

Financial Statements of the Government of New Zealand

For the Eight Months Ended
28 February 2010



Prepared by The Treasury
9 April 2010

This document is available on the New Zealand Treasury's internet site.
The URL for this site is <http://www.treasury.govt.nz>

New Zealand Government

CONTENTS

Commentary

Summary	2
Analysis	4
Year-on-Year Perspective	10

Financial Statements

Statement of Accounting Policies	14
<i>The statement outlines the summary accounting policies underpinning the preparation of the financial statements of the Government. It refers readers to the Treasury website where the accounting policies are set out in full.</i>	
Statement of Financial Performance	16
<i>The statement outlines the operating results of the total Government (i.e., the revenues and expenses of all departments + Reserve Bank + NZS Fund (core Crown), SOEs (including Air New Zealand), and Crown entities). Expense by functional class is also shown for total Crown and core Crown.</i>	
Statement of Cash Flows	18
<i>The statement sets out the cash flows that result from the operating, investing and financing activities of the Government. The net cash flows from operations are reconciled to the operating balance reported in the statement of financial performance.</i>	
Statement of Comprehensive Income	20
<i>The statement reports changes in net worth due to the operating balance, items of income or expense that are recognised directly in net worth, the effect of certain accounting changes, and corrections of errors.</i>	
Statement of Financial Position	21
<i>The statement outlines the balance sheet of the total Government (i.e., the assets and liabilities of the core Crown, SOEs, and Crown entities).</i>	
Statement of Borrowings	22
<i>The statement outlines total borrowings (split by sovereign-guaranteed debt and non sovereign-guaranteed debt), including the calculation of the core Crown debt indicators.</i>	
Statement of Commitments	23
<i>The statement outlines the commitments of the total Government by type and segment.</i>	
Statement of Contingent Liabilities and Assets	23
<i>The statement outlines the contingent liabilities and assets of the total Government by type and segment.</i>	
Notes to the Financial Statements	24
<i>The notes are an integral part of the financial statements, providing further explanatory material to that provided in the main statements.</i>	

Officer for Enquiries

Kamlesh Patel (phone 64-4-917-6094) (E-mail: kamlesh.patel@treasury.govt.nz)
Macroeconomic and Fiscal Environment Portfolio
The Treasury (1 The Terrace)
PO Box 3724, Wellington
NEW ZEALAND
Facsimile: 64-4-499-0437



COMMENTARY

S U M M A R Y

The Financial Statements of the Government provide a record of the Government's financial performance over the eight months ended 28 February 2010 and its financial position as at that date.

The February results are reported against forecasts based on the *2009 Half Year Economic and Fiscal Update (HYEFU)*, published on 15 December 2009.

Overall, excluding income not immediately available to the Crown, February results were broadly in line with the *Half-Year Update* with both core Crown tax revenue and core Crown expenditure lower than forecast.

At a Glance

Table 1 – Key indicators for the eight months ended 28 February 2010 compared to HYEFU

\$ million	Year to date				Full Year
	February 2010	February 2010	Variance	Variance	June 2010
	Actual ¹	Forecast ¹	to HYEFU \$m	to HYEFU %	HYEFU Forecast ²
Core Crown					
Core Crown tax revenue	32,601	32,962	(361)	(1.1)	51,248
Core Crown revenue	36,284	36,632	(348)	(0.9)	56,751
Core Crown expenses	41,306	42,221	915	2.2	65,520
Core Crown residual cash	(6,339)	(6,676)	337	5.0	(10,091)
Gross debt ³	49,378	52,528	3,150	6.0	53,651
<i>as a percentage of GDP</i>	26.6%	28.3%			29.1%
Net debt ⁴	24,170	24,093	(77)	(0.3)	27,371
<i>as a percentage of GDP</i>	13.0%	13.0%			14.8%
Total Crown					
Operating balance before gains and losses	(4,486)	(5,053)	567	11.2	(7,465)
Operating balance	(1,621)	(2,725)	1,104	40.5	(4,794)
Net worth	97,733	96,741	992	1.0	94,809

1 Using GDP for the year ended 31 December 2009 of \$185,549 million (Source: Statistics New Zealand)

2 Using forecast GDP for the year ended 30 June 2010 of \$184,466 million (Source: Treasury)

3 Gross sovereign-issued debt excluding settlement cash and Reserve Bank bills

4 Net core Crown debt excluding student loans and other advances

Results for the eight months ended 28 February 2010:

- **Core Crown tax revenue** was \$361 million (1.1%) lower than forecast. Within this result, there was some variation across individual tax types. Excluding structured finance settlements (\$320 million) underlying tax revenue was \$681 million (2.1%) below forecast. We expect this variance to remain until the end of the fiscal year.

The key driver is lower than expected business profitability, causing shortfalls in provisional and terminal tax. As a result, other individuals' tax and underlying corporate tax are both behind forecast (\$267 million and \$228 million respectively). Source deductions are also lower than forecast (\$455 million) due to the effective tax rate being lower than estimated.

GST revenue (\$389 million or 5.3% above forecast) provided a partial offset to the shortfall in income taxes. Better than expected retail sales volumes and consumer confidence resulted in increased consumption and therefore GST revenue. This trend continued from last month and is expected to continue to the end of the fiscal year.

- **Core Crown expenses** were \$915 million (2.2%) lower than forecast due to the timing of Treaty of Waitangi settlements being later than forecast (\$337 million), and deferred funding to Transport agencies (\$144 million). The remainder of the variances are individually small across a number of departments.

- Excluding structured finance settlements and delayed expenses which are expected to occur prior to year end, the **operating balance before gains and losses** is close to the forecast deficit of \$5.1 billion.
- When we combine the results of State Owned Enterprises and Crown Entities and gains from the Crown's investment portfolio (the most notable being ACC and the NZS Fund) the **operating balance** deficit was \$1.6 billion (\$1.1 billion smaller than forecast).
- Excluding the income retained by entities such as ACC and the NZS Fund and taking account of capital payments, the **residual cash** deficit and **net debt** are broadly in line with *HYEFU*. Net debt has grown \$10 billion in the year since February 2009.

Further analysis of the February results is included in the following section.

Core Crown includes Ministers, Departments, Offices of Parliament, the NZS Fund and the Reserve Bank of New Zealand but excludes State-owned enterprises and Crown entities.

