

Second Report of  
**Public Trust**  
For the year ended 30 June 2003



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## Purpose

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This Report has been prepared to meet the requirements of...

- Section 40 of the Public Trust Act 2001;
- Part V of the Public Finance Act 1989; and
- The Statement of Intent of Public Trust.

The report covers the activities for the year ended 30 June 2003.

## Chairman's Report

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This is the first full year report of Public Trust since it was established as a Crown entity on 1 March 2002.

The Board is delighted to report a return to profit.

The turnaround in performance is very pleasing and is a consequence of disciplined expense management, and a renewed focus on the core business of wills, estates and trusts.

### Governance

The Board operates Audit Finance and Risk Management; Human Resources and Compensation; Investment; Social Responsibility and Due Diligence committees to assist it to fulfil its strategic leadership, corporate governance and business monitoring responsibilities. The Board members have given willingly of their time and I thank them for their dedication and contribution to the committee work.

### Leadership

Following the resignation of Chief Executive Tim Sole in November 2002, Pat Waite stood down from the Board at the Board's request to act as Chief Executive until there was a full time appointment to the role. Following a selection process, Pat Waite was formally appointed as Chief Executive in April 2003. The Board is delighted to have a person of such broad experience and capability in the role.

### Planning

Under Pat's leadership, there has been a robust and collaborative planning process for the next three years from which the Strategic Plan has been developed. The Board were an integral part of this process along with senior staff from around Public Trust.

A profit is forecast for the 2003/04 year and the Board plans to reinvest a large proportion of this back into the business. The Board will ensure reinvestment in Public Trust to strengthen its core competencies.

The Strategic Plan has been accepted by the Minister Responsible for Public Trust and the Minister of Finance.

### The Future

Public Trust is a trusted New Zealand institution with 130 years of expertise in trust and estate management.

The Board is totally committed to achieving market leadership, positioning Public Trust as an expert, proficient and respected trustee corporation.

On behalf of the Board, I thank the executive and staff for their professionalism and commitment to continued efforts over the coming year.



**Peter J M Taylor**  
CHAIR

## Chief Executive's Report

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I am pleased to report a net profit for the year to 30 June 2003 of \$90,000. This is an \$8.5m turnaround on the previous combined full year's performance of Public Trust and its predecessor.

The turnaround can be attributed to...

- disciplined expense management
- greater focus on our core business
- a streamlined executive and management team that is dynamic, aligned and efficient.

### Senior management

The Executive Team has gone through changes in the past six months with a reduction in team numbers from five to three. This better reflects the management structure needed for the size of the organisation.

The restructure of management has, regrettably, seen the loss of a number of valuable people with a long history of service to Public Trust. Their contribution over many years is acknowledged.

### Organisational focus

The business plan for the 2003/04 year supports a strategy of *getting fit* ready for growth in the future. The organisation's focus is on six key areas...

- expense management
- maintaining business momentum
- clarity around product profitability
- re-engineering our business processes to achieve an improved customer experience and greater efficiency
- actively managing our social responsibility
- building our organisational capability aligned to our business goals.

Continuation of the improved performance will allow reinvestment in the drivers of Public Trust's core business. Project management disciplines have been introduced to ensure effective prioritisation, planning and implementation.

### Culture

The internal culture of Public Trust has made a very positive impression on me since I assumed the role of Chief Executive. Employees care about people and are passionate about helping others. The nature of our work means this help is very often given at a time of grief and sadness and I am heartened by the volume of positive anecdotal customer feedback I receive.

This is further borne out by formal research. Regular tracking by external research houses shows Public Trust has high customer satisfaction ratings. We enjoy loyalty through inter-generational customer relationships—a reflection of the expertise and professionalism of our staff.

## ■ PUBLIC TRUST – JUNE 2003

### **Our challenge**

The rebranding of Public Trust which was started in 1999 has successfully moved our image from an old style public service to a modern and dynamic organisation. The image has succeeded in vastly improving our likeability. Our challenge is to translate this into increased business volumes.

Our customers tell us they want to have more contact with us. In this and subsequent years we will have a particular focus on developing deeper relationships with our existing clients and with beneficiaries of estates.

We must tell the Public Trust story in a more compelling way so that our existing and potential customers understand the breadth of our expertise.

I am grateful for the support and hard work of the Public Trust team in achieving a return to profit and their commitment to our continued improvement over the coming year.

A handwritten signature in black ink, appearing to read 'Pat Waite', with a long horizontal flourish extending to the right.

Pat Waite  
CHIEF EXECUTIVE

## **Governance**

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

### **Role of the Board**

The Board is responsible in terms of the Public Trust Act 2001 for supervising or directing management of the affairs of Public Trust. In practice this is exercised through delegation to the Chief Executive (CE) who provides day-to-day leadership and has statutory responsibility for the efficient and effective management of the affairs of Public Trust.

Separation of the governance role of the Board from the management role of the CE is reinforced by the bar in the Public Trust Act 2001 on the CE being a member of the Board. The Chair of the Board interfaces with the CE, in addition to providing leadership to, and effective management of, the Board.

### **Board Committees**

On establishment of Public Trust in March 2002, the Board constituted four Committees, namely the Audit, Finance and Risk Management Committee, the Investment Committee, the Human Resources and Compensation Committee and the Social Responsibility Committee.

In August 2002 the Board established an additional Committee, the Due Diligence Committee.

Meetings of all five Committees are held on an “as required” basis throughout the year.

### **Audit, Finance, and Risk Management Committee**

Elizabeth Coutts (Chair)  
Sarah Ottrey  
Murray Weatherston  
Peter Taylor

This Committee reviews the accounting policies, procedures and practices, financial reporting and external and internal audit activities of the Public Trust business (including the Common Fund) and the several Group Investment Funds established and managed by Public Trust. It reviews the related annual financial statements (and in the case of the Group Investment Funds, the related semi-annual financial statements) and also oversees risk management activities within Public Trust.

Non-audit services may not be undertaken for Public Trust by the organisation’s external auditors without the prior approval of this Committee.

### **Investment Committee**

Richard Nelson (Chair)  
Murray Weatherston  
Peter Taylor  
Mary Watson

This Committee reviews the investment policies, procedures and practices and investment performance relating to the Common Fund and the several Group Investment Funds established and managed by Public Trust.

■ PUBLIC TRUST – JUNE 2003

**Human Resources and Compensation Committee**

Stephanie McIntyre (Chair)  
Patricia Jones  
Peter Taylor

This Committee reviews Public Trust remuneration policies and their implementation, human resource requirements and recruitment policies and practices. It also evaluates the performance of the CE.

**Social Responsibility Committee**

Sarah Ottrey (Chair)  
Stephanie McIntyre  
Patricia Jones  
Richard Nelson  
Peter Taylor

This Committee reviews the policies, procedures and practices of Public Trust directed to its statutory objective of being an organisation that exhibits a sense of social responsibility by having regard to the interest of the communities in which it operates.

**Due Diligence Committee**

Peter Taylor (Chair)  
Elizabeth Coutts  
Murray Weatherston  
Richard Nelson

This Committee oversees compliance activities relating to documents required to be executed, completed, registered or otherwise dealt with, by or on behalf of Public Trust in terms of the Securities Act 1978, the Securities Regulations 1983, the Financial Reporting Act 1993 and other relevant legislation.

## Statement of Responsibility for the year ended 30 June 2003

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The Board and management of Public Trust accept responsibility for the preparation of the Financial Statements. The judgments applied in the preparation of the Financial Statements are given in the Statement of Accounting Policies.

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

In the opinion of the Board and management of Public Trust, the Financial Statements for the year ended 30 June 2003, fairly reflect the financial position, results of operations and cash flows of Public Trust.



