



Statement of Intent

For the financial years ending 30 June 2012 to 30 June 2014

June 2011

*with you for
generations
to come*





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Chairs' Foreword

We present the 2011/12 Statement of Intent for Public Trust.

Business Transformation in a Changing Environment

Public Trust is part way through an extensive change programme targeted at achieving financial sustainability and ensuring the organisation's on-going relevance to New Zealanders.

Central to the transformation is a focus on significantly enhancing the customer experience and improving operating capability and efficiency levels as we build a stronger business. While requiring significant investment, the change programme is delivering tangible results including year-on-year growth in core fee revenue, high customer satisfaction levels and increases in market share in key market segments. These measures all indicate that that we are on the right path to deliver enhanced value for both our customers and the Crown.

A high level of regulatory change continues, bringing both challenges and opportunities. Public Trust has undertaken substantial work to respond to regulatory changes in a way that ensures compliance and improves competitive positioning. We are focused on training employees to ensure full compliance with the Financial Advisers Act 2008 by July 2011. There is also a programme of work underway to meet the requirements of the Anti-Money Laundering and Counter Financing of Terrorism Act 2009 ahead of its implementation in 2012. We are implementing changes in light of the Securities Trustees and Statutory Supervisors Act 2011 and are monitoring the progress of The Financial Markets (Regulators and KiwiSaver) Bill, the Securities Law review and the Law Commission's review of trusts.

Public Trust is compliant with the risk management and credit rating requirements for non-bank deposit takers (NBDT) under the Reserve Bank of New Zealand Act 1989 (RBNZ Act) and was granted a three-year period to progressively meet the capital ratio requirements of the NBDT regime. The Board remains committed to building capital to ensure Public Trust maintains an appropriate and fully compliant capital structure.

The organisation is working to introduce new products and services to meet customers' life stage needs. This includes implementing a new customer investment product range and an enhanced customer feedback channel.

We are focused on improving service quality and efficiency through an ongoing programme of process redesign. Some of these initiatives have been impacted by the need to re-establish our business operations, including new premises following the 22 February earthquake in Christchurch.

In 2011/12, the Change Programme will focus on delivering the following outcomes:

- The continued development of a highly engaged and productive workforce with improved people capability;
- Capturing productivity gains from implementing effective and efficient operational management systems and process improvements;
- Enhancing the customer experience to better meet their needs and build stronger relationships to grow customer loyalty and value;
- Improving operating performance by focusing on core trustee revenue growth while tightly managing costs; and
- Leveraging continued change in the regulatory environment to enhance competitive positioning and business opportunities through the introduction of new product and service offerings that meet customer needs.

Public Trust has contractual arrangements in place with the Ministry of Justice to provide non-commercial protective fiduciary services. The Crown has confirmed its requirement for Public Trust to continue to provide services, including the provision of a free Wills service, the administration of small estates, trusts and personal property protective rights. Public Trust continues to work closely with the Ministry of Justice to review these services and implement public policy requirements.

Performance

During the 2009/10 financial year, Public Trust reported an improved financial position with a net profit of \$4.8 million compared to a loss of \$47.5 million in 2008/09. The result was principally driven by the continued reversal of unrealised investment losses, with lower mortgage provisions and an increase in operating surplus also contributing.



Public Trust reported a \$0.4 million profit after tax for the six months to December 2010, \$0.9 million ahead of budget for the period. The result reflected an increase in operating surplus before change costs against budget, but was lower than the same period in 2009/10. This was primarily due to the expected reduction in Common Fund income as a result of the change in investment risk position and increased competition for retail deposits.

In line with our strategy of focusing on enhancing products and customer service, fee and commission revenue grew as a percentage of total revenue for the first half of the 2010/11 financial year. Productivity levels improved with a 3.2% increase in revenue per customer servicing employee. Costs are being contained as a result of controls over personnel and other operating costs. There has also been a reduction in mortgage impairments as the value of the mortgage book declines and the mix changes towards high quality residential lending.

Public Trust's overall equity position has improved over the period, increasing by \$2.2 million to \$22.3 million.

