comprehensive income		
Items that may be reclassified to profit and loss:		
Movement in cash flow hedging reserve	(1,281)	310
Total comprehensive income for the year	**(724)**	**612**

PROSPECTIVE STATEMENT OF CASH FLOWS

Statement of Forecast Cash Flows of the Group For the period 1 July 2014 to 30 June 2016	Forecast 2014/15	Plan 2015/16
Cash flows from operating activities		
Fees and other revenue	44,358	47,916
Interest revenue	28,316	21,588
Payments to suppliers & employees	(51,219)	(53,971)
Interest expense	(18,831)	(10,590)
Taxation	-	-
Net GST expense	(522)	(532)
Net cash flows from operating activities	**2,103**	**4,411**
Net flows from trading investments	-	-
Net cash flows from operating activities	**2,103**	**4,411**
Cash flows from investing activities		
Net flows from non-trading investments	23,869	33,321
Purchase of property, plant & equipment	(446)	(1,430)
Purchase of intangibles	(9,971)	(4,936)
Net cash flows from investing activities	**13,452**	**26,956**
Cash flows from financing activities		
Net (payments to)/receipts from clients	(16,226)	(30,366)
Contribution from the Crown	-	-
Net cash flows from financing activities	**(16,226)**	**(30,366)**
Net increase (decrease) in cash and cash equivalents	**(671)**	**1,000**
Cash and cash equivalents at beginning of the year	25,671	25,000
Cash and cash equivalents at the end of the year	**25,000**	**26,000**

The notes to the prospective financial statements form part of this statement.

NOTES TO THE PROSPECTIVE FINANCIAL STATEMENTS

1. Reporting entity and statutory basis for reporting

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.

The activities and assets of the Group Investment Funds managed by Public Trust are not included except for cash balances held in the Common Fund, and to the extent that Public Trust invests 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 within the Group's prospective financial statements or those of the consolidated Group as the Group does not control these funds and trusts.

2. Basis of preparation

Accounting compliance

These prospective financial statements have been prepared in compliance with New Zealand Financial Reporting Standard No. 42 – *Prospective Financial Statements* and New Zealand Generally Accepted Accounting Practice as it relates to prospective financial statements.

Measurement basis

The financial statements have been prepared on a historical cost basis, except for financial assets and financial liabilities at fair value through profit and loss and derivatives, 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

In preparing these prospective financial statements, management have made judgements, estimates and assumptions concerning the future which may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on experience and other factors, including expectations of future events, which are believed to be reasonable under current circumstances.

3. Accounting policies

The accounting policies set out below have been consistently applied to all periods presented in these prospective financial statements and have been consistently applied to all Group entities.

Basis of consolidation

The consolidated prospective financial statements comprise the prospective 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 a former subsidiary is measured at fair value when control is lost.

In preparing the consolidated 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; and
- 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

All regular way 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 expire.

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.

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

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.

Gains and losses on these financial instruments arise where their fair value on initial recognition differs from their subsequent fair value measurement. All such gains and losses, including those arising upon sale, derecognition and foreign currency translation, are recognised in profit or loss.

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 a 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 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.

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

The proceeds from the realisation of interest rate swaps held for trading are split between capital value and accrued interest and recognised in realised gains/losses and interest revenue respectively.

Receipts or payments on maturity of forward rate agreements are recognised in interest revenue.

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 instruments – fair value hedges

Derivative financial instruments, whose purpose is to match the changes in fair value of long-dated term deposit liabilities 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 hedging instrument, together with any changes in fair value of the relevant (hedged) risk of the term deposit liabilities are recognised in profit or loss.

When a hedging instrument expires or is sold, the hedge no longer meets the criteria for hedge accounting or the hedge designation is revoked, the resulting adjustment to the carrying amount of the hedged item is amortised to profit or loss over the period to maturity of the instrument hedged.

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; 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.

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

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 cost (including origination fees), 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.

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

Impairment of Advances secured by mortgage

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.

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

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

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

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 – subject to fair value hedges

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

Other financial liabilities

Other financial liabilities include:

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

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

Property, plant and equipment

Property, plant and equipment is 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 the case of fixtures and fittings installed in leasehold properties, the useful life is considered to correspond to the estimated occupancy period based on the contractual terms of the relevant lease.

A review of property, plant and equipment is undertaken at the end of each financial year 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 and equipment; otherwise it is classified as an intangible asset.

Subsequent to initial recognition, items of property, plant and equipment are carried at their cost less any accumulated depreciation and any accumulated impairment losses. Any impairment losses 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 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.

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 an 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.

Prepaid income

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

Prepaid estate administration

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

Employee benefits

Annual leave

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

Sick leave

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

Long-service leave

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

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

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

Expense

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

Leases

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

Lease incentives

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

Tax

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

Current tax

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

Deferred tax

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

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

Goods and services tax

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

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

Receivables and payables are recognised inclusive of any applicable GST.

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

Fee revenue

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

Fees

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

Revenue from the Crown

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

Presentation of cash flows

Cash flows from operating activities are cash flows from the principal revenue producing activities of the Group. Operating activities also include net proceeds from investment securities and derivative financial instruments acquired specifically for resale. For the purpose of the Prospective 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.

4. Significant assumptions

The forecast financial statements are based on the following assumptions:

1. 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.
2. Cost reduction is achieved through reducing non value adding costs.
3. Operating costs include expected wage/salary growth and general inflation. Actual cost growth may vary from these estimates.
4. The 2015/16 Draft Purchase Agreement between the Ministry of Justice and Public Trust is confirmed and signed by both parties by 30 June 2015.
5. 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.
6. 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.
7. The cost of completing the strategic change programme is in line with forecast. The final cost of this programme may vary from these estimates.
8. Expenses include a continued investment in organisational change.
9. The investment portfolio will be operated within approved asset allocation and risk policies.