**Peter J M Taylor**  
CHAIR



**Pat Waite**  
CHIEF EXECUTIVE

## Statement of Financial Position as at 30 June 2003

	notes	Group		Parent		
		Actual	Budget	Actual	Actual	Actual
		June	June	June	June	June
		2003	2003	2002	2003	2002
		\$000	\$000	\$000	\$000	\$000
<b>■ ASSETS</b>						
Cash and bank		3,607	2,284	6,750	3,600	6,748
Money market deposits at call		22,000	12,468	5,680	22,000	5,680
Interest bearing securities	1	349,010	283,134	198,880	349,010	198,880
Advances to clients		3,193	–	7,135	3,193	7,135
Accrued income		505	985	985	505	985
Trade debtors	2	3,664	3,542	3,173	3,295	2,829
Sundry debtors	3	949	756	756	559	585
Investments in managed funds		–	–	90,880	–	90,880
Advances secured by mortgage	4	157,695	165,000	165,200	157,695	165,200
<b>Total financial assets</b>		<b>540,623</b>	<b>468,169</b>	<b>479,439</b>	<b>539,857</b>	<b>478,922</b>
Prepayments		384	1,089	704	384	704
Property, plant & equipment	5	7,696	13,384	7,892	7,696	7,892
Intangibles	6	4,508	4,524	5,175	–	–
Investment in subsidiary	7	–	–	–	7,408	7,203
		<b>553,211</b>	<b>487,166</b>	<b>493,210</b>	<b>555,345</b>	<b>494,721</b>
<b>■ LIABILITIES</b>						
Liabilities to clients—at call or short term		311,716	289,460	310,592	311,716	310,592
Liabilities to clients—term deposits		189,793	150,000	131,284	189,793	131,284
Accrued interest		3,464	–	1,716	3,464	1,716
Liabilities of uncertain timing	8	1,449	–	627	1,449	627
<b>Total liabilities to clients</b>		<b>506,422</b>	<b>439,460</b>	<b>444,219</b>	<b>506,422</b>	<b>444,219</b>
Trade creditors		1,265	1,963	1,833	1,145	1,801
Other creditors	9	1,369	1,068	1,198	1,369	1,198
Provisions for employee entitlements	10	4,057	5,786	5,028	4,057	5,028
Other provisions	11	1,207	1,861	2,131	1,207	2,131
Loan from subsidiary		–	–	–	2,254	1,543
<b>Total liabilities</b>		<b>514,320</b>	<b>450,138</b>	<b>454,409</b>	<b>516,454</b>	<b>455,920</b>
Equity		38,891	37,028	38,801	38,891	38,801
<b>Total liabilities plus equity</b>		<b>553,211</b>	<b>487,166</b>	<b>493,210</b>	<b>555,345</b>	<b>494,721</b>

For and on behalf of the Board, who authorised the issue of the financial statements on 25 September 2003.



Peter J M Taylor  
DIRECTOR



Elizabeth Coutts  
DIRECTOR

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

**Statement of Movements in Equity  
for the year ended 30 June 2003**

	Actual	Group	Actual	Parent	Actual
	June	Budget	4 Months	Actual	4 Months
	2003	June	to June	June	June
	\$000	2003	2002	2003	2002
		\$000	\$000	\$000	\$000
Equity at the beginning of the year	38,801	36,961	–	38,801	–
Net surplus (deficit) after tax	90	67	(1,373)	90	(1,373)
<b>Total recognised revenues &amp; expenses for the year</b>	<b>90</b>	<b>67</b>	<b>(1,373)</b>	<b>90</b>	<b>(1,373)</b>
Contribution by the Crown	–	–	40,174	–	40,174
<b>Equity at the end of the year</b>	<b>38,891</b>	<b>37,028</b>	<b>38,801</b>	<b>38,891</b>	<b>38,801</b>

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

## Statement of Financial Performance for the year ended 30 June 2003

	notes	Actual	Group	Actual	Parent	Actual
		June	Budget	4 Months	Actual	4 Months
		2003	June	to June	June	to June
		\$000	2003	2002	2003	2002
			\$000	\$000	\$000	\$000
<b>■ REVENUE</b>						
<b>Income from financial instruments</b>						
Interest from interest bearing securities		19,286		3,176	19,272	3,175
Interest from advances secured by mortgage		11,916		3,825	11,916	3,825
Distributions from managed funds		1,189		1,948	1,189	1,948
		32,391	30,216	8,949	32,377	8,948
Interest expense		20,121	18,956	5,312	20,121	5,312
		12,270	11,260	3,637	12,256	3,636
<b>Operating revenue</b>	15	31,509	34,710	10,630	30,582	10,325
<b>Crown revenue</b>		4,300	4,300	1,507	4,300	1,507
<b>Income before operating expenses</b>		<b>48,079</b>	<b>50,270</b>	<b>15,774</b>	<b>47,138</b>	<b>15,468</b>
<b>■ EXPENSE</b>						
Operating costs		41,011	42,449	15,058	40,942	15,043
Operating lease costs		4,748	4,398	1,153	4,748	1,153
Depreciation	15	2,498	2,689	733	2,498	733
Net (gains) losses on disposals of property, plant & equipment		(17)	–	132	(17)	132
Amortisation of goodwill	6	667	667	223	667	223
		48,907	50,203	17,299	48,838	17,284
<b>Net gains (losses) on investments</b>	15	918	–	152	918	152
<b>Equity accounted earnings</b>		–	–	–	872	291
<b>Net surplus (deficit) before tax for the year</b>		90	67	(1,373)	90	(1,373)
<b>Tax expense</b>	16	–	–	–	–	–
<b>Net surplus (deficit) after tax for the year</b>	15,16	<b>90</b>	<b>67</b>	<b>(1,373)</b>	<b>90</b>	<b>(1,373)</b>

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

## Statement of Cash Flows for the year ended 30 June 2003

	Actual June 2003 notes \$000	Group Budget June 2003 \$000	Actual 4 Months to June 2002 \$000	Parent	
				Actual June 2003 \$000	Actual 4 Months to June 2002 \$000
<b>■ CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash was provided from:					
Fees and other income	35,199	39,010	11,474	34,294	11,260
Dividends	1,380	–	1,996	1,380	1,996
Interest	31,863	30,216	7,535	31,849	7,535
	<b>68,442</b>	<b>69,226</b>	<b>21,005</b>	<b>67,523</b>	<b>20,791</b>
Cash was applied to:					
Operating expenses	46,867	46,987	15,823	46,876	15,852
Interest	18,240	18,956	5,308	18,240	5,308
Taxation	294	22	30	75	–
GST	505	–	129	512	120
	<b>65,906</b>	<b>65,965</b>	<b>21,290</b>	<b>65,703</b>	<b>21,280</b>
Net cash flows from operating activities	17 2,536	3,261	(285)	1,820	(489)
<b>■ CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Cash was provided from:					
Sale of property, plant & equipment	21	–	–	21	–
	<b>21</b>	<b>–</b>	<b>–</b>	<b>21</b>	<b>–</b>
Cash was applied to:					
Purchase of property, plant & equipment	2,462	7,500	649	2,462	649
Net flows from trading & settlement of investments	63,693	–	4,362	63,693	4,362
	<b>66,155</b>	<b>7,500</b>	<b>5,011</b>	<b>66,155</b>	<b>5,011</b>
Net cash flows from investing activities	(66,134)	(7,500)	(5,011)	(66,134)	(5,011)
<b>■ CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Cash was provided from:					
Net receipts from clients	60,455	4,708	10,045	61,166	10,253
Net cash flows from financing activities	60,455	4,708	10,045	61,166	10,253
Net (decrease) increase in cash	(3,143)	469	4,749	(3,148)	4,753
Cash at beginning of Year	6,750	1,815	2,001	6,748	1,995
Cash at end of Year	<b>3,607</b>	<b>2,284</b>	<b>6,750</b>	<b>3,600</b>	<b>6,748</b>

Cash flows have been netted in order to provide meaningful disclosure as many of the cash flows are received and disbursed on behalf of customers and therefore reflect the activities of customers rather than those of Public Trust or group.

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

■ PUBLIC TRUST – JUNE 2003

**Statement of Commitments  
as at 30 June 2003**

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Commitments to be met by Public Trust are as follows:

■ OPERATING LEASE COMMITMENTS

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	Group		Parent	
	June 2003 \$000	June 2002 \$000	June 2003 \$000	June 2002 \$000
Payable within 1 year	3,871	3,671	3,871	3,671
Payable within 1–2 years	3,153	2,781	3,153	2,781
Payable within 2–5 years	1,439	2,793	1,439	2,793
Payable after 5 years	428	343	428	343
	<b>8,891</b>	<b>9,588</b>	<b>8,891</b>	<b>9,588</b>

■ OTHER COMMITMENTS

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Public Trust has contracted to pay \$50,000 for capital expenditure within the next year (June 2002: \$138,000).