Public Trust has extensive business operations in Christchurch and a significant programme of work to support our people, and customers and fully restore capability following the earthquakes is underway. This includes the establishment of new premises. The full restoration of services will not be completed until part way through the 2011/12 financial year. This has had a material effect on the 2010/11 forecast with the reduction in revenue estimated at \$1.7 million and a cost of \$1.8 million before insurance recoveries.

The planning period sees continued improvements in core operating performance, ongoing investment in the Change Programme and the expected reversal of unrealised mark-to-market investment losses. Continued growth in core trustee revenues and a strong focus on the ongoing management of operating costs is offset in the short-term by the planned decline in Common Fund margin. 2011/12 performance will be impacted by declining Common Fund revenues, the revenue and cost impact of on-going regulatory change, offset by the improvement in customer investment solution and Corporate Trustee Services revenue.

Outlook

The impacts of the Global Financial Crisis have continued throughout 2010/11. While there are signs of a gradual, albeit sporadic, recovery in New Zealand, there remains general economic uncertainty. This has been heightened by significant natural disasters in Christchurch in 2010 and 2011 and in Japan in March 2011. Public confidence in aspects of the finance sector continues to be low due to the failure of finance companies, questions over the quality of investment advice provided by financial planners and a subdued property market.

Public Trust faces a number of significant challenges, including the magnitude of organisational change being undertaken and the need to grow core fee revenues while effectively responding to external factors such as the impact of the Christchurch earthquakes and the high level of regulatory change underway.

The organisation, while making good progress towards its goal of becoming financially sustainable, is still dependant on the reversal of investment losses, particularly over the period of this Statement of Intent to generate a surplus after tax.

We remain confident however, that Public Trust can improve its financial position and reinforce its role as Trustee for all New Zealanders as we deliver an enhanced customer experience.

On behalf of the Board,



Trevor D Janes
Chair
30 June 2011



Robin Hill
Deputy Chair



1 Public Trust Profile

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 trusts 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 23,000 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 2,100 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 138 years and currently offer the following products and services:

- Corporate trustee services. Public Trust has over \$35 billion of funds under supervision on behalf of investors.
- Public Trust administers approximately \$3.9 billion in assets including around \$1.2 billion in investment funds.
- Wills and Estates. Public Trust drafts approximately 23,000 Wills and administers approximately 2,100 estates each year.
- 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 \$370 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.
- Student fee protection. Over 240 private training establishments are signed up to Public Trust's Fee Protect service. Fee Protect safeguards the fees of more than 47,000 students totalling over \$245 million.
- Enduring powers of attorney.
- Advice and support for managing personal financial, investment and property matters (Personal Assist).

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

- Home loans and conveyancing. Total mortgage lending to Public Trust customers is in excess of \$215 million.
- Financial and retirement planning.
- Life, House & Contents and Car & Boat insurance.
- Tax planning and advice.
- 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.

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, Non Government Organisations 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 200 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. This includes situations where individuals are not in a position to afford services provided by the industry, 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 465 employees, 28 customer centres, and 18 part-time offices 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 cover 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

While the economy is improving, the recovery will be gradual and consumer confidence has only recently started to increase. Employment conditions continue to improve, although employment forecasts are predicted to stay unchanged in the immediate future.

The regulatory landscape in which Public Trust operates continues to be a place of significant change. This is resulting in increased regulatory requirements and greater compliance costs. There are opportunities however to enhance the customer experience and improve competitive positioning. Implementation of the Financial Advisers Act 2008 and strategies associated with the 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 Trust is compliant with the risk management and credit rating requirement for NBDT under the Reserve Bank of New Zealand Act 1989 (RBNZ Act). The strong investment grade credit rating assigned in August 2010 and subsequent deposit rating of Aaa, combined with the Crown guarantee on Common Fund deposits, provide customers with confidence in their investments with Public Trust.

Public confidence in many aspects of the finance sector remains 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 continue to enhance capability to meet the needs of customers and increase the value of the Organisation for the Crown. The capability of our employees is the key to the organisation becoming customer centric and building productive relationships with customers.