ANALYSIS

Table 2 – Key indicator variances for the eight months ended 28 February 2010 compared to *HYEFU*

Item/indicator	Variance ¹	Key drivers
Core Crown		
Core Crown revenue	-\$348 million (lower than forecast)	<ul style="list-style-type: none"> • Core Crown tax revenue was \$361m (1.1%) lower than forecast. This was mainly due to: <ul style="list-style-type: none"> ○ Source deductions were \$455m (3.1%) lower than forecast. The primary reason for the variance was due to the effective tax rate being lower than estimated. This meant that the level of tax expected to be generated from labour market activity was overstated, as labour market data was broadly in line with forecast. Based on this, we expect source deduction revenue to remain below the <i>HYEFU</i> forecast for the remainder of the fiscal year. ○ Other individuals tax was \$267m (12.8%) lower than forecast. The majority of the variance was due to lower-than-expected provisional tax, suggesting business profitability in the 2010 tax year is weaker than expected in <i>HYEFU</i>. Weaker-than-expected business profitability is supported by the general view of tax practitioners visited during recent business talks as part of the <i>Budget 2010</i> forecast round. We expect that the other individuals' tax shortfall will persist through to year end. Further out, we expect other individuals' tax will increase strongly, in line with recovering profitability and lower refunds resulting from current weak provisional tax. <p>These variances were partly offset by:</p> <ul style="list-style-type: none"> ○ Corporate tax revenue was \$92m (2.3%) higher than forecast due to the settlement of the structured finance transactions. Excluding these transactions, underlying corporate tax revenue was approximately \$200 million less than forecast. The shortfall is largely due to lower-than-expected terminal tax and indicates that business profitability in the 2009 tax year was weaker than we had expected in <i>HYEFU</i>. ○ GST revenue was \$389m (5.3%) above forecast. Approximately one third of the variance relates to greater-than-expected private consumption. Indicators such as January retail sales and March quarter consumer confidence support our view that private consumption is likely to be above forecast in both the December and March quarters. Consumer confidence, as measured by the <i>Westpac-McDermott Miller</i> surveys, eased in the March quarter but still remains at levels supportive of our view. The remainder of the variance is the result of the effective GST rate on public consumption being higher than the forecast rate. Consequently, we expect that GST revenue will remain above the <i>HYEFU</i> forecast through to year end.

¹ Favourable variances against forecast have a positive sign and unfavourable variances against forecast have a negative sign.

Item/indicator	Variance ¹	Key drivers
Core Crown expenses	\$915 million (lower than forecast)	<ul style="list-style-type: none"> • Treaty of Waitangi settlements of approximately \$337m were forecast to have occurred by 31 December, however the timing of these has now changed and are now expected to occur later in the year. • Funding to Transport agencies of \$144 million has been delayed. • The provision for the deposit guarantee scheme was \$50m lower than forecast at \$849m. • The remainder of the variances are individually small across a number of departments.
Core Crown residual cash deficit	\$337 million (lower than forecast)	<ul style="list-style-type: none"> • Core Crown tax receipts were behind forecast by \$275m (0.8%). This variance was mainly due to: <ul style="list-style-type: none"> ○ Other individuals' tax receipts were \$274m (21.2%) lower than forecast. Similar to revenue, the other individuals' tax receipts variance was due to lower provisional and terminal tax and suggests weaker-than-expected current and past tax year profitability respectively; and ○ Source deduction receipts were \$351m (2.4%) lower than forecast. In line with revenue, the source deductions receipts being behind forecast was due to the effective tax rate being lower than estimated. <p>These lower tax receipts were partly offset by:</p> <ul style="list-style-type: none"> ○ Corporate tax receipts were \$365m (7.0%) above forecast, due to large one-off payments made in December. Ignoring these payments, corporate tax receipts were significantly below forecast. Similar to revenue, lower-than-forecast provisional tax is driving the underlying tax shortfall. There is a risk to corporate tax revenue over the remainder of the fiscal year as approximately \$300m of the one off payments received are expected to be refunded; and ○ GST receipts were \$31m (0.4%) higher than forecast, a relatively low variance when compared to the GST revenue. The GST due date was March 1, therefore, some of the receipts for the February month have fallen into March. As a result, we expect that the March GST receipts variance will be in line with revenue, reflecting the reversal of this timing issue. <ul style="list-style-type: none"> • Receipts from interest were \$163m higher than forecast mainly due to cash receipts on reverse repo transactions being received earlier than expected. • Dividend receipts were \$167m higher than forecast mainly due to Housing NZ Corporation paying a higher than expected dividend to the Crown. • Net purchases of physical assets were \$276m lower than forecast. \$107m of the variance was due to continued delays in defence acquisition projects.

Item/indicator	Variance ¹	Key drivers
Gross debt	\$3,150 million (lower than forecast)	<ul style="list-style-type: none"> • Treasury Bill issuance was \$2,450m lower than forecast. This was due to a decision not to issue more Treasury Bills but issuances were included in the forecast at \$500m per week. It is still too early to determine whether the variance will persist to the end of the year as it will depend on market conditions. The variance was net debt neutral because the lower holdings of liabilities by NZDMO were offset by (corresponding) lower holdings of financial assets; • Unsettled RBNZ trade liabilities were \$622m behind forecast, primarily due to lower than forecast forward purchases; and • Third party collateral deposits (liability) held by NZDMO were \$896m lower than forecast. The variance on the collateral deposit (liability) relates to the variance on cash equivalent foreign currency deposits (asset), meaning it is net debt neutral. • This was partly offset by: <ul style="list-style-type: none"> • \$625m higher than forecast change in derivative values, primarily driven by movements in foreign exchange since completion of the forecasts; and • New Zealand Government Stock issuance was \$624m above forecast due to greater demand for these securities. It is not known whether the variance will remain as this will be determined by market conditions.
Net debt	\$77 million (lower than forecast)	<ul style="list-style-type: none"> • Net debt was largely on target, with the variance in residual cash offset by circulating currency which was higher than expected and valuation movements in underlying financial assets and financial liabilities.

Item/indicator	Variance ¹	Key drivers
Total Crown		
Operating balance before gains and losses deficit	\$567 million (lower than forecast)	<ul style="list-style-type: none"> • Total Crown revenue was lower than forecast by \$679m. <ul style="list-style-type: none"> ○ Core Crown tax revenue was \$361m lower than forecast (as noted above). ○ ACC levy revenue was below predicted levels by \$95m due to a reduction in the average residual claims levy rate. • Despite lower than forecast revenue, the deficit on the operating balance before gains and losses was smaller than expected due to expenses being significantly lower than forecast (\$1,246m): <ul style="list-style-type: none"> ○ Core Crown expenses were \$915m lower than forecast (as noted above). ○ ACC insurance expenses were \$227m lower than expected due to lower claims costs.
Operating balance deficit	\$1,104 million (lower than forecast)	<ul style="list-style-type: none"> • In addition to the operating balance before gains and losses deficit being \$567m smaller than forecast, net gains were \$537m higher than forecast. This favourable variance in net gains (and losses) was mainly due to: <ul style="list-style-type: none"> ○ ACC and the NZS Fund reported gains on their investment portfolios that were \$267m and \$311m higher than forecast (respectively). These figures are on an individual entity basis and include inter-entity transactions; and ○ ACC reported a year-to-date actuarial gain of \$151m compared to a forecast loss of \$52m; a favourable variance of \$203m. The actuarial gain was impacted by claims experience and economic assumptions. In the year to February there were fewer new claims than expected, when combined with improved continuance rates and decreases in rehabilitation and medical costs, this results in a reduction in the liability (\$452m). Offsetting this, decreases in market discount rates caused the liability to increase (\$314m).
Net worth	\$992 million (higher than forecast)	<ul style="list-style-type: none"> • The variance in net worth was mainly due to the \$1,104m lower-than-forecast operating balance deficit. The difference between the operating balance and net worth variances was attributable to movements in the asset revaluation and cash flow hedge reserves (movements in reserves do not immediately impact the operating balance).