Public Trust, in accordance with its mortgage lending, has commitments to a value of \$8.8 million to provide funding under undrawn revolving credit facilities and approved but undrawn applications (June 2002: \$4.0 million).

**Statement of Contingent Liabilities  
as at 30 June 2003**

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■ TAXATION

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Residual uncertainties as to the taxation effects of the dissolution of the Public Trust Office by the Public Trust Act 2001 are under discussion with Inland Revenue. The estimated potential liability is \$2 million, together with any applicable additional charges (June 2002: \$2 million plus additional charges).

## Statement of Accounting Policies for the year ended 30 June 2003

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### REPORTING ENTITY AND STATUTORY BASIS FOR REPORTING

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These are the financial statements of Public Trust, a body corporate established by the Public Trust Act 2001. The Public Trust Act 2001 defines Public Trust to be a Crown entity for the purposes of the Public Finance Act 1989. Accordingly, Public Trust is subject to Part V of the Public Finance Act 1989 which requires Public Trust to prepare its financial report in accordance with the specifications within that Part of the Act, including being in compliance with generally accepted accounting practice as defined by that Act.

Public Trust as an issuer is also subject to the Financial Reporting Act 1993. The financial statements of Public Trust are therefore required to comply with generally accepted accounting practice, as defined by the Financial Reporting Act 1993.

Public Trust comprises the legal entity as defined by the Public Trust Act 2001 and its significant subsidiary, New Zealand Permanent Trustees Limited, and includes those liabilities defined as the Common Fund by section 48 of the Public Trust Act 2001. The activities and assets of the Group Investment Funds and Public Trust Investment Funds managed by Public Trust are not included except to the extent that Public Trust invested in those funds on its own account. Similarly, the assets managed for individual trusts, except for cash held in the Common Fund, are not included.

### MEASUREMENT BASIS

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Historic cost and fair value accounting measurement bases have been applied in the preparation of this financial report.

### REPORTING PERIOD

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The reporting period is for the year from 1 July 2002 to 30 June 2003.

### COMPARATIVES

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Comparatives are for the four months from 1 March 2002 to 30 June 2002.

Certain prior period balances have been re-classified to align with the current year's classification. Where these are of a material nature, explanations are given in the notes to the financial statements.

### ACCOUNTING POLICIES

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#### Basis of consolidation

The consolidated financial statements include Public Trust (the parent) and its significant subsidiary, New Zealand Permanent Trustees Limited, accounted for using the purchase method. This entails a line-by-line aggregation of the financial statements and the elimination of intra-group transactions and balances.

#### Goodwill arising on consolidation

Goodwill is amortised in equal annual instalments over the period expected to benefit, which is 10 years. The resultant carrying value is subject to an impairment review to ensure that the carrying value does not exceed the recoverable amount.

## Statement of Accounting Policies for the year ended 30 June 2003 continued

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### Investment in subsidiary

The parent's investment in its significant subsidiary is accounted for using the equity method of accounting. This entails recognising the parent's share of increases in post acquisition equity and amortising goodwill arising on acquisition over a 10 year period.

## ASSETS

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### Investments

Investments in interest bearing securities and managed funds are carried at fair value.

### Advances secured by mortgages and other advances to clients

Advances secured by mortgage and other advances are carried at the face value of principal outstanding plus interest added to principal less general and specific provision. Interest arising not yet added to principal, excluding that related to delinquent loans, is accrued as at balance date.

A general provision is made to estimate declines in recoverable amounts incurred but not yet known. A specific provision is made taking account of estimated shortfalls arising in respect to identifiable advances.

Where mortgages have been purchased at a discount or premium, that discount or premium is amortised on a yield to maturity basis.

### Accrued income

Short-term accruals are interest or distributions from managed funds arising not yet received or added to principal.

### Trade debtors

Debtors 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 estimated and discounted accordingly. The Crown represents sums due in respect to appropriated funds or the operation of tax law. Other debtors represent short-term fees invoiced or about to be invoiced but not yet settled. These are carried at cash settlement value.

### Property plant & equipment

Property, plant & equipment is recorded initially at the cost necessary to bring each item into working condition. Until property plant and equipment is brought into a workable condition costs are accumulated as capital work in progress. At the point the asset is operational the cost, less estimated residual value, is depreciated in equal annual instalments across the asset's useful life. Property, plant & equipment is treated as funded from equity, accordingly no interest cost from financial liabilities is attributed to the relevant cost.

In the case of fixtures and fittings installed in leasehold properties useful lives are considered to correspond to the contractual term of the relevant lease. Useful lives are assessed annually to ensure they remain appropriate and are adjusted as is necessary.

Useful economic lives are as follows:

Plant, vehicles, furniture and fittings	3–10 years
EDP equipment and software	3–5 years

## Statement of Accounting Policies for the year ended 30 June 2003 continued

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### LIABILITIES

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#### General

Other than as specified, liabilities are recognised when the goods and services to which they relate are received or as statutory obligations arise. Such liabilities are carried at the amount of cash required to settle those liabilities. Commitments, where the value of the goods or services yet to be received is approximately equal to the consideration to be paid, are not recognised, but are disclosed in the Statement of Commitments where material.

#### Liabilities to clients

These represent Public Trust's liabilities for client funds invested in the Common Fund. These liabilities, other than those relating to contracts consummated upon death, are carried at the amount of cash required to settle those obligations.

#### Liability to clients where the timing of settlement is uncertain

Public Trust has entered into contracts where a fee is taken in advance in respect to which the service is 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 the date of death.

#### Provisions for employee entitlements

Provision is made for annual leave in accordance with the accumulated entitlement as at balance date. This is carried at the cash amount necessary to settle the obligation. No allowance is made for non-vesting obligations such as sick leave.

Provision is made for long service leave and retirement benefits on an actuarial basis. Projected cash flows are estimated in accordance with both national and entity experience. Resultant projected cash flows are discounted in accordance with the risk free rate as they align with the term structure of interest rates.

#### Other provisions

The vacant space provision represents gross rentals payable on premises' leases, less rentals receivable from sub-leases, discounted in accordance with the risk free rate.

All other provisions are recognised when Public Trust becomes obligated, at the amount of cash estimated as necessary to settle the obligation or defend legal action.

#### Derivatives

Interest rate swaps and forward rate agreements are specifically entered into to modify the interest rate character of designated interest bearing assets so as to align the interest rate character with that corresponding to the interest bearing liabilities. These contracts are therefore accounted for on the same basis as the asset to which they relate.

Where interest bearing securities are accounted for at fair value, so too are the related derivatives.

Where fixed interest rate mortgages have related derivatives, the derivatives are carried at cost.

## ■ PUBLIC TRUST – JUNE 2003

### **Leases**

Leases where substantially all the risks and rewards of ownership do not transfer to Public Trust are treated as operating leases. Subject to the vacant space provision such leases are recognised as costs when payments are made.

### **Tax**

The income tax expense charged to the Statement of Financial Performance includes both the current year's provision and the income tax effect of timing differences calculated using the rate of tax at which the liability, if any, will be paid.

Tax effect accounting is applied on a comprehensive basis to all timing differences. A debit balance in the deferred tax account, arising from timing differences or income tax benefits arising from income tax losses, is only recognised if there is a virtual certainty of realisation.

### **Budget figures**

The budget included in the financial statements is based on financial projections presented in the Statement of Intent adopted by the Public Trust Board.

### **Changes in accounting policy**

There have been no changes in accounting policy since the preparation of the last financial statements for the period ending 30 June 2002.

All accounting policies have been applied on a basis consistent with the previous period.