The primary focus of the 2012-2016 Strategic Plan is to:

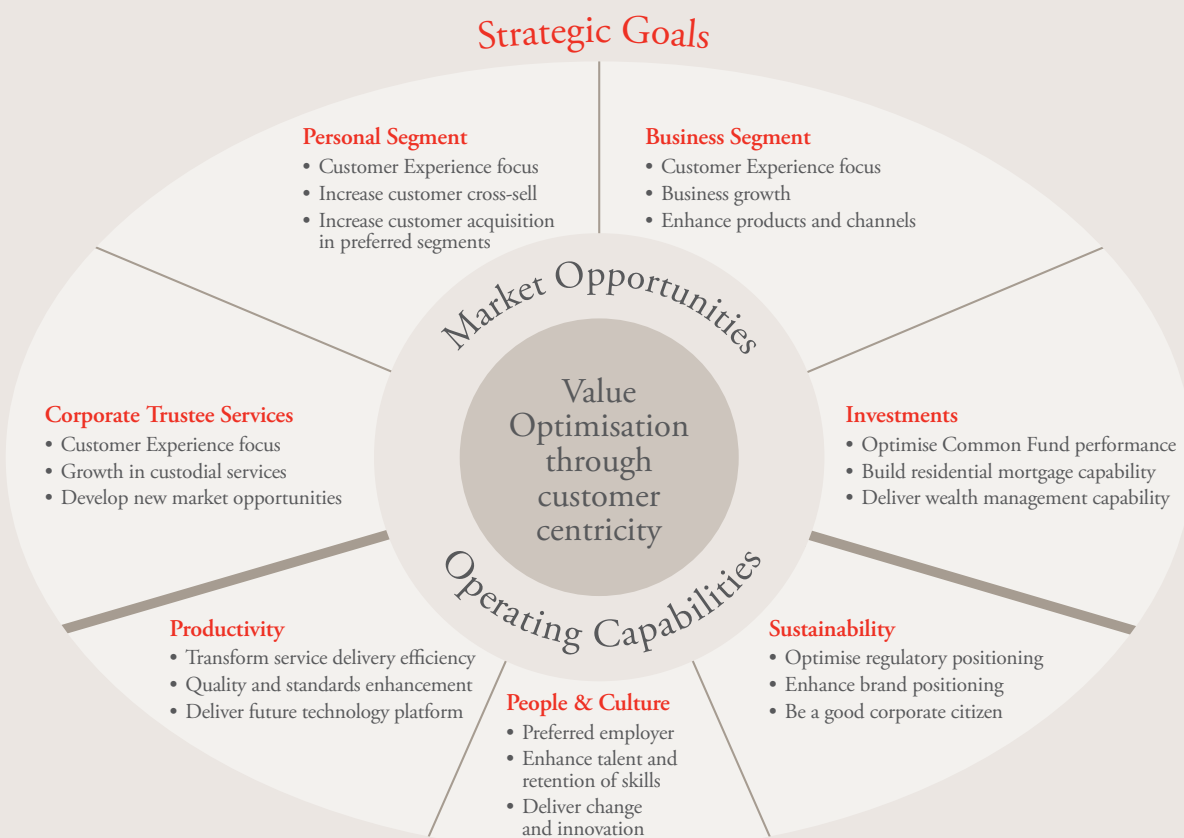
- Continue to refine and enhance the customer experience, becoming customer-driven, resulting in stronger relationships with customers;
- Invest in, and develop, the capabilities of our people to create a highly productive and engaged workforce that enables Public Trust to transform into a commercially successful organisation while building a culture of adaptability to change;
- Improve operating performance through increasing core trustee revenue while tightly managing costs;

- Achieve productivity gains from implementing effective and efficient operational management systems and process improvements;
- Ensure Public Trust’s cost structures are optimised to ensure that value is delivered to customers and financial performance targets are achieved; and
- Leverage regulatory requirements to enhance our competitive positioning and business opportunities, gaining competitive advantage through the introduction of new and desirable product and service offerings that meet customer needs.

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 key strategies.