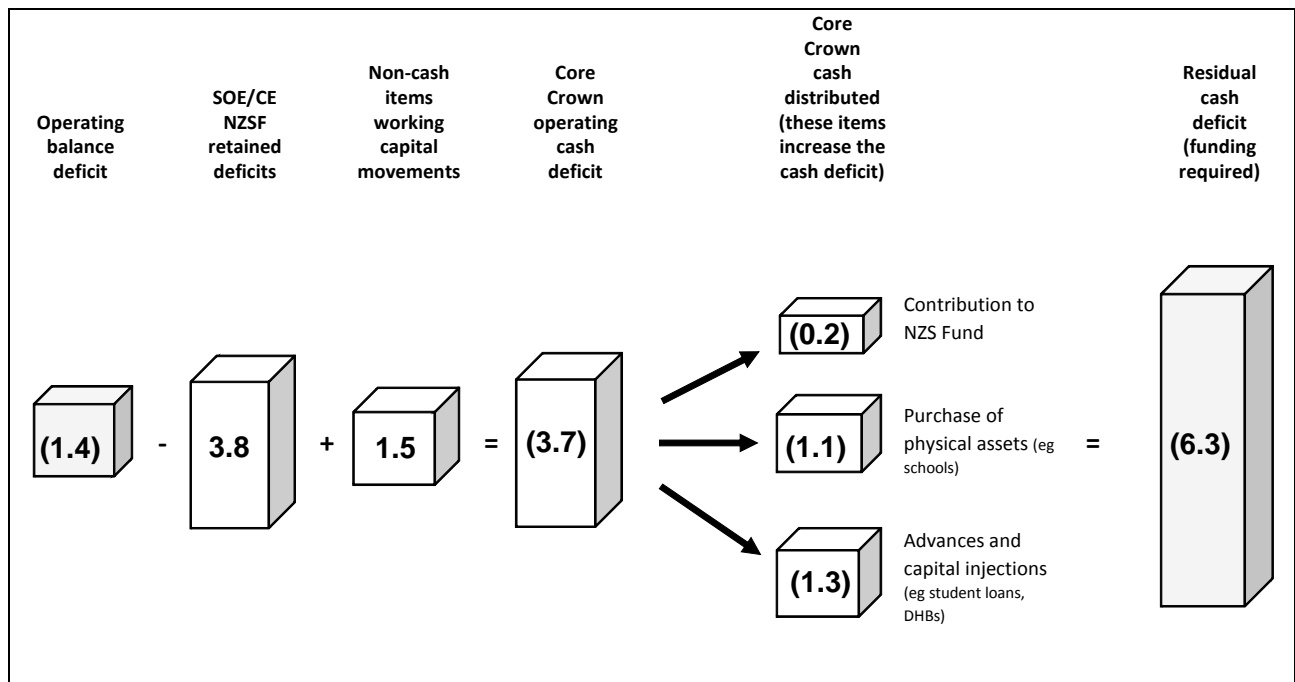
Table 3 – Fiscal Strategy and financial results

Fiscal Strategy		Financial Results		28 Feb 2010 Actual \$m	28 Feb 2010 Forecast \$m	Variance \$m	Variance %	Annual Forecast \$m
Operating revenue Ensure sufficient revenue to meet the operating balance objective		Taxation as a % of GDP		26.4%	26.6%			27.8%
		Core Crown taxation revenue ...		32,601	32,962	(361)	(1.1)	51,248
		... combined with other core Crown revenue ...		3,683	3,670	13	0.4	5,503
Operating expenses Reduce the growth in government spending to ensure operating expenses are consistent with the operating balance objective		... fund core Crown expenses...		(41,306)	(42,221)	915	2.2	(65,520)
		... and with SOE and Crown entity results and core Crown gains and losses...		3,401	2,864	537	18.8	3,975
Operating balance Return to an operating surplus sufficient to meet the Government's net capital requirements, including contributions to the New Zealand Superannuation Fund, and ensure consistency with the debt objective		... result in an operating surplus or deficit...		(1,621)	(2,725)	1,104	40.5	(4,794)
		...with income in SOEs, CEs and the NZS Fund retained...		(3,568)	(2,880)	(688)	(23.9)	(4,116)
		... and some items do not impact cash ...		1,500	1,641	(141)	(8.6)	3,450
		... leaving operating cash flows to ...		(3,689)	(3,964)	275	6.9	(5,460)
		... build up assets in the NZS Fund ...		(250)	(250)	-	-	(250)
		... meet the capital expenditure budget ...		(1,123)	(1,249)	126	10.1	(1,858)
		... and make advances (e.g. to students and DHBs)		(1,277)	(1,213)	(64)	(5.3)	(2,523)
		With the residual cash ...		(6,339)	(6,676)	337	5.0	(10,091)
Debt Manage total debt at prudent levels ensuring net debt remains consistently below 40% of GDP		... when combined with opening net debt ...		17,119	17,119	-	-	17,119
		... and other fair value movements in financial assets and financial liabilities ...		712	298	(414)	(138.9)	161
		... results in a closing net debt ...		24,170	24,093	(77)	(0.3)	27,371
		... and as a % of GDP		13.0%	13.0%			14.8%

¹ GDP for the eight months ended 28 February 2010 (actual and forecast) is the actual data for the year ended 31 December 2009 (Source: Statistics New Zealand) prorated for eight months.

Figure 1 – Application of core Crown cash flows (\$billions)

This diagram shows how the Operating Balance translates into cash available to the core Crown and how this cash was spent.



YEAR - ON - YEAR PERSPECTIVE

Table 4 – Comparison with previous year

	February 2010	February 2009	Change ¹	Change
	Actual \$m	Actual \$m	\$m	%
Statement of Financial Performance				
Core Crown revenue				
Taxation revenue	32,601	36,174	(3,573)	(9.9)
Other revenue	3,683	3,170	513	16.2
Total Core Crown Revenue	36,284	39,344	(3,060)	(7.8)
Core Crown expenses				
Social security and welfare	13,689	12,406	1,283	10.3
GSF pension expenses	219	440	(221)	(50.2)
Health	8,709	8,075	634	7.9
Education	7,435	6,894	541	7.8
Core government services	2,150	2,223	(73)	(3.3)
Law and order	2,051	1,973	78	4.0
Defence	1,152	1,141	11	1.0
Transport and communications	1,288	1,551	(263)	(17.0)
Economic and industrial services	1,882	2,074	(192)	(9.3)
Primary services	305	344	(39)	(11.3)
Heritage, culture and recreation	642	673	(31)	(4.6)
Housing and community development	215	188	27	14.4
Other	67	89	(22)	(24.7)
Finance costs	1,502	1,678	(176)	(10.5)
Total Core Crown Expenses	41,306	39,749	1,557	3.9
Net surplus of SOE/CE's	536	454	82	18.1
OBEGAL	(4,486)	49	(4,535)	-
Total gains/(losses)	2,870	(8,695)	11,565	133.0
Other operating items	(5)	200	(205)	(102.5)
Operating Balance	(1,621)	(8,446)	6,825	80.8
Core Crown residual cash	(6,338)	(6,612)	274	4.1
Debt indicators				
Gross debt²	49,378	40,748	8,630	21.2
Net debt³	24,170	14,223	9,947	69.9