## Notes to the Financial Statements for the year ended 30 June 2003

	notes	Group		Parent	
		June 2003 \$000	June 2002 \$000	June 2003 \$000	June 2002 \$000
<b>■ 1 INTEREST BEARING SECURITIES</b>					
Local authorities		–	6,988	–	6,988
Banks		147,408	75,278	147,408	75,278
New Zealand Government		55,300	48,210	55,300	48,210
State owned enterprises		23,044	24,130	23,044	24,130
Mortgage backed securities		31,993	12,504	31,993	12,504
Corporate bonds		92,109	32,412	92,109	32,412
Derivative liabilities	14	(844)	(642)	(844)	(642)
		<b>349,010</b>	<b>198,880</b>	<b>349,010</b>	<b>198,880</b>

### ■ 2 TRADE DEBTORS

Crown		203	419	203	419
Debtors of uncertain timing		1,606	1,460	1,606	1,460
Other		1,855	1,294	1,486	950
		<b>3,664</b>	<b>3,173</b>	<b>3,295</b>	<b>2,829</b>

### ■ 3 SUNDRY DEBTORS

Provisional Income tax paid		465	171	75	–
Other tax refunds due		214	273	214	273
Expected reimbursements	11	270	270	270	270
Other		–	42	–	42
		<b>949</b>	<b>756</b>	<b>559</b>	<b>585</b>

### ■ 4 ADVANCES SECURED BY MORTGAGE

Gross value		158,236	165,619	158,236	165,619
General provision		(454)	(419)	(454)	(419)
Specific provision		(87)	–	(87)	–
		<b>157,695</b>	<b>165,200</b>	<b>157,695</b>	<b>165,200</b>
<b>General provision</b>					
Opening balance		419	388	419	388
Charge for period		35	31	35	31
<b>Closing balance</b>		<b>454</b>	<b>419</b>	<b>454</b>	<b>419</b>
<b>Specific provision</b>					
Opening balance		–	–	–	–
Charge for period		87	–	87	–
<b>Closing balance</b>		<b>87</b>	<b>–</b>	<b>87</b>	<b>–</b>

## Notes to the Financial Statements for the year ended 30 June 2003

	Group		Parent	
	June 2003 \$000	June 2002 \$000	June 2003 \$000	June 2002 \$000
<b>■ 5 PROPERTY, PLANT &amp; EQUIPMENT</b>				
<b>Plant, vehicles, furniture &amp; fittings</b>				
Cost	12,427	12,541	12,427	12,541
Accumulated depreciation	(7,962)	(7,222)	(7,962)	(7,222)
	<b>4,465</b>	<b>5,319</b>	<b>4,465</b>	<b>5,319</b>
<b>EDP equipment &amp; software</b>				
Cost	13,604	10,805	13,604	10,805
Accumulated depreciation	(10,373)	(9,024)	(10,373)	(9,024)
	<b>3,231</b>	<b>1,781</b>	<b>3,231</b>	<b>1,781</b>
	7,696	7,100	7,696	7,100
<b>Capital work in progress</b>				
Opening balance	792	859	792	859
Transfers to EDP equipment & software	(1,077)	(211)	(1,077)	(211)
Additions during year	285	144	285	144
	<b>–</b>	<b>792</b>	<b>–</b>	<b>792</b>
<b>Total property plant &amp; equipment</b>	<b>7,696</b>	<b>7,892</b>	<b>7,696</b>	<b>7,892</b>
<b>■ 6 INTANGIBLES</b>				
Goodwill arising on acquisition	6,676	6,676		
Opening accumulated amortisation	(1,501)	(1,278)		
Charge for period	(667)	(223)		
Closing accumulated amortisation	(2,168)	(1,501)		
<b>Closing Goodwill</b>	<b>4,508</b>	<b>5,175</b>		

## Notes to the Financial Statements for the year ended 30 June 2003

### ■ 7 SIGNIFICANT SUBSIDIARY

		Percent held			
		June 2003		June 2002	
				100%	100%
New Zealand Permanent Trustees Limited					
		Group		Parent	
		June 2003	June 2002	June 2003	June 2002
	notes	\$000	\$000	\$000	\$000
Analysis of investment					
Original investment					
				7,831	7,831
Less: equity at date of acquisition					
				(1,155)	(1,155)
Goodwill					
				6,676	6,676
Less: amortised to date					
	6			(2,168)	(1,501)
				<b>4,508</b>	<b>5,175</b>
Add: net assets at end of period					
Net assets at beginning of period					
				2,028	1,737
Earnings arising in the period					
				872	291
				<b>2,900</b>	<b>2,028</b>
Carrying value at end of period					
				<b>7,408</b>	<b>7,203</b>

### ■ 8 LIABILITIES OF UNCERTAIN TIMING

Opening balance	627	–	627	–
Additions	1,296	641	1,296	641
Amounts used	(202)	(14)	(202)	(14)
Discount	(272)	–	(272)	–
<b>Closing Balance</b>	<b>1,449</b>	<b>627</b>	<b>1,449</b>	<b>627</b>

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

The pre-paid estate administration product was introduced towards the end of the 2002 financial reporting period. The related liability has been separated from general liabilities to clients. Comparatives have been adjusted accordingly.

**Notes to the Financial Statements  
for the year ended 30 June 2003**

	Group		Parent	
	June 2003 \$000	June 2002 \$000	June 2003 \$000	June 2002 \$000
<b>■ 9 OTHER CREDITORS</b>				
Withholding taxes payable	346	271	346	271
Fringe Benefit Tax	132	130	132	130
Goods and Services Tax	136	41	136	41
Fee reversals	–	200	–	200
Employee salaries	755	556	755	556
	<b>1,369</b>	<b>1,198</b>	<b>1,369</b>	<b>1,198</b>

The liability for Fringe Benefit Tax was included within Trade Creditors as at 30 June 2002. Prior period comparatives for Trade creditors and Other creditors have been adjusted to reflect the reclassification in 2003.

**■ 10 PROVISIONS FOR EMPLOYEE ENTITLEMENTS**

Annual leave	741	1,576	741	1,576
Long service leave	2,791	2,996	2,791	2,996
At risk salaries	525	456	525	456
	<b>4,057</b>	<b>5,028</b>	<b>4,057</b>	<b>5,028</b>

## Notes to the Financial Statements for the year ended 30 June 2003

	Group		Parent	
	June 2003 \$000	June 2002 \$000	June 2003 \$000	June 2002 \$000
<b>■ 11 OTHER PROVISIONS</b>				
<b>Restructuring</b>				
Opening balance	807	450	807	450
Additions during the period	777	542	777	542
Amount used during the period (cash paid)	(1,498)	(185)	(1,498)	(185)
Reversal of provision not used	(31)	–	(31)	–
<b>Closing balance</b>	<b>55</b>	<b>807</b>	<b>55</b>	<b>807</b>
<b>Remedial work &amp; litigation</b>				
Opening balance	824	827	824	827
Additions during the period	96	385	96	385
Amount used during the period (cash paid)	(131)	(274)	(131)	(274)
Reversal of provision not used	(105)	(114)	(105)	(114)
<b>Closing balance</b>	<b>684</b>	<b>824</b>	<b>684</b>	<b>824</b>
<b>Vacant space</b>				
Opening balance	500	650	500	650
Amount used during the period (cash paid)	(59)	(51)	(59)	(51)
Reversal of provision not used	(21)	(96)	(21)	(96)
Discount	48	(3)	48	(3)
<b>Closing balance</b>	<b>468</b>	<b>500</b>	<b>468</b>	<b>500</b>
<b>Total</b>	<b>1,207</b>	<b>2,131</b>	<b>1,207</b>	<b>2,131</b>

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

The remedial work and litigation provision relates to a number of matters where fault or alleged fault has been found with Public Trust's service delivery. Given the nature of the legal process final resolution may take a number of years.

Insurance reimbursements of \$270,000 (June 2002: \$270,000) expected upon the final resolution of some of these matters have been recognised within sundry debtors. In the prior year the potential reimbursement was set against the value of the estimated specific provision, showing the net position. Prior year comparatives have been changed to reflect the gross position.