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



Commercial valuation

The Board's estimate of the current commercial value of the Crown's investment in Public Trust is \$36.0 million. The valuation was calculated on a "value in use" basis, as at 30 April 2011. The "value in use" basis does not necessarily represent what a "willing buyer" would pay, since a buyer may need to consider both the need for additional capital to meet NBDT capital ratio requirements and any implications relating to the availability of the Government Guarantee on Common Fund investments.

The discounted cash flow (DCF) methodology was used to calculate a net present value (NPV) of the Public Trust Group, including all subsidiaries, on an after-tax basis.

The methodology is based on the nominal future cash flows for separate business units as set out in Public Trust's five-year Business Plan, with forward projections made for Years 6 through 10.

A terminal value is calculated after normalising the cash flow in the final year of the projection period and applying a growth rate to perpetuity of 1.5%.

A discount rate of 9.6% was assumed. The valuation was prepared internally by Public Trust's Finance group and key assumptions were externally peer-reviewed, prior to approval by the Board.

The valuation includes the benefit to the Crown of Public Trust's cumulative tax losses.

The prior year's commercial valuation (as at 30 April 2010) utilised a discount rate of 9.9%. Using the 2011 discount rate of 9.6% and a consistent valuation approach, the comparative figure is \$30.1 million.

The commercial valuation and comparative for last year is summarised in the table below. The 2011 commercial valuation of \$36.0 million includes the benefit of cumulative tax losses to the Shareholder of \$7.2 million, (\$8.0 million in the 2010 commercial valuation).

Commercial Value – 2011 compared to 2010	April 2011	April 2010
Discount Rate %	9.6%	9.9%
Commercial Value	\$ 36.0m	\$ 34.5m
Adjustment for change in discount rate / growth assumptions / methodology	-	- \$4.4m
Comparative Commercial Value	\$ 36.0m	\$ 30.1m

Note: Cash flows used for valuation purposes assume the Crown guarantee on Common Fund investments.



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 undertaking its responsibilities. Public Trust's obligations in this regard go deeper than just behaving in a socially responsible manner. Unlike its competitors, Public Trust contributes to Government and social objectives. As such, 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.

Public Trust Outputs	Public Trust Outcomes	Crown Outcomes
Provision of last resort fiduciary services	Access is maintained for New Zealanders to the effective provision of last resort fiduciary services	Accessibility of the Justice System to all who require it
1 Provision of Wills	1 Effective provision of fiduciary services	1 Acting as the supplier of last resort
2 PPPR Administration	2 Service availability	2 Assisting individuals who are not in a position to look after their own affairs
3 PPPR Advice		3 Providing services to those who otherwise could not afford them
4 Small Estates and Trusts		4 Helping to define and protect personal and property rights
5 Other non-Commercial Public Functions		

Public Trust Outputs

Public Trust delivers the following non-commercial protective fiduciary services which are funded by the Crown through a Memorandum of Understanding (referred to as the Agreement), agreed annually between Public Trust and the Crown (through the Minister of Justice). Public Trust output volumes are outlined in the Statement of Forecast Service Performance.

Output	Description
Wills advice and preparation	Preparation of Wills for New Zealanders.
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.
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.
Non-commercial services for the administration of small and/or complex 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.
Other non-commercial 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.



Public Trust Outcomes

Public Trust will ensure that access is maintained for all New Zealanders to enable the effective and efficient provision of “last resort” fiduciary protective services. Public Trust will provide non-commercial fiduciary protective services:

- At the same level of quality and professional focus as services that are paid for at commercial rates by other Public Trust customers;
- With the same levels of efficiency and at a similar cost to the same services provided on a commercial basis; and
- Through a nationwide network of offices, free 0800 number and through accessing our website.

Contribution to Government Outcomes

Public Trust contributes to Justice Sector outcome of an accessible Justice system through the provision of non-commercial “last resort” protective fiduciary services. Accessibility incorporates:

Awareness of Rights & Definition and Protection of Rights.