1 Due to the seasonal nature of some expenditure it is not appropriate to annualise these changes.

2 Gross sovereign-issued debt excluding settlement cash and Reserve Bank bills.

3 Net core Crown debt excluding NZS Fund, student loans and other advances.

Revenue and Expenses

Total **taxation revenue** for the eight months ended 28 February 2010 has decreased by \$3.6 billion (9.9%) on the same period last year. Corporate tax, source deductions, other individuals' tax and other direct tax were the largest contributors to the decline in tax revenue. The decline in both corporate and other individuals' tax is due to 2008 and 2009 tax cuts, and declining business profits resulting in lower provisional and terminal tax assessments. The decline in source deductions is due to October 2008 and April 2009 personal tax cuts, in addition to a fall in employment and hours worked by employees. Lower other direct taxes are primarily the result of significantly lower interest rates that began declining in 2008, which have led to a sharp fall in resident withholding tax on interest income

Total **core Crown expenses** have increased by \$1.6 billion (3.9%) on the same period last year. The significant movements within core Crown functional expenses were as follows:

Functional expense	Movement from Previous year	Main drivers of the change
Social security and welfare	+ \$1.3 billion	<ul style="list-style-type: none">• Indexation of welfare benefits and higher beneficiary recipient numbers
Health	+ \$0.6 billion	<ul style="list-style-type: none">• Funding provided in the 2009 Budget to maintain and improve existing service levels
Education	+ \$0.5 billion	<ul style="list-style-type: none">• Higher demand-driven expenses from roll growth and from funding provided in the 2009 Budget
Transport and communications	- \$0.3 billion	<ul style="list-style-type: none">• 2008 included the write-down on acquisition of KiwiRail from Toll Holding Limited
Other	- \$0.5 billion	
Total	+ \$1.6 billion	

Total gains and losses were in a net gain position of \$2.9 billion for the period ended 28 February 2010, compared to a net loss of \$8.7 billion for the same period last year. The \$11.6 billion difference is mainly due to the recent recovery in financial markets resulting in positive investment returns.

Debt

Both **net** and **gross debt**, have increased as a result of the issuance of debt and running down financial assets to meet cash deficits.



FINANCIAL STATEMENTS

STATEMENT OF ACCOUNTING POLICIES

1 Reporting Entity

These financial statements are the consolidated financial statements for the Government reporting entity as specified in Part III of the Public Finance Act 1989. This comprises:

- Ministers of the Crown
- Reserve Bank of New Zealand
- Government Superannuation Fund
- Crown Entities
- Departments
- State Owned Enterprises (SOEs)
- Air New Zealand Limited
- New Zealand Superannuation Fund

A schedule of the entities that are included in the Government reporting entity was set out on pages 91 and 92 of the *Half Year Economic and Fiscal Update* released on 15 December 2009.

With the exception of the 30 June 2009 comparative figures, all actual, forecast and comparative figures presented in these financial statements are unaudited.

2 General Accounting Policies

These financial statements comply with generally accepted accounting practice and with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as applicable for public benefit entities. The measurement base applied is historical cost adjusted for revaluations of property, plant and equipment (where appropriate), commercial forests; and marketable securities, deposits and equity investments held for trading purposes. The accrual basis of accounting has been used unless otherwise stated.

These financial statements have been prepared on a going concern basis. All other policies have been applied consistently throughout the period.

3 Specific Accounting Policies

The specific accounting policies of the Crown are detailed on the Treasury's internet site:

<http://www.treasury.govt.nz/publications/guidance/reporting/accounting>

4 Forecasts and Assumptions

The forecasts in these financial statements have been derived from the forecasts released in the *2009 Half Year Economic and Fiscal Update (HYEFU)*, on 15 December 2009.

The assumptions underlying the preparation of forecasts are set out in the Statement of Accounting Policies and Forecast Assumptions reproduced in full on the Treasury's internet site:

<http://www.treasury.govt.nz/budget/forecasts/HYEFU2009>

STATEMENT OF ACCOUNTING POLICIES (*CONTINUED*)

5 Comparative Figures

When presentation or classification of items in the financial statements is amended or accounting policies are changed voluntarily, comparative figures have been restated to ensure consistency with the current period unless it is impracticable to do so.

6 Variance Percentages

Percentage variances between the actual and prior year balances exceeding 500% are not shown.

STATEMENT OF FINANCIAL PERFORMANCE

for the eight months ended 28 February 2010

Year to 30 Jun 2009	8 Months to 28 Feb 2009		Note	Current Year Actual vs Forecast				Annual Forecast \$m
				Actual \$m	Forecast \$m	Variance \$m	%	
		Revenue						
54,145	35,847	Taxation revenue	1	32,299	32,705	(406)	(1.2)	50,843
4,118	2,699	Other sovereign revenue	1	2,936	3,011	(75)	(2.5)	4,634
58,263	38,546	Total Revenue Levied through the Crown's Sovereign Power		35,235	35,716	(481)	(1.3)	55,477
15,356	10,127	Sales of goods and services		9,465	9,144	321	3.5	14,005
3,419	2,345	Interest revenue and dividends	2	1,794	2,236	(442)	(19.8)	3,659
2,890	1,999	Other revenue		1,767	1,844	(77)	(4.2)	2,831
21,665	14,471	Total revenue earned through the Crown's operations		13,026	13,224	(198)	(1.5)	20,495
79,928	53,017	Total revenue (excluding gains)		48,261	48,940	(679)	(1.4)	75,972
		Expenses						
19,962	13,099	Social assistance and official development assistance	3	13,962	14,023	61	0.4	21,533
18,064	11,979	Personnel expenses	4	12,057	12,169	112	0.9	18,201
4,305	2,790	Depreciation and amortisation	5	2,719	2,762	43	1.6	4,201
34,116	20,411	Other operating expenses	5	20,095	20,802	707	3.4	33,487
3,492	2,525	Interest expenses	6	2,064	2,448	384	15.7	3,906
3,882	2,164	Insurance expenses	7	1,850	2,057	207	10.1	3,246
-	-	Forecast new operating spending	5	-	-	-	-	13
-	-	Top-down expense adjustment	5	-	(268)	(268)	(100.0)	(1,150)
83,821	52,968	Total expenses (excluding losses)		52,747	53,993	1,246	2.3	83,437
(3,893)	49	Operating balance before gains/(losses)		(4,486)	(5,053)	567	11.2	(7,465)
(2,634)	(3,475)	Net gains/(losses) on financial instruments	8	3,061	2,466	595	24.1	2,685
(4,167)	(5,220)	Net gains/(losses) on non-financial instruments	9	(191)	(182)	(9)	(4.9)	(112)
(6,801)	(8,695)	Total gains/(losses)		2,870	2,284	586	25.7	2,573
212	196	Net surplus/(deficit) from associates and joint ventures		(5)	44	(49)	(111.4)	99
(10,482)	(8,450)	Operating balance from continuing activities		(1,621)	(2,725)	1,104	40.5	(4,793)
2	4	Gain/(loss) from discontinued operations		-	-	-	-	(1)
(10,480)	(8,446)	Operating balance (including minority interest)		(1,621)	(2,725)	1,104	40.5	(4,794)
(25)	-	Attributable to minority interest in Air New Zealand		-	-	-	-	-
(10,505)	(8,446)	Operating balance	10	(1,621)	(2,725)	1,104	40.5	(4,794)

The accompanying Notes and Accounting Policies are an integral part of these Statements.