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

## Notes to the Financial Statements for the year ended 30 June 2003

### ■ 12 RE-PRICING MATURITY AND INTEREST RATE MANAGEMENT

	Effective interest rate	Total \$000	6 months or less \$000	6 to 12 months \$000	1 to 2 years \$000	2 to 5 years \$000	Over 5 years \$000
<b>■ GROUP JUNE 2003</b>							
<b>Assets</b>							
Cash and bank	2.50%	3,607	3,607	–	–	–	–
Money market deposits at call	5.36%	22,000	22,000	–	–	–	–
Interest bearing securities	5.38%	349,010	268,960	63,834	16,216	–	–
Advances to clients	9.40%	3,193	3,193	–	–	–	–
Advances secured by mortgage	7.37%	157,695	97,856	22,520	23,216	14,103	–
Other financial assets (inc. tax)	n/a	5,118	5,118	–	–	–	–
		<b>540,623</b>	<b>400,734</b>	<b>86,354</b>	<b>39,432</b>	<b>14,103</b>	<b>–</b>
<b>Liabilities</b>							
Liabilities to clients— at call or short term	3.06%	311,716	311,716	–	–	–	–
Liability to clients— term deposits	5.32%	189,793	151,693	36,445	1,655	–	–
Accrued interest	n/a	3,464	3,464	–	–	–	–
Liabilities of uncertain timing	n/a	1,449	1,449	–	–	–	–
		<b>506,422</b>	<b>468,322</b>	<b>36,445</b>	<b>1,655</b>	<b>–</b>	<b>–</b>
<b>Derivatives</b>							
Interest Rate Swaps		–	73,035	(29,120)	(29,420)	(14,495)	–
Forward Rate Agreements		69,000	42,000	27,000	–	–	–
<b>Re-pricing gap</b>		<b>103,201</b>	<b>47,447</b>	<b>47,789</b>	<b>8,357</b>	<b>(392)</b>	<b>–</b>
<b>■ GROUP JUNE 2002</b>							
<b>Assets</b>							
Cash and bank	2.50%	6,750	6,750	–	–	–	–
Money market deposits at call	5.55%	5,680	5,680	–	–	–	–
Interest bearing securities	5.14%	198,880	113,055	59,091	13,204	13,530	–
Advances to clients	9.40%	7,135	7,135	–	–	–	–
Investments in managed funds	5.95%	90,880	90,880	–	–	–	–
Advances secured by mortgage	7.43%	165,200	116,810	24,410	15,148	8,832	–
Other financial assets (inc. tax)	n/a	4,644	4,644	–	–	–	–
		<b>479,169</b>	<b>344,954</b>	<b>83,501</b>	<b>28,352</b>	<b>22,362</b>	<b>–</b>
<b>Liabilities</b>							
Liabilities to clients— at call or short term	3.56%	310,592	298,608	4,410	7,574	–	–
Liability to clients— term deposits	5.21%	131,284	103,789	27,495	–	–	–
Accrued interest	n/a	1,716	1,443	273	–	–	–
Liabilities of uncertain timing	n/a	627	627	–	–	–	–
		<b>444,219</b>	<b>404,467</b>	<b>32,178</b>	<b>7,574</b>	<b>–</b>	<b>–</b>
<b>Derivatives</b>							
Interest rate swaps & Forward Rate Agreements		–	44,773	(7,670)	(21,978)	(15,125)	–
<b>Re-pricing gap</b>		<b>34,950</b>	<b>(14,740)</b>	<b>43,653</b>	<b>(1,200)</b>	<b>7,237</b>	<b>–</b>

## Notes to the Financial Statements for the year ended 30 June 2003

### ■ 12 RE-PRICING MATURITY AND INTEREST RATE MANAGEMENT (CONTINUED)

	Effective interest rate	Total \$000	6 months or less \$000	6 to 12 months \$000	1 to 2 years \$000	2 to 5 years \$000	Over 5 years \$000
<b>■ PARENT JUNE 2003</b>							
<b>Assets</b>							
Cash and bank	2.50%	3,600	3,600	–	–	–	–
Money market deposits at call	5.36%	22,000	22,000	–	–	–	–
Interest bearing securities	5.38%	349,010	268,960	63,834	16,216	–	–
Advances to clients	9.40%	3,193	3,193	–	–	–	–
Advances secured by mortgage	7.37%	157,695	97,856	22,520	23,216	14,103	–
Other financial assets (inc. tax)	n/a	4,359	4,359	–	–	–	–
		<b>539,857</b>	<b>399,968</b>	<b>86,354</b>	<b>39,432</b>	<b>14,103</b>	<b>–</b>
<b>Liabilities</b>							
Liabilities to clients— at call or short term	3.06%	311,716	311,716	–	–	–	–
Liability to clients— term deposits	5.32%	189,793	151,693	36,445	1,655	–	–
Accrued interest	n/a	3,464	3,464	–	–	–	–
Liabilities of uncertain timing	n/a	1,449	1,449	–	–	–	–
		<b>506,422</b>	<b>468,322</b>	<b>36,445</b>	<b>1,655</b>	<b>–</b>	<b>–</b>
<b>Derivatives</b>							
Interest Rate Swaps		–	73,035	(29,120)	(29,420)	(14,495)	–
Forward Rate Agreements		69,000	42,000	27,000	–	–	–
		<b>102,435</b>	<b>46,681</b>	<b>47,789</b>	<b>8,357</b>	<b>(392)</b>	<b>–</b>
<b>■ PARENT JUNE 2002</b>							
<b>Assets</b>							
Cash and bank	2.50%	6,748	6,748	–	–	–	–
Money market deposits at call	5.55%	5,680	5,680	–	–	–	–
Interest bearing securities	5.14%	198,880	113,055	59,091	13,204	13,530	–
Advances to clients	9.40%	7,135	7,135	–	–	–	–
Investments in managed funds	5.95%	90,880	90,880	–	–	–	–
Advances secured by mortgage	7.43%	165,200	116,810	24,410	15,148	8,832	–
Other financial assets (inc. tax)	n/a	4,129	4,129	–	–	–	–
		<b>478,652</b>	<b>344,437</b>	<b>83,501</b>	<b>28,352</b>	<b>22,362</b>	<b>–</b>
<b>Liabilities</b>							
Liabilities to clients— at call or short term	3.56%	310,592	298,608	4,410	7,574	–	–
Liability to clients— term deposits	5.21%	131,284	103,789	27,495	–	–	–
Accrued interest	n/a	1,716	1,443	273	–	–	–
Liabilities of uncertain timing	n/a	627	627	–	–	–	–
		<b>444,219</b>	<b>404,467</b>	<b>32,178</b>	<b>7,574</b>	<b>–</b>	<b>–</b>
<b>Derivatives</b>							
Interest rate swaps & Forward Rate Agreements		–	44,773	(7,670)	(21,978)	(15,125)	–
		<b>34,433</b>	<b>(15,257)</b>	<b>43,653</b>	<b>(1,200)</b>	<b>7,237</b>	<b>–</b>

The effective interest rate is the weighted average of market yields at period end, stated net of derivative instruments where applicable.

## Notes to the Financial Statements for the year ended 30 June 2003

### ■ 12 RE-PRICING MATURITY AND INTEREST RATE MANAGEMENT (CONTINUED)

Interest rate risk is managed, subject to liquidity and credit risk requirements, by matching the interest rate characteristics of financial liabilities to those of financial assets. Where no natural match can be established, interest rate swaps and forward rate agreements are entered into to create a hedge.

### ■ 13 CREDIT RISK

	Group		Parent	
	June 2003 \$000	June 2002 \$000	June 2003 \$000	June 2002 \$000
Public Trust had exposures to the following sectors				
Real estate mortgages secured by underwriting agreement	45,275	62,068	45,275	62,068
Real estate mortgages & mortgage backed securities	144,812	116,145	144,812	116,145
Advances to clients	3,193	7,135	3,193	7,135
Local authorities	–	7,173	–	7,173
Registered banks	172,269	87,064	172,262	87,063
State owned enterprises	23,052	24,130	23,052	24,130
New Zealand Government	55,300	48,211	55,300	48,211
New Zealand corporates	92,109	32,412	92,109	32,412
Other financial markets (via Public Trust managed funds)	–	91,071	–	91,071
Receivables	4,613	3,760	3,854	3,245
	<b>540,623</b>	<b>479,169</b>	<b>539,857</b>	<b>478,652</b>

#### *Credit Policy*

Advances secured by mortgage are secured by a first mortgage charge over freehold property. Loans extended do not exceed at the time of making the loan:

- 90% of the value of residential properties
- 66% of the value of commercial properties
- 50% of the value of rural properties.

Where a residential loan exceeds 80% of the valuation, the mortgage security is supplemented by Mortgage Lenders Insurance.

Advances to clients are secured by an assignment of their interest in the estate assets against which the advance is made, or by an unregistered charge over an asset the title to which is held by Public Trust.

Mortgage backed securities are investment products where sums invested are secured over property and by underwriting arrangements. All other investments are senior, unsecured obligations invested with institutions meeting set credit criteria.

#### *Concentration of Credit Risk—2003*

There was one credit exposure to a registered bank between \$50 and \$60 million at balance date. There was one exposure to a registered bank between \$40 and \$50 million. There were three exposures to registered banks and two exposures to Corporates with an A1 rating between \$20 and \$30 million. There was one exposure to a Corporate with an A1 rating, one exposure to a Corporate with an A2 rating and one exposure to a SOE between \$10 and \$20 million. A sum of \$55 million was invested with the New Zealand Government but this is not considered to represent a credit risk.