Awareness of Rights	<ul style="list-style-type: none"> • Advice in relation to PPPR • Advice in relation to Wills • Advice on Trustee Law
Definition and	<ul style="list-style-type: none"> • Wills
Protection of Rights	<ul style="list-style-type: none"> • Enduring Power of Attorney • Trustee Services • Estate Administration • PPPR • Other Public Function

As the provider of last resort fiduciary protective services Public Trust has a key responsibility to:

1 Act as trustee of “last resort”

There are various statutes that require Public Trust to provide fiduciary services when there is no other provider or other providers are deemed not to be appropriate.

2 Assist individuals who are not in a position to look after their own affairs

There are 15 Acts where Public Trust acts on behalf of those unable to look after their own affairs. In many cases Public Trust is the sole designated provider.

3 Provide services to those who otherwise could not afford them

Protective fiduciary services are focused on funded services for customers with low liquid assets or low value estates where the value is insufficient to sustain normal commercial charges.

4 Help to define and protect personal property rights

Public Trust acts to minimise costs associated with ill-defined property rights.

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. Public Trust’s success depends upon values which include putting the interests of customers first and being trustworthy. Public Trust has an Ethics Framework which supports and enforces 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.



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;
- The impartial and transparent recruitment and selection practices;
- Recognition of the aims, employment requirements and involvement of Māori;
- 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.

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



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 2011 to 30 June 2014 are shown below, along with actual results for 2008/09 and 2009/10 data, for comparative purposes.

	ACTUAL RESULTS 2008/09	ACTUAL RESULTS 2009/10	FORECAST 2010/11	FORECAST 2011/12	FORECAST 2012/13	FORECAST 2013/14
Ownership perspective						
Profit (Loss) after Tax for the Year	\$(47.5)m	\$4.8m	\$1.3m	\$1.9m	\$3.4m	\$6.0m
Return on Equity ¹	n/a	n/a	6.2%	7.9%	12.8%	18.8%
Distributions to Crown	nil	nil	nil	nil	nil	nil
Efficiency and effectiveness perspective						
Cost/Income Ratio ²	95.8%	94.6%	99.1%	97.4%	92.9%	95.4%
Capability perspective						
Employee Engagement ³	55%	41%	48%	50%	52%	55%
Customer and market perspective						
Market Shares: ⁴						
– Wills	12.0%	15.0%	15.0%	15.1%	15.2%	15.3%
– Estates	14.0%	13.9%	14.1%	14.2%	14.3%	14.4%
Customer Satisfaction ⁵	8.1	7.0	7.5	7.75	8.0	8.25
Net Promoter Score ⁶	n/a	n/a	10	18	20	22

Notes:

- ¹ Return on Equity is surplus/(deficit) (including investment gains/(losses) after tax divided by the average of opening and closing equity. ROE for 2008/09 and 2009/10 are not calculated due to the negative equity position at 30 June 2008 and 30 June 2009.
- ² Total Expenses (excluding Change and Restructuring costs and mortgage losses) / Revenue (excluding investment gains/(losses)). Project Costs are transferred from Change Costs to Total Expenses from 2013/14 onwards.
- ³ Independent survey of employee engagement (2009 Global benchmark = 34%, 2009 New Zealand benchmark = 42%).
- ⁴ Independently conducted survey of market share. There was a change in research provider and methodology for 2009/10
- ⁵ Independently conducted survey of customer satisfaction (Range: 1 = poor, 10 = excellent).
- ⁶ The net promoter score is derived from asking our customers the question "Would you recommend Public Trust to family and friends?" The score is the number of people who gave us a 9-10 (10 being extremely positive), minus those who gave us a score of 5 or less (being unlikely or negative). The net promoter score was measured in September 2010. There is no comparative measure in 2008/09 or 2009/10.



4 Monitoring and *Evaluation (continued)*

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. The key formal reports include:

- Annual Report;
- Statement of Intent;
- Half-Yearly Interim Report; and
- Business Plan.

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.

Further to these reports Public Trust is also required to provide reporting to the Ministry of Justice on a quarterly basis on the performance results of the outputs agreed with the Ministry each year. This reporting includes assessment of the actual performance against the performance criteria set for each output and commentary on how the output is contributing to the Government’s desired outcomes.