ANALYSIS OF EXPENSES BY FUNCTIONAL CLASSIFICATION

for the eight months ended 28 February 2010

Year to 30 Jun 2009 Actual \$m	8 Months to 28 Feb 2009 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
Total Crown expenses							
23,273	14,620	Social security and welfare	15,540	15,881	341	2.1	24,268
655	440	GSF pension expenses	224	254	30	11.8	368
12,042	7,886	Health	8,429	8,389	(40)	(0.5)	12,889
12,465	7,512	Education	8,021	7,988	(33)	(0.4)	12,358
5,137	2,196	Core government services	2,153	2,344	191	8.1	3,957
3,250	2,094	Law and order	2,153	2,246	93	4.1	3,473
1,712	1,110	Defence	1,121	1,156	35	3.0	1,796
9,023	5,988	Transport and communications	5,207	5,255	48	0.9	8,421
7,695	5,277	Economic and industrial services	4,735	4,752	17	0.4	7,690
1,487	942	Primary services	913	986	73	7.4	1,628
2,397	1,595	Heritage, culture and recreation	1,427	1,437	10	0.7	2,358
1,075	700	Housing and community development	693	708	15	2.1	1,031
118	83	Other	67	417	350	83.9	431
3,492	2,525	Finance costs	2,064	2,448	384	15.7	3,906
-	-	Forecast new operating spending	-	-	-	-	13
-	-	Top-down expense adjustment	-	(268)	(268)	(100.0)	(1,150)
83,821	52,968	Total Crown expenses excluding losses	52,747	53,993	1,246	2.3	83,437

Below is an analysis of core Crown expenses by functional classification. Core Crown expenses include expenses incurred by the Crown, Departments and the Reserve Bank, but not Crown entities and SOEs.

Year to 30 Jun 2009 Actual \$m	8 Months to 28 Feb 2009 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
Core Crown expenses							
19,382	12,406	Social security and welfare	13,689	13,750	61	0.4	21,155
655	440	GSF pension expenses	219	247	28	11.3	357
12,368	8,075	Health	8,709	8,734	25	0.3	13,434
11,455	6,894	Education	7,435	7,459	24	0.3	11,649
5,293	2,223	Core government services	2,150	2,417	267	11.0	4,071
3,089	1,973	Law and order	2,051	2,118	67	3.2	3,269
1,757	1,141	Defence	1,152	1,189	37	3.1	1,844
2,663	1,551	Transport and communications	1,288	1,453	165	11.4	2,807
2,960	2,074	Economic and industrial services	1,882	1,952	70	3.6	3,167
534	344	Primary services	305	324	19	5.9	589
1,002	673	Heritage, culture and recreation	642	646	4	0.6	1,142
297	188	Housing and community development	215	219	4	1.8	338
118	89	Other	67	422	355	84.1	431
2,429	1,678	Finance costs	1,502	1,559	57	3.7	2,404
-	-	Forecast new operating spending	-	-	-	-	13
-	-	Top-down expense adjustment	-	(268)	(268)	(100.0)	(1,150)
64,002	39,749	Total core Crown expenses excluding losses	41,306	42,221	915	2.2	65,520

The accompanying Notes and Accounting Policies are an integral part of these Statements.

STATEMENT OF CASH FLOWS

for the eight months ended 28 February 2010

Year to 30 Jun 2009 Actual \$m	8 Months to 28 Feb 2009 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
		Cash Flows From Operations					
		Cash was provided from					
51,119	33,954	Taxation receipts	32,252	32,614	(362)	(1.1)	50,967
3,716	2,589	Other sovereign receipts	2,902	2,856	46	1.6	4,379
16,592	11,312	Sales of goods and services	10,073	9,793	280	2.9	14,704
2,792	2,209	Interest and dividends	1,891	1,491	400	26.8	2,642
2,204	1,798	Other operating receipts	1,573	1,726	(153)	(8.9)	2,288
76,423	51,862	Total cash provided from operations	48,691	48,480	211	0.4	74,980
		Cash was disbursed to					
		Social assistance and official development assistance					
19,673	12,891		14,126	14,120	(6)	-	21,462
50,391	34,740	Personnel and operating payments	34,080	34,627	547	1.6	52,791
2,880	2,136	Interest payments	1,694	1,486	(208)	(14.0)	2,986
-	-	Forecast new operating spending	-	-	-	-	13
-	-	Top-down expense adjustment	-	(268)	(268)	(100.0)	(1,150)
72,944	49,767	Total cash disbursed to operations	49,900	49,965	65	0.1	76,102
3,479	2,095	Net cash flows from operations	(1,209)	(1,485)	276	18.6	(1,122)
		Cash Flows From Investing Activities					
		Cash was provided from/(disbursed to)					
(5,437)	(3,382)	Net purchase of physical assets	(3,823)	(4,548)	725	15.9	(7,357)
(2,338)	(2,754)	Net purchase of shares and other securities	2,166	224	1,942	-	761
(433)	(205)	Net purchase of intangible assets	(186)	(217)	31	14.3	(381)
(1,129)	(312)	Net (issue)/repayment of advances	5	(158)	163	103.2	(801)
(399)	(282)	Net acquisition of investments in associates	27	18	9	50.0	(127)
-	-	Capital contingency provision	-	-	-	-	(38)
-	-	Top-down capital adjustment	-	150	(150)	(100.0)	550
(9,736)	(6,935)	Net cash flows from investing activities	(1,811)	(4,531)	2,720	60.0	(7,393)
(6,257)	(4,840)	Net cash flows from operating and investing activities	(3,020)	(6,016)	2,996	49.8	(8,515)
		Cash Flows From Financing Activities					
		Cash was provided from/(disbursed to)					
475	509	Issues of circulating currency	108	(17)	125	-	16
2,344	(596)	Net issue/(repayment) of Government stock ¹	3,792	4,192	(400)	(9.5)	6,721
(1,836)	(3,147)	Net issue/(repayment) of foreign currency borrowing	3,087	(3,185)	6,272	196.9	(5,098)
7,752	10,882	Net issue/(repayment) of other New Zealand dollar borrowing	(3,121)	7,370	(10,491)	(142.3)	8,885
8,735	7,648	Net cash flows from financing activities	3,866	8,360	(4,494)	(53.8)	10,524
2,478	2,808	Net movement in cash	846	2,344	(1,498)	(63.9)	2,009
3,804	3,804	Opening Cash Balance	6,268	6,268	-	-	6,268
(14)	171	Foreign-exchange gains/(losses) on opening cash	(200)	(241)	41	17.0	(280)
6,268	6,783	Closing Cash Balance	6,914	8,371	(1,457)	(17.4)	7,997

1 Net issues of Government stock include movements within government stock holdings of entities such as NZS Fund, ACC and EQC. The Reconciliation of Core Crown Operating Cash Flows to Residual Core Crown Cash (note 18) outlines proceeds and repayments of domestic bonds.

The accompanying Notes and Accounting Policies are an integral part of these Statements.