#### *Concentration of Credit Risk—2002*

There was one credit exposure to a registered bank between \$25 and \$30 million at balance date. There were two exposures to registered banks between \$15 and \$20 million. There was one exposure to a Corporate with an A+ rating between \$10 and \$15 million. A sum of \$48 million was invested with the New Zealand Government.

## Notes to the Financial Statements for the year ended 30 June 2003

### ■ 14 FAIR VALUE

*Cash and bank, Money market deposits at call, Advances to clients, Accrued income, Trade debtors (see note 2), Sundry debtors (see note 3), Trade creditors, Other creditors (see note 9), Provisions for employee entitlements (see note 10), Other provisions (see note 11), Loan from subsidiary (parent).*

All these financial instruments are at call or are able to be settled in the short term. Accordingly, all these items are carried at cash settlement value. Due to the short-term nature of the instruments there is no material difference between the face value and fair value.

*Debtors of uncertain timing, Vacant space provision, Long Service Leave provision*

These financial instruments have been discounted to present value and therefore are shown at fair value.

*Interest bearing securities and Investments in managed funds*

These financial instruments are valued at fair value.

*Advances secured by mortgages and other advances to clients*

Mortgages and other advances to clients are financial instruments to be held to maturity and carried at cost. There is no active market in such instruments. Accordingly, there is no point of reference from which to establish a reliable measure of fair value.

#### Liabilities to Clients

The fair value of liabilities to clients at call is equivalent to face value which is the carrying value. There is no commonly accepted method of fair valuing term liabilities of the character of Public Trust's term deposits. Consequently, there is no reliable method for determining their fair value. Liabilities to clients where the timing of settlement is uncertain are actuarially valued. This value represents an approximation of fair value.

#### Derivatives

Public Trust enters into interest rate contracts so as to align the interest rate maturity profile of its interest bearing liabilities and assets. In doing so Public Trust acquires bonds which it then associates with interest rate contracts. Where these contracts are liabilities, they are off-set by commensurate asset value in interest bearing securities. Where the liabilities are carried at fair value, it is the net of the discounted value of the fixed interest coupon Public Trust is required to pay and the floating interest rate income Public Trust will receive under these contracts.

	Group & Parent June 2003			Group & Parent June 2002		
	Carrying Value \$000	Fair Value \$000	Notional Value \$000	Carrying Value \$000	Fair Value \$000	Notional Value \$000
<b>Related to interest bearing securities</b>						
Interest rate swap liabilities	828	828	26,000	631	631	26,000
Forward rate agreement liabilities	16	16	69,000	11	11	5,000
	<b>844</b>	<b>844</b>	<b>95,000</b>	<b>642</b>	<b>642</b>	<b>31,000</b>
<b>Related to mortgages</b>						
Interest rate swap liabilities (assets)	–	594	51,868	–	(56)	18,773

## Notes to the Financial Statements for the year ended 30 June 2003

### ■ 15 REVENUES ARISING AND EXPENSES INCURRED IN ARRIVING AT NET SURPLUS (DEFICIT)

In addition to the items on the face of the Statement of Financial Performance, net surplus (deficit) is stated after charging or crediting the following:

	Group		Parent	
	June 2003 \$000	4 Months to June 2002 \$000	June 2003 \$000	4 Months to June 2002 \$000
Audit fees	133	104	123	94
Audit fees for other group entities & non-consolidated managed funds	113	37	113	37
Other fees paid to auditors	–	17	–	17
Directors' remuneration	267	57	241	57
Bad debts				
Bad debts written off	13	–	13	–
Movement in provisions	77	96	77	96
Net charge	90	96	90	96
Remuneration	28,768	9,602	28,768	9,602
Modernisation cost	–	166	–	166
<b>Depreciation</b>				
Plant, vehicles, furniture & fittings	1,105	255	1,105	255
EDP equipment & software	1,393	478	1,393	478
	<b>2,498</b>	<b>733</b>	<b>2,498</b>	<b>733</b>
<b>Asset diminution</b>				
Accelerated depreciation	(19)	–	(19)	–
Impairment losses	51	–	51	–
	<b>32</b>	<b>–</b>	<b>32</b>	<b>–</b>
<b>Gains (losses) on investments</b>				
Realised gains (losses)	635	48	635	48
Less: unrealised loss from prior year	(116)	(12)	(116)	(12)
Realised gains (losses) from disposal of securities	519	36	519	36
Gains in interest bearing securities	1,243	758	1,243	758
Losses in related derivatives	(844)	(642)	(844)	(642)
Unrealised gains (losses) from revaluing securities	399	116	399	116
	<b>918</b>	<b>152</b>	<b>918</b>	<b>152</b>
<b>Total operating revenue</b>				
Total interest and distributions	32,391	8,949	32,377	8,948
Total fee and other revenues	31,509	10,630	30,582	10,325
Crown Revenue	4,300	1,507	4,300	1,507
Gain on disposal of securities	918	152	918	152
	<b>69,118</b>	<b>21,238</b>	<b>68,177</b>	<b>20,932</b>

In respect to financial instruments operating revenue includes only the net gain or loss on disposal.

## Notes to the Financial Statements for the year ended 30 June 2003

### ■ 15 REVENUES ARISING AND EXPENSES INCURRED IN ARRIVING AT NET SURPLUS (DEFICIT) (CONTINUED)

#### Employee Remuneration

The number of employees whose remuneration exceeds \$100,000 is presented in the following bands. The figures for 2002 represent an annualised amount based on the four month reporting period to June 2002.

Annualised remuneration band	Number of	Number of
	employees 2003	employees 2002
\$100,000 to \$109,999	4	6
\$110,000 to \$119,999	10	10
\$120,000 to \$129,999	3	3
\$130,000 to \$139,999	4	2
\$140,000 to \$149,999	2	1
\$150,000 to \$159,999	2	–
\$160,000 to \$169,999	–	1
\$170,000 to \$179,999	–	2
\$180,000 to \$189,999	2	–
\$210,000 to \$219,999	1	–
\$250,000 to \$259,999	1	–
\$260,000 to \$269,999	1	–
\$290,000 to \$299,999	1	–
\$300,000 to \$309,999	–	1
\$320,000 to \$329,999	1	–
\$370,000 to \$379,999	1	–

Remuneration is inclusive of redundancies, annual leave, and service leave payments.

### ■ 16 TAX EXPENSE

	Group		Parent	
	June 2003 \$000	4 Months to June 2002 \$000	June 2003 \$000	4 Months to June 2002 \$000
Operating surplus (deficit) before tax	90	(1,373)	90	(1,373)
Income tax at 33%	30	(453)	30	(453)
<i>Add/(deduct) tax effect of permanent differences</i>				
Prior period adjustment	61	–	61	–
Non-deductible expenses	316	2	28	2
Net effect of imputation credits	–	–	–	–
Tax effect of timing differences not recognised	(539)	242	(539)	146
Tax effect of losses not recognised	132	209	132	209
Set-off of inter-company losses	–	–	288	96
	–	–	–	–

Public Trust, after applying group loss relief, has not recognised tax losses to a value of \$1,031,000 (2002: \$924,000), the tax effect of which amounts to \$340,000 (2002: \$305,000).

The 2002 comparatives are stated prior to the application of group loss relief.