5 Forecast Financial Statements

For the Financial Year ended 30 June 2012

Statement of Forecast Financial Position of the Group

As at 30 June 2012

	FORECAST 2010/11 \$000	FORECAST 2011/12 \$000
Assets		
Cash and cash equivalents	10,000	10,000
Investment securities	634,316	418,171
Derivative financial instruments	2,500	2,500
Advances to clients	5,774	5,774
Trade receivables	4,500	4,500
Advances secured by mortgage	205,000	212,000
Total financial assets	862,090	652,945
Sundry receivables	100	100
Prepayments	1,000	1,000
Current tax	227	227
Property, plant & equipment	7,500	8,300
Intangibles	3,100	3,000
Total assets	874,017	665,572
Liabilities		
Liabilities to clients - at call or short term	435,000	430,000
Liabilities to clients - term deposits	400,000	194,000
Prepaid estate administration	700	650
Total liabilities to clients	835,700	624,650
Trade payables	2,100	2,100
Other payables	1,800	1,800
Derivative financial instruments	7,000	7,000
Prepaid income	250	250
Employee benefits	4,500	4,635
Provisions	350	300
Total liabilities	851,700	640,735
Equity		
Contributed equity	90,174	90,174
Cash flow hedging reserve	(1,982)	(1,332)
Retained earnings	(65,875)	(64,005)
Total equity	22,317	24,837
Total liabilities plus equity	874,017	665,572



5 Forecast Financial Statements

For the Financial Year ended 30 June 2012

(continued)

Statement of Forecast Changes in Equity of the Group

For the period 1 July 2010 to 30 June 2012

	FORECAST 2010/11 \$000	FORECAST 2011/12 \$000
Opening balance		
Contributed equity	90,174	90,174
Cash flow hedging reserve	(2,882)	(1,982)
Retained earnings	(67,197)	(65,875)
	20,095	22,317
Total comprehensive income		
Profit after tax	1,322	1,870
Other comprehensive income – movement in cash flow hedging reserve	900	650
	2,222	2,520
Closing balance		
Contributed equity	90,174	90,174
Cash flow hedging reserve	(1,982)	(1,332)
Retained earnings	(65,875)	(64,005)
Equity at end of the year	22,317	24,837



5 Forecast Financial Statements

For the Financial Year ended 30 June 2012

(continued)

Statement of Forecast Comprehensive Income of the Group

For the period 1 July 2010 to 30 June 2012

	FORECAST 2010/11 \$000	FORECAST 2011/12 \$000
Revenue		
Revenue from financial instruments		
Interest from interest bearing securities	28,471	28,350
Interest from advances secured by mortgage	15,947	16,903
	44,418	45,253
Less: Interest expense	27,182	30,729
	17,236	14,524
Fees and commission revenue	40,421	45,361
Less: Fees and commission expense	1,600	1,650
Other revenue	2,585	210
Revenue from the Crown	4,500	4,500
Revenue before expenses	63,142	62,945
Expenses		
Employee benefits	42,299	43,645
Operating lease costs	4,473	4,426
Depreciation	2,049	2,331
Amortisation of intangibles	180	175
Net losses (gains) on disposals of property, plant & equipment and intangibles	275	75
Impairment losses on advances secured by mortgages	1,623	1,067
Other expenses	17,621	15,456
Total expenses	68,520	67,175
Net gains (losses) on financial instruments	6,700	6,100
Profit before tax for the year	1,322	1,870
Tax expense	-	-
Profit after tax for the year	1,322	1,870
Other comprehensive income		
Movement in cash flow hedging reserve	900	650
Total comprehensive income for the year	2,222	2,520



5 Forecast Financial Statements

For the Financial Year ended 30 June 2012

(continued)