STATEMENT OF CASH FLOWS (CONTINUED)

for the eight months ended 28 February 2010

Year to 30 Jun 2009 Actual \$m	8 Months to 28 Feb 2009 Actual \$m		Current Year Actual vs Forecast				
			Actual \$m	Forecast \$m	Variance \$m	%	Annual Forecast \$m
Reconciliation Between the Net Cash Flows from Operations and the Operating Balance							
3,479	2,095	Net Cash Flows from Operations	(1,209)	(1,485)	276	18.6	(1,122)
<i>Items included in the operating balance but not in net cash flows from operations.</i>							
Gains/(losses)							
(2,634)	(3,475)	Gains/(losses) on other financial instruments	3,061	2,466	595	24.1	2,685
(4,167)	(5,220)	Gains/(losses) on other non-financial instruments	(191)	(182)	(9)	(4.9)	(112)
(6,801)	(8,695)	Total gains/(losses)	2,870	2,284	586	25.7	2,573
Other Non-cash Items in Operating Balance							
(4,305)	(2,790)	Depreciation and amortisation	(2,719)	(2,762)	43	1.6	(4,201)
(630)	(345)	Write-down on initial recognition of loans impairment on financial assets	(477)	(476)	(1)	(0.2)	(847)
(851)	13	(excluding receivables) Decrease/(increase) in defined benefit retirement plan liabilities	2	5	(3)	(60.0)	4
(41)	(16)		194	170	24	14.1	279
(1,592)	929	Decrease/(increase) in insurance liabilities	1,336	1,296	40	3.1	(509)
212	196	Other	(2)	46	(48)	(104.3)	99
(7,207)	(2,013)	Total other non-cash Items	(1,666)	(1,721)	55	3.2	(5,175)
Movements in Working Capital							
461	(1,739)	Increase/(decrease) in receivables	(2,774)	(1,799)	(975)	(54.2)	(1,756)
16	(254)	Increase/(decrease) in accrued interest	(467)	(217)	(250)	(115.2)	98
118	153	Increase/(decrease) in inventories	61	33	28	84.8	50
31	70	Increase/(decrease) in prepayments	71	16	55	343.8	(36)
(134)	1	Decrease/(increase) in deferred revenue	(214)	(206)	(8)	(3.9)	124
(468)	1,936	Decrease/(increase) in payables	1,707	370	1,337	361.4	450
24	167	Total movements in working capital	(1,616)	(1,803)	187	10.4	(1,070)
(10,505)	(8,446)	Operating Balance	(1,621)	(2,725)	1,104	40.5	(4,794)

The accompanying Notes and Accounting Policies are an integral part of these Statements.

STATEMENT OF COMPREHENSIVE INCOME

for the eight months ended 28 February 2010

Year to 30 Jun 2009 Actual \$m	8 Months to 28 Feb 2009 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
4,235	389	Revaluation of physical assets	6	128	(122)	(95.3)	232
333	528	Effective portion of changes in value of cash flow hedges	(147)	(130)	(17)	(13.1)	(148)
-	(1)	Net change in fair value of cash flow hedges transferred to operating balance	-	-	-	-	-
(153)	(28)	Net change in fair value of cash flow hedges transferred to the hedged item	(11)	(22)	11	50.0	(21)
15	99	Foreign currency translation differences for foreign operations	(8)	(17)	9	52.9	25
22	66	Valuation gains/(losses) on investments available for sale taken to reserves	-	(8)	8	100.0	(7)
-	-	Other movements	-	-	-	-	7
4,452	1,053	Comprehensive income for the year	(160)	(49)	(111)	(226.5)	88
(10,480)	(8,446)	Operating Balance (including minority interest)	(1,621)	(2,725)	1,104	40.5	(4,794)
(6,028)	(7,393)	Total comprehensive income	(1,781)	(2,774)	993	35.8	(4,706)
		Attributable to:					
34	-	- minority interest in Air New Zealand	-	-	-	-	-
(6,062)	(7,393)	- the Crown	(1,781)	(2,774)	993	35.8	(4,706)
(6,028)	(7,393)	Total comprehensive income	(1,781)	(2,774)	993	35.8	(4,706)

The accompanying Notes and Accounting Policies are an integral part of these Statements.

STATEMENT OF FINANCIAL POSITION

as at 28 February 2010

As at 30 Jun 2009 Actual \$m	As at 28 Feb 2009 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m	
			Note	Actual \$m	Forecast \$m	Variance \$m		%
		Assets						
6,268	6,783	Cash and cash equivalents	11	6,914	8,371	(1,457)	(17.4)	7,997
14,619	12,420	Receivables	11	11,576	12,424	(848)	(6.8)	12,862
45,708	52,784	Marketable securities, deposits and derivatives in gain	11	43,989	46,628	(2,639)	(5.7)	45,149
11,160	10,129	Share investments	11	13,174	13,003	171	1.3	13,357
15,604	15,090	Advances	11	17,446	17,369	77	0.4	18,132
1,082	1,118	Inventory		1,143	1,115	28	2.5	1,132
1,630	1,890	Other assets		1,623	1,562	61	3.9	1,507
110,135	105,412	Property, plant & equipment	12	111,514	112,307	(793)	(0.7)	114,221
8,777	8,510	Equity accounted investments ¹		8,809	8,879	(70)	(0.8)	8,960
2,168	1,848	Intangible assets and goodwill ²		2,125	2,203	(78)	(3.5)	2,312
-	-	Forecast for new capital spending		-	-	-	-	38
-	-	Top-down capital adjustment		-	(150)	150	100.0	(550)
217,151	215,984	Total assets		218,313	223,711	(5,398)	(2.4)	225,117
		Liabilities						
4,005	4,039	Issued currency		4,113	3,988	(125)	(3.1)	4,021
9,139	8,169	Payables	14	7,535	9,757	2,222	22.8	10,530
1,426	1,290	Deferred revenue		1,640	1,632	(8)	(0.5)	1,302
61,953	66,302	Borrowings		67,570	71,927	4,357	6.1	73,389
26,567	22,463	Insurance liabilities	15	25,079	25,324	245	1.0	27,037
8,993	10,651	Retirement plan liabilities		9,208	9,029	(179)	(2.0)	8,921
5,553	4,949	Provisions	16	5,435	5,313	(122)	(2.3)	5,108
117,636	117,863	Total liabilities		120,580	126,970	6,390	5.0	130,308
99,515	98,121	Total assets less total liabilities		97,733	96,741	992	1.0	94,809
		Net Worth						
36,382	38,314	Taxpayer funds	17	34,975	33,765	1,210	3.6	31,702
62,612	58,895	Revaluation reserve	17	62,403	62,630	(227)	(0.4)	62,737
74	530	Other reserves	17	(92)	(101)	9	8.9	(77)
99,068	97,739	Total net worth attributable to the Crown		97,286	96,294	992	1.0	94,362
447	382	Net worth attributable to minority in Air New Zealand		447	447	-	-	447
99,515	98,121	Total net worth		97,733	96,741	992	1.0	94,809

¹ Tertiary education institutions constitute most equity accounted investments.

² Intangible assets include the Kyoto net asset, previously a net liability (refer Note 16).

The accompanying Notes and Accounting Policies are an integral part of these Statements.