## Notes to the Financial Statements for the year ended 30 June 2003

### ■ 16 TAX EXPENSE (CONTINUED)

	Group		Parent	
	June 2003 \$000	4 Months to June 2002 \$000	June 2003 \$000	4 Months to June 2002 \$000
<b>Imputation credit account</b>				
Balance at 1 July	30	–	–	–
Payments made in the period	294	30	75	–
FDWP	215	–	215	–
<b>Balance at 30 June</b>	<b>539</b>	<b>30</b>	<b>290</b>	<b>–</b>

### ■ 17 RECONCILIATION OF OPERATING SURPLUS TO NET CASH FLOW FROM OPERATING ACTIVITIES

Net surplus (deficit)	90	(1,373)	90	(1,373)
<i>Items relating to property, plant &amp; equipment</i>				
Depreciation	2,498	733	2,498	733
Loss on sale of property, plant & equipment	(17)	132	(17)	132
Impairment losses	51	–	51	–
GST on capital creditor	–	(21)	–	(21)
<i>Items relating to investment in subsidiary</i>				
Amortisation of goodwill	667	223	667	223
Equity accounted earnings	–	–	(872)	(291)
<i>Items relating to investments</i>				
Realised (gains) losses on disposal of investments	(636)	(36)	(636)	(36)
Unrealised (gains) losses on investments	(282)	(116)	(282)	(116)
Amortisation of premiums & discounts	366	302	366	302
Change in provision for doubtful debts	77	31	77	31
<i>Other items</i>				
(Increase)/Decrease in Accrued income	480	445	480	445
(Increase)/Decrease in Trade debtors	(446)	(658)	(421)	(585)
(Increase)/Decrease in Sundry debtors	(193)	208	26	238
(Increase)/Decrease in Prepayments	320	(96)	320	(96)
Increase/(Decrease) in Trade creditors, see note below	(593)	(689)	(681)	(705)
Increase/(Decrease) in Accrued Interest	1,748	(6)	1,748	(6)
Increase/(Decrease) in Other creditors	301	364	301	364
Increase/(Decrease) in Provisions for employee entitlements	(971)	338	(971)	338
Increase/(Decrease) in Other provisions	(924)	(66)	(924)	(66)
<b>Net cash flows from operating activities</b>	<b>2,536</b>	<b>(285)</b>	<b>1,820</b>	<b>(489)</b>
Trade Creditors movement per balance sheet	(698)	(879)	(786)	(895)
Less: movement of capital creditors	105	190	105	190
Increase/(Decrease) in Trade creditors per above	(593)	(689)	(681)	(705)

## Notes to the Financial Statements for the year ended 30 June 2003

### ■ 18 RELATED PARTIES

By virtue of ownership the Crown is considered to have significant influence over Public Trust. Accordingly the Crown and all of its related parties are related parties of Public Trust. Transactions with all of these related parties are pervasive and it is not practical to isolate and report on them. All such transactions are carried out on an “arm’s length” basis.

Public Trust is the manager of all trusts for which it has fiduciary responsibility. The Board considers that Public Trust has significant influence over those trusts. Significant revenue earned by Public Trust arises from this source and is charged in accordance with sections 122 to 125 of the Public Trust Act 2001.

In addition Public Trust manages 32 Group Investment Funds. The Board considers this management relationship confers significant influence on the funds. In accordance with the provisions of sections 70 and 71 of the Public Trust Act 2001, the following specific transactions took place during the year in relation to the Group Investment Funds.

	Group		Parent	
	June 2003 \$000	4 Months to June 2002 \$000	June 2003 \$000	4 Months to June 2002 \$000
Reimbursement of expenses	2,056	1,120	2,056	1,120
Management fee	2,811	-	2,811	-
	<b>4,867</b>	<b>1,120</b>	<b>4,867</b>	<b>1,120</b>

Balances due from these funds at balance date totalled \$36,000 (2002: Nil).

Public Trust, as parent, owns all of the shares of New Zealand Permanent Trustees Limited. Accordingly, Public Trust has significant influence over that company and both entities are therefore related parties.

### ■ 19 SEGMENTAL REPORTING

Public Trust operates predominantly in the business of managing estates and other trusts. In New Zealand Public Trust engages in related businesses such as trustee services, management of investment funds and the taking of deposits.

### ■ 20 CONTINGENT ASSETS

Public Trust does not recognise such asset as may arise in work performed not yet billed to estates or other clients. No systems are available to allow such an asset, if one exists, to be reliably measured. The Board of Public Trust will investigate the validity of measuring and recognising such an asset in the future.

## Notes to the Financial Statements for the year ended 30 June 2003

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### ■ 21 COMPARISON OF BUDGET TO ACTUAL

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#### Liabilities to Clients

Public Trust has enjoyed substantially better growth than forecast for both its term and call deposit accounts. A number of factors have led to this favourable variance. Key among these is...

- Investors appear to be more discerning in the price paid for risk in an investment, particularly as the global equity markets remain depressed; and
- Our Advisors and Estate Managers have devoted more time to ensuring that beneficiaries of estate distributions are aware of the competitive deposit facilities offered by Public Trust.

#### Interest Bearing Securities

The increase in this asset class is closely correlated to the growth in client liabilities. While the asset allocation policy called for a greater weighting of the increase in client funds to be invested in advances secured by mortgage, the very competitive mortgage market hindered growth in the Public Trust mortgage book.

#### Property, Plant & Equipment

The 2002/03 Business Plan provided for \$2m expenditure on relocating the Corporate Office and the Central Service Centre; \$1.5m upgrade in legacy Information Technology systems; and \$1.5m in new technologies. Suitable replacement accommodation could not be identified and the relocation programme has been deferred until at least 2005. Spending on these initiatives were reprioritised during the year as Public Trust placed a greater emphasis on retaining core business than on new business initiatives. The technology spending has been deferred pending completion of a business process redesign project that will be undertaken in the 2003/04 year.

#### Income from financial instruments

The favourable variance was due to a combination of higher funds volume than forecast (see above) and improved management of interest margins.

#### Operating Revenue

Operating revenues generated by Corporate Trustee Services are heavily influenced by the volume of funds under supervision. The very poor performance of the funds management sector globally led to a significant decrease in the volume of the funds under supervision. The other significant factor driving the unfavourable variance was the under delivery of the very aggressive new business targets set for the year under review. A more conservative approach has been adopted for the 2003/04 year.

#### Expenses

The operating cost variance is largely due to the reduction in the provision for annual leave (see note 10). Operating lease costs were higher primarily due to a delay in terminating the lease arrangements that were in place for Personal Computers. Depreciation costs were less than forecast as a result of the amended capital expenditure programme noted above.

## Statement of Service Performance for the Period 1 July 2002 to 30 June 2003

Public Trust was established as a Crown entity under the Public Trust Act 2001 on 1 March 2002 to take over the role and undertakings of the Public Trustee and the Public Trust Office.

The principal functions of Public Trust are to...

- (i) Develop, promote, conduct or otherwise participate in the business of providing comprehensive estate management and administration services, including associated legal, financial, and other services.
- (ii) Carry out, perform, or otherwise fulfil functions conferred on it by any enactment.
- (iii) Carry out, perform or otherwise fulfil other functions requested by the Stake-holding Ministers and agreed to by the Group.
- (iv) Develop, promote, conduct, or otherwise participate in such other business as it determines with the approval of the Stake-holding Ministers.

There have been no specific instances of the functions of Public Trust being expanded during 2002/03 as a result of the requirements outlined in (ii) to (iv) above.

### REPORT ON THE STATEMENT OF INTENT

#### Performance Targets and Other Measures

The 2002/05 Statement of Intent set out a number of performance targets. The following table outlines actual performance, target performance and comparative figures for the four months from 1 March 2002 to 30 June 2002.

Performance Measure	2002/03Actual	2002/03Target	2001/02Actual
<i>Financial targets</i>			
Profit/(loss) after tax	\$0.090m	\$0.067m	(\$1.373m)
Net Assets employed	\$38.891m	\$37.000m	\$38.801m
Return on Assets	0.23%	0.18%	(3.54%)
<i>Fiduciary Assets targets</i>			
Estates/assets under management <sup>1</sup>	\$1,000m	\$1,113m	\$961m
Total funds/assets under management or supervision <sup>2</sup>	\$10,676m	\$11,700m	\$11,675m
<i>Customer targets</i>			
Customer Service Rating <sup>3</sup>	81%	85%	81%
Deceased Estate Awareness <sup>4</sup>	45%	19%	20%
<i>Human Resource targets</i>			
Staff Satisfaction rating <sup>5</sup>	2.80	3.00	2.95
<i>Investment</i>			
Compliance with the Statement of Investment Policy and Objectives for the Common Fund	Zero breaches reported	Zero breaches	n/a

1. Personal trusts engagements only.
2. Personal and corporate trusts engagements.
3. Independently conducted survey of customer satisfaction.
4. Independently conducted survey of unprompted public awareness of deceased estates products.
5. Range: 1=Excellent; 3=midpoint; 5=poor.