Statement of Forecast Cash Flows of the Group

For the period 1 July 2010 to 30 June 2012

	FORECAST 2010/11 \$000	FORECAST 2011/12 \$000
Cash flows from operating activities		
Fees and other revenue	48,057	50,071
Interest	44,418	45,253
Taxation	499	-
Trading payments		
Payments to suppliers & employees	(66,102)	(64,392)
Interest	(27,182)	(30,729)
Taxation	-	-
GST	(700)	(700)
Cash flows from operating activities before changes in trading investments	(1,010)	(497)
Net flows from trading investments	-	-
Net cash flows from operating activities	(1,010)	(497)
Cash flows from investing activities		
Net flows from non-trading investments	34,959	214,828
Purchase of property, plant & equipment	(3,158)	(3,206)
Purchase of intangibles	(265)	(75)
Net cash flows from investing activities	31,536	211,547
Cash flows from financing activities		
Net receipts from clients	(47,051)	(211,050)
Net cash flows from financing activities	(47,051)	(211,050)
Net increase (decrease) in cash and cash equivalents	(16,526)	0
Cash and cash equivalents at beginning of the period	26,526	10,000
Cash and cash equivalents at end of year	10,000	10,000



5 Forecast Financial Statements

For the Financial Year ended 30 June 2012

(continued)

Significant Assumptions Underlying the Forecast Financial Statements

The forecast financial statements were authorised for issue on the 29th April 2011 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. There is no intention to update the forecast financial statements after it has been authorised for issue.

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 2011 Business Plan assumptions:

- 1 Continued growth in revenue resulting from a number of initiatives.
- 2 Expenses include a continued investment in change projects; including regulatory compliance and process re-design initiatives to improve operational efficiency.
- 3 The 2011/12 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.
- 4 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.
- 5 The investment portfolio will be operated within approved asset allocation and risk policies.
- 6 Public Trust is compliant with the risk management and credit rating requirements for Non-Bank Deposit Takers under the Reserve Bank of New Zealand Act 1989 (RBNZ Act) and was granted an exemption, effective 1 December 2010, from the related party exposure and liquidity requirements of the RBNZ Act by the Reserve Bank. An exemption has been granted to Public Trust until 1 December 2013 relating to the capital requirements.
- 7 The Financial Advisers Act 2008 and the Financial Service Providers (Registration and Dispute Resolution) Act 2008 will come into effect 1st July 2011. The revenue and cost implications have been incorporated into the five-year forecast.
- 8 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 2010/11 forecast – in the current economic climate these forecasts are 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.
 - The forecast includes estimates of the revenue and cost impacts of the Christchurch earthquake, including insurance recoveries. Accurate final figures are not yet known.



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 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. 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 2012. It is important to note that these service levels are yet to be confirmed as part of the Memorandum of Understanding for 2011/12 as they are under review with the Ministry of Justice.

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 2012 are set out below:

Output 1:	Wills Advice and Preparation	Preparation of Wills for New Zealanders.
Performance Criteria	Quantity	The number of Wills and Wills re-drafts to be written is dependent upon the finalisation of the terms and conditions of the 2011/12 Memorandum of Understanding for non-commercial services.
	Quality	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 95% of Wills will be available for signing within 7 days of taking instructions.



6 Statement of Forecast *Service Performance* (continued)

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	<ul style="list-style-type: none"> • 6,800 actions. • 7,870 hours administering financial affairs under the PPPR Act.
	Quality	<ul style="list-style-type: none"> • Administration of financial affairs: <ul style="list-style-type: none"> – 95% reappointment as manager following review of management by Family Court. – No unresolved complaints from relatives and caregivers, relating to individual interests of the beneficiaries.
	Timeliness	<ul style="list-style-type: none"> • Examination of Private Manager Statements: <ul style="list-style-type: none"> – 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	<ul style="list-style-type: none"> • 700 hours spent providing services on behalf of incapacitated persons. • 1,540 enquiries.
	Quality	<ul style="list-style-type: none"> • Complaints from customers will be less than 1% of cases dealt with.
	Timeliness	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 7,880 hours (or corresponding volume) spent administering small and/or complex estates and trusts administered. • 560 tax returns. • 770 hours spent providing advice.
	Quality	<ul style="list-style-type: none"> • 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.
	Timeliness	<ul style="list-style-type: none"> • 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.