## Statement of Service Performance (continued)

### Statement of Output Objectives

A number of the services provided by Public Trust are either paid for, or subsidised by the Crown to ensure that, among other things, reasons of affordability do not prevent or preclude New Zealanders from obtaining key services relating to management of their estates and personal affairs. Payment for these services is managed by the Ministry of Justice on behalf of the Crown. The output specification for these services is contained in a Memorandum of Understanding.

In this agreement the Output is described as Provision of Protective Fiduciary Services defined as follows:

- (i) Advice to New Zealanders on the benefits of will making and the preparation of a will if so requested.
- (ii) Administration, audit and advice services pursuant to the Protection of Personal and Property Rights Act 1988 where charges to the recipient, if any, will not meet the costs of the service.
- (iii) Advice and research by Public Trust relating to enquiries on behalf of incapacitated persons on matters relevant to the Protection of Personal and Property Rights Act 1988.
- (iv) Administration of small and/or complex estates for which charges will not cover cost.
- (v) Representation, audit, review, administration of the assets and rights of missing, unknown or incapable owners arising from Parts 7 and 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 the costs.

The related performance is:

### Quantity

Description	2002/2003 financial year actual performance	2002/2003 financial year projections	2001/2002 financial period actual performance <sup>1</sup>
Projected number of wills made appointing Public Trust executor	21,345	20,000	7,452
Projected number of cases under the Protection of Personal and Property Rights Act 1988	3,691	600	1,337
Projected number of enquiries on behalf of incapacitated persons	967	800	185
Projected number of small and/or complex estates and trusts administered	9,966	11,000	7,539
Projected number of cases involving public functions in relation to assets and rights of missing, unknown or incapable owners	4	150	61

<sup>1</sup> Comparative figures are for the four months from 1 March 2002 to 30 June 2002

## Statement of Service Performance (continued)

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### Variance Analysis

During the year under review Public Trust has written more wills and provided more time acting as “trustee of last resort” than anticipated. The Statement of Intent details the number of cases in which Public Trust has delivered “trustee of last resort” services. The Memorandum of Understanding, between the Minister Responsible for Public Trust, the Minister of Justice and Public Trust, uses time as the metric for measuring these services.

While there is substantial variance in the number of cases undertaken the actual time devoted to delivering these services was within the expected range, in total, outlined in the Memorandum of Understanding.

The following table (excluding Wills preparation) outlines performance by hours on that basis.

Outputs	Range		Expected Quantity	Actual Quantity
	Low	High		
Wills Preparation (Number of wills)	20,000	23,000	20,000	21,345
Incapacitated Persons Administration	5,000	6,000	5,000	3,884
Incapacitated Persons Advice	400	800	500	608
Small Estates and trusts Administration	10,000	12,000	11,000	12,027
Small Estates and trusts Advice	800	1,200	1,000	394
Public Functions and other “Last Resort” services	200	500	200	4
<b>Total Hours</b>			<b>17,700</b>	<b>16,917</b>

## Statement of Service Performance (continued)

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### Location

Public Trust uses a front office/back office model to give customers access to specialist skills.

Public Trust advisors and call centre operators are the face of Public Trust. They are the first point of contact and can draw on specialist knowledge as necessary.

Public Trust has a permanent front office presence in 35 Customer Centres across the country from Whangarei to Invercargill and from Gisborne to Greymouth.

Public Trust has five mobile advisors based in Orewa; Thames; Timaru; Dunedin; and Wanaka. See Figure 1 overleaf for further details of front office locations and the territories covered by mobile advisors.

The Public Trust call centre located in Christchurch provides 0800 access from 8am to 8pm Monday to Friday.

An internet site provides information on Public Trust services and an online wills facility that allows people to prepare a will without the need to visit a Public Trust office.

Statement of Service Performance (continued)



FIGURE 1.

## Statement of Service Performance (continued)

### Quality and Timeliness

#### Target

All services will comply with legislation, regulatory and industry standards.

#### Actual Performance

Public Trust ensures its service delivery meets legislative, regulatory and industry standards by...

- Establishing detailed procedural rules.
- Undertaking various quality assurance procedures to ensure compliance with the detailed procedures.
- Operating work flow systems to ensure timeliness of service delivery.

Public Trust has substantially met target performance. Effective performance is reflected in our key stakeholders' perceptions. Public Trust uses an independent research agency to survey public perceptions of service performance. Two important client groupings are surveyed—our own customers and the beneficiaries of the proceeds of Public Trust's customers' estates.

During the reporting period Research Solutions completed four quarterly customer satisfaction surveys. These produced the following results:

Customer Satisfaction: Overall	Benchmark Sep 01	Quarter Jun 02	Quarter Sep 02	Quarter Dec 02	Quarter Mar 03	Quarter Jun 03
Accessible to all New Zealanders	8.4	8.7	8.5	8.7	8.4	8.6
Are trustworthy	8.7	8.7	8.8	8.7	8.5	8.5
Branch opening hours	n/a	n/a	8.4	8.5	8.3	8.5
Expertise to do a good job	n/a	n/a	8.5	8.6	8.2	8.2
Act in a straightforward way	8.4	8.4	8.4	8.5	8.1	8.2
Valuing you as a client	8.3	8.2	8.0	8.3	8.0	7.8
<b>Notes:</b>						
Respondents asked to rate PT on the above attributes on a scale of 1 to 10. Mean scores represented. 8.5 represents service excellence						
Quarters refer to calendar quarters						
Sample sizes: Customers = 200, Beneficiaries = 150						
Margin of error: Customers = +/- 0.70, Beneficiaries = +/- 0.75						

Source: Quarterly Customer Relationship Monitor conducted by Research Solutions

Substantial work will be undertaken during the 2003/04 year on process improvement. Part of that work will necessarily include the articulation of performance measures that provide more immediate feedback on the quality and timeliness of services provided. The results of this work will be incorporated into the 2004/05 SOI and associated reporting.

### Appropriation

#### Target

Provision has been made for a total appropriation of \$4.838 million on a full year basis (GST inclusive) for the purchase of this output.

#### Actual Performance

The cost to the Crown for the period 1 July 2002 to 30 June 2003 was \$4.838m (GST inclusive). (\$1.694m (GST inclusive) for the four months from 1 March 2002 to 30 June 2002).

## Report of the Auditor-General

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### To the Readers of the Financial Statements of Public Trust and Group for the Period Ended 30 June 2003

We have audited the financial statements on pages 10 to 38. The financial statements provide information about the past financial performance and service performance of Public Trust and group and its financial position as at 30 June 2003. This information is stated in accordance with the accounting policies set out on pages 15 to 18.

#### Responsibilities of the Board of Directors

The Public Finance Act 1989 and Public Trust Act 2001 require the Board of Directors (the Board) to prepare financial statements in accordance with generally accepted accounting practice in New Zealand that fairly reflect the financial position of Public Trust and group as at 30 June 2003 and the results of operations and cash flows and service performance achievements for the year ended on that date.

#### Auditor's Responsibilities

Section 15 of the Public Audit Act 2001 and Section 43(1) of the Public Finance Act 1989 require the Auditor-General to audit the financial statements presented by the Board. It is the responsibility of the Auditor-General to express an independent opinion on the financial statements and report that opinion to you.

The Auditor-General has appointed SRL O'Connor, of Ernst & Young, to undertake the audit.

#### Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Board in the preparation of the financial statements and
- whether the accounting policies are appropriate to Public Trust's and group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with the Auditing Standards published by the Auditor-General, which incorporate the Auditing Standards issued by the Institute of Chartered Accountants of New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have provided other audit engagements to the Public Trust Investment Funds and Public Trust Group Investment Funds. Other than in our capacity as auditor acting on behalf of the Auditor-General we have no relationship with or interest in Public Trust or its subsidiaries.

■ PUBLIC TRUST – JUNE 2003

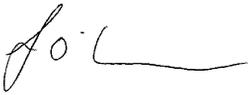
**Unqualified Opinion**

We have obtained all the information and explanations we have required.

In our opinion the financial statements of Public Trust and group on pages 10 to 38:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
  - Public Trust and group’s financial position as at 30 June 2003;
  - the results of operations and cash flows for the year ended on that date; and
  - its service performance achievements in relation to the performance targets and other measures adopted for the year ended on that date.

Our audit was completed on 25 September 2003 and our unqualified opinion is expressed as at that date.



SRL O'Connor  
Ernst & Young  
On behalf of the Auditor-General  
Wellington, New Zealand