6 Statement of Forecast *Service Performance* (continued)

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	<ul style="list-style-type: none"> • 50 hours spent providing services involving public functions in relation to assets and rights of missing, unknown or incapable persons. • 60 contracts.
	Quality and Timeliness	<ul style="list-style-type: none"> • 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* \$4.5 million (GST exclusive)

Public Trust will balance the appropriation across all outputs to the maximum available appropriation. In this regard Public Trust will apply the value of outputs above budgeted levels to outputs that are below budgeted levels.

* *The costs associated with provision of non-commercial services will be dependent on the level of services to be delivered and finalisation of the terms and conditions of the 2011/12 Memorandum of Understanding for non-commercial services.*



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;*
- *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 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;*
- *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”.*



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.

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

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



Appendix B – *Statement of Accounting Policies* (continued)

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 Forecast 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 de-recognition of financial instruments

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

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

Effective interest rate method

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

Financial assets at fair value through profit or loss

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

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

Financial instruments classified at fair value through profit or loss 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, de-recognition and foreign currency translation, are recognised in profit or loss, except for those in relation to derivatives that qualify for cash flow hedge accounting, which are recognised in an equity reserve within other comprehensive income.

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



Appendix B – *Statement of Accounting Policies* (continued)

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

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

Derivatives designated as hedging instruments – cash flow hedges

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

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

When the 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 profit or loss.

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

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.



Appendix B – *Statement of Accounting Policies* (continued)

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, de-recognition or impairment and are recognised in profit or loss. Any interest revenue arising on loans and receivables is recognised in profit or loss in accordance with the associated effective interest rate.

Impairment

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

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

Cash and cash equivalents

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

Investment securities

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

Advances to clients

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

Trade receivables

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

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

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

Advances secured by mortgage

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

Advances secured by mortgage – impairment

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



Appendix B – *Statement of Accounting Policies* (continued)

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

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

For the purposes of a collective evaluation of impairment, advances secured by mortgage excluding those where an individual impairment allowance has been provided are grouped together on the basis of similar risk characteristics. Future cash flows of the group are estimated on the basis of the contractual cash flows and historical loss experience for assets with similar risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

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

Financial liabilities at fair value through profit or loss

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

Other financial liabilities

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

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

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

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

Foreign currency transactions

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

Foreign currency investment assets

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

Property, plant & equipment

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

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



Appendix B – *Statement of Accounting Policies* (continued)

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

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

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

Impairment

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

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

Intangible assets

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

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

Goodwill

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

Goodwill impairment

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

Intangible IT assets

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

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

Intangible IT assets impairment

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

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

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.



Appendix B – *Statement of Accounting Policies* (continued)

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 Forecast 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 on an actuarial basis. Projected cash flows are estimated in accordance with both national and entity experience. The resulting projected cash flows are discounted in accordance with market yields on New Zealand Government bonds as at the balance sheet date.

Provisions

Restructuring

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

Vacant space

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

Remedial work and litigation

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

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

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

Expense

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

Leases

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



Appendix B – *Statement of Accounting Policies* (continued)

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 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 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 Forecast Financial Position.

Fee revenue

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

Fees

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

Revenue from the Crown

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

Presentation of cash flows

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



Appendix B – *Statement of Accounting Policies* (continued)

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 2012, and have not been applied in preparing these forecast financial statements:

- NZ IFRS 7 *Financial Instruments: Disclosures* (amendments 2010): effective for annual periods beginning on or after 1 January 2011. These amendments will initially be applied in the actual financial statements for the year ending 30 June 2012. They do not apply to the disclosure requirements of the forecast financial statements. The amendments clarify the financial instrument disclosures.
- NZ IFRS 9 *Financial Instruments*: effective for annual periods beginning on or after 1 January 2013. This standard will initially be applied in the forecast financial statements for the year ending 30 June 2014. This standard requires all financial assets to be classified on the basis of the entity's business model for managing the financial asset and the contractual cash flow characteristics. The 2010 amendments retained the requirements for classification and measurement of financial liabilities and retained the recognition requirements of NZ IAS 39 *Financial Instruments: Recognition and Measurement*.

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

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



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.







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