STATEMENT OF BORROWINGS

as at 28 February 2010

As at 30 Jun 2009 Actual \$m	As at 28 Feb 2009 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
21,164	19,055	Government stock ¹	25,207	24,977	(230)	(0.9)	27,033
7,432	5,025	Treasury bills	7,904	10,341	2,437	23.6	9,535
491	581	Government retail stock	337	437	100	22.9	435
6,908	9,432	Settlement deposits with Reserve Bank	7,602	6,338	(1,264)	(19.9)	6,338
2,158	5,693	Derivatives in loss	2,196	1,638	(558)	(34.1)	1,259
1,002	1,126	Finance lease liabilities	930	944	14	1.5	1,046
22,798	25,390	Other borrowings	23,394	27,252	3,858	14.2	27,743
61,953	66,302	Total borrowings	67,570	71,927	4,357	6.1	73,389
44,448	48,119	Sovereign-guaranteed debt	47,707	51,954	4,247	8.2	53,007
17,505	18,183	Non sovereign-guaranteed debt	19,863	19,973	110	0.6	20,382
61,953	66,302	Total borrowings	67,570	71,927	4,357	6.1	73,389
		Net Debt:					
50,545	54,253	Core Crown borrowings ²	55,187	58,485	3,298	5.6	59,919
428	(921)	Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings	387	477	90	18.9	166
50,973	53,332	Gross sovereign-issued debt³	55,574	58,962	3,388	5.7	60,085
55,769	61,063	Less core Crown financial assets ⁴	56,843	59,815	(2,972)	(5.0)	58,600
(4,796)	(7,731)	Net core Crown debt (incl NZS Fund)⁵	(1,269)	(853)	416	48.8	1,485
11,486	10,982	Add back NZS Fund holdings of core Crown financial assets and NZS Fund fin assets ⁶	14,551	14,047	504	3.6	14,811
6,690	3,251	Net core Crown debt (excl NZS Fund)⁵	13,282	13,194	(88)	(0.7)	16,296
10,429	10,972	Advances	10,888	10,899	11	0.1	11,075
17,119	14,223	Net core Crown debt (excl NZS Fund and advances)⁷	24,170	24,093	(77)	(0.3)	27,371
		Gross Debt:					
50,973	53,332	Gross sovereign-issued debt ³	55,574	58,962	3,388	5.7	60,085
(9,217)	(14,184)	Less Reserve Bank settlement cash and Reserve Bank bills	(7,796)	(8,034)	(238)	(3.0)	(8,034)
1,600	1,600	Add back changes to DMO borrowing due to settlement cash ⁸	1,600	1,600	-	-	1,600
43,356	40,748	Gross sovereign-issued debt excluding Reserve Bank settlement cash and Reserve bank bills	49,378	52,528	3,150	6.0	53,651

Notes on gross and net debt:

- Government stock includes \$395 million of infrastructure bonds.
- Core Crown borrowings in this instance includes unsettled purchases of securities (classified as accounts of financial position).
- Gross Sovereign-Issued Debt (GSID) represents debt issued by the sovereign (the core Crown) and includes Government stock held by the New Zealand Superannuation Fund (NZS Fund), ACC and EQC.
- Core Crown financial assets exclude receivables.
- Net Core Crown Debt represents GSID less financial assets. This can provide information about the sustainability of the Government's accounts, and is used by some international agencies when determining the credit-worthiness of a country.
- Adding back the NZS Fund assets provides the financial liabilities less financial assets of the Core Crown, excluding those assets set aside to meet part of the future cost of New Zealand superannuation.
- Net Core Crown Debt (excluding NZS Fund and advances) excludes financial assets which are held for public policy rather than treasury management purposes.
- The Reserve Bank has used \$1.6 billion of settlement cash to purchase reserves that were to have been funded by the NZ Debt Management Office borrowing. Therefore, the impact of settlement cash on GSID is adjusted by this amount.

The accompanying Notes and Accounting Policies are an integral part of these Statements.

STATEMENT OF COMMITMENTS

as at 28 February 2010

	As at 28 Feb 2010 \$m	As at 30 Jun 2009 \$m	As at 28 Feb 2009 \$m
Capital Commitments			
Specialist military equipment	549	699	1,052
Land and buildings	663	699	1,206
Other property, plant and equipment	5,136	4,859	4,078
Other capital commitments	426	429	365
Tertiary Education Institutions	245	245	209
Total capital commitments	7,019	6,931	6,910
Operating Commitments			
Non-cancellable accommodation leases	2,656	2,366	2,409
Other non-cancellable leases	2,464	2,630	2,663
Non-cancellable contracts for the supply of goods and services	2,173	2,256	2,295
Other operating commitments	10,377	9,731	7,732
Tertiary Education Institutions	335	335	315
Total operating commitments	18,005	17,318	15,414
Total commitments	25,024	24,249	22,324
Total Commitments by Segment			
Core Crown	12,595	20,300	14,022
Crown entities	14,814	15,972	13,200
State-owned Enterprises	5,913	5,706	4,876
Inter-segment eliminations	(8,298)	(17,729)	(9,774)
Total commitments	25,024	24,249	22,324

STATEMENT OF CONTINGENT LIABILITIES AND ASSETS

as at 28 February 2010

	As at 28 Feb 2010 \$m	As at 30 Jun 2009 \$m	As at 28 Feb 2009 \$m
Quantifiable Contingent Liabilities			
Guarantees and indemnities	111	96	1,160
Uncalled capital	2,344	2,506	3,312
Legal proceedings and disputes	346	1,754	352
Other contingent liabilities	3,893	4,133	2,459
Total quantifiable contingent liabilities	6,694	8,489	7,283
Total Quantifiable Contingent Liabilities by Segment			
Core Crown	6,502	8,287	7,107
Crown entities	80	90	109
State-owned Enterprises	112	112	67
Inter-segment eliminations	-	-	-
Total quantifiable contingent liabilities	6,694	8,489	7,283
Quantifiable Contingent Assets			
Core Crown	304	1,580	319
Crown entities	3	2	-
Total quantifiable contingent assets	307	1,582	319

The above table does not include the guarantee schemes in relation to financial institution deposits. Refer to Note 19 for information on these schemes.

The accompanying Notes and Accounting Policies are an integral part of these Statements.

NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2009 Actual \$m	8 Months to 28 Feb 2009 Actual \$m	Current Year Actual vs Forecast				Annual Forecast \$m	
		Actual \$m	Forecast \$m	Variance \$m	%		
NOTE 1: Revenue Collected Through the Crown's Sovereign Power							
Taxation Revenue (accrual)							
Individuals							
22,587	15,306	PAYE	14,377	14,833	(456)	(3.1)	22,353
4,408	3,104	Other persons	2,563	2,867	(304)	(10.6)	4,428
(1,636)	(880)	Refunds	(1,060)	(1,121)	61	5.4	(1,886)
500	335	Fringe benefit tax	318	342	(24)	(7.0)	501
25,859	17,865	Total individuals	16,198	16,921	(723)	(4.3)	25,396
Corporate Tax							
8,245	4,371	Gross companies tax	3,379	3,350	29	0.9	6,301
(430)	(153)	Refunds	(224)	(201)	(23)	(11.4)	(360)
1,451	1,031	Non-resident withholding tax	732	688	44	6.4	1,060
10	(6)	Foreign-source dividend w/holding payments	(2)	(1)	(1)	(100.0)	3
9,276	5,243	Total corporate tax	3,885	3,836	49	1.3	7,004
Other Income Tax							
2,571	1,832	Resident w/holding tax on interest income	1,116	1,171	(55)	(4.7)	1,872
65	50	Resident w/holding tax on dividend income	74	88	(14)	(15.9)	146
1	1	Estate and gift duties	1	1	-	-	1
2,637	1,883	Total other income tax	1,191	1,260	(69)	(5.5)	2,019
37,772	24,991	Total income tax	21,274	22,017	(743)	(3.4)	34,419
Goods and Services Tax							
20,551	14,058	Gross goods and services tax	13,068	12,663	405	3.2	18,835
(9,000)	(6,496)	Refunds	(5,304)	(5,288)	(16)	(0.3)	(7,428)
11,551	7,562	Total goods and services tax	7,764	7,375	389	5.3	11,407
Other Taxation							
868	586	Road user charges	589	594	(5)	(0.8)	900
781	553	Petroleum fuels excise - domestic production	563	599	(36)	(6.0)	856
616	421	Alcohol excise - domestic production	424	422	2	0.5	640
172	148	Tobacco excise - domestic production	136	124	12	9.7	185
514	298	Petroleum fuels excise - imports ¹	385	292	93	31.8	547
213	155	Alcohol excise - imports ¹	156	149	7	4.7	219
891	578	Tobacco excise - imports ¹	545	622	(77)	(12.4)	904
262	189	Other customs duty	126	159	(33)	(20.8)	235
215	145	Gaming duties	152	159	(7)	(4.4)	239
171	142	Motor vehicle fees	112	111	1	0.9	166
80	54	Approved issuer levy and cheque duty	47	57	(10)	(17.5)	88
39	25	Energy resources levies	26	25	1	4.0	38
4,822	3,294	Total other indirect taxation	3,261	3,313	(52)	(1.6)	5,017
16,373	10,856	Total indirect taxation	11,025	10,688	337	3.2	16,424
54,145	35,847	Total taxation revenue	32,299	32,705	(406)	(1.2)	50,843
Other Sovereign Revenue (accrual)							
2,880	1,857	ACC levies	1,987	2,092	(105)	(5.0)	3,248
299	210	Fire Service levies	211	211	-	-	302
86	57	EQC levies	56	59	(3)	(5.1)	88
853	575	Other miscellaneous items	682	649	33	5.1	996
4,118	2,699	Total other sovereign revenue	2,936	3,011	(75)	(2.5)	4,634
58,263	38,546	Total sovereign revenue	35,235	35,716	(481)	(1.3)	55,477

1. Customs excise-equivalent duty

NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2009 Actual \$m	8 Months to 28 Feb 2009 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 1 (continued): Receipts Collected Through the Crown's Sovereign Power							
Income Tax Receipts (cash)							
Individuals							
22,567	15,435	PAYE	14,478	14,832	(354)	(2.4)	22,305
4,988	2,844	Other persons	2,615	2,738	(123)	(4.5)	4,939
(2,488)	(1,605)	Refunds	(1,937)	(1,792)	(145)	(8.1)	(2,537)
506	367	Fringe benefit tax	343	349	(6)	(1.7)	491
25,573	17,041	Total individuals	15,499	16,127	(628)	(3.9)	25,198
Corporate Tax							
7,742	4,760	Gross companies tax	5,515	5,167	348	6.7	8,111
(2,013)	(976)	Refunds	(952)	(923)	(29)	(3.1)	(1,501)
1,437	981	Non-resident withholding tax	743	701	42	6.0	1,059
(2)	(5)	Foreign-source dividend w/holding payments	5	9	(4)	(44.4)	13
7,164	4,760	Total corporate tax	5,311	4,954	357	7.2	7,682
Other Income Tax							
2,593	1,850	Resident w/holding tax on interest income	1,155	1,185	(30)	(2.5)	1,838
97	46	Resident w/holding tax on dividend income	86	83	3	3.6	146
2	1	Estate and gift duties	1	1	-	-	2
2,692	1,897	Total other income tax	1,242	1,269	(27)	(2.1)	1,986
35,429	23,698	Total income tax	22,052	22,350	(298)	(1.3)	34,866
Goods and Services Tax							
19,715	13,140	Gross goods and services tax	11,882	12,071	(189)	(1.6)	18,525
(8,894)	(6,219)	Refunds	(4,913)	(5,099)	186	3.6	(7,428)
10,821	6,921	Total goods and services tax	6,969	6,972	(3)	-	11,097
Other Taxation							
864	584	Road user charges	589	594	(5)	(0.8)	900
786	545	Petroleum fuels excise	549	576	(27)	(4.7)	836
587	396	Alcohol excise	427	428	(1)	(0.2)	640
170	155	Tobacco excise	149	135	14	10.4	185
1,957	1,260	Other customs duty	1,168	1,204	(36)	(3.0)	1,905
227	154	Gaming duties	152	160	(8)	(5.0)	240
165	151	Motor vehicle fees	127	111	16	14.4	166
36	23	Energy resources levies	26	25	1	4.0	44
77	67	Approved issuer levy and cheque duty	44	59	(15)	(25.4)	88
4,869	3,335	Total other indirect taxation	3,231	3,292	(61)	(1.9)	5,004
15,690	10,256	Total indirect taxation	10,200	10,264	(64)	(0.6)	16,101
51,119	33,954	Total tax receipts collected	32,252	32,614	(362)	(1.1)	50,967
Other Sovereign Receipts (cash)							
2,792	1,952	ACC levies	2,239	2,187	52	2.4	3,362
300	210	Fire Service levies	211	211	-	-	302
87	60	EQC levies	60	59	1	1.7	88
537	367	Other miscellaneous items	392	399	(7)	(1.8)	627
3,716	2,589	Total other sovereign receipts	2,902	2,856	46	1.6	4,379
54,835	36,543	Total sovereign receipts	35,154	35,470	(316)	(0.9)	55,346

NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2009 Actual \$m	8 Months to 28 Feb 2009 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 2: Interest Revenue and Dividends							
<i>By type</i>							
3,000	2,130	Interest revenue	1,587	2,024	(437)	(21.6)	3,228
419	215	Dividends	207	212	(5)	(2.4)	431
3,419	2,345	Total interest revenue and dividends	1,794	2,236	(442)	(19.8)	3,659
<i>By source</i>							
1,872	1,280	Core Crown	1,510	1,568	(58)	(3.7)	2,312
1,248	1,059	Crown entities	691	579	112	19.3	881
1,193	848	State-owned Enterprises	680	906	(226)	(24.9)	1,530
(894)	(842)	Inter-segment eliminations	(1,087)	(817)	(270)	(33.0)	(1,064)
3,419	2,345	Total interest revenue and dividends	1,794	2,236	(442)	(19.8)	3,659
NOTE 3: Social Assistance and Official Development Assistance							
7,744	5,079	New Zealand superannuation	5,450	5,453	3	0.1	8,296
1,530	1,004	Domestic purposes benefit	1,117	1,116	(1)	(0.1)	1,696
586	354	Unemployment benefit	634	643	9	1.4	974
1,260	835	Invalids benefit	863	862	(1)	(0.1)	1,309
2,062	1,331	Family tax credit	1,413	1,414	1	0.1	2,186
989	640	Accommodation supplement	765	769	4	0.5	1,170
613	400	Sickness benefit	470	471	1	0.2	723
444	235	Student allowances	315	310	(5)	(1.6)	534
390	256	Disability allowances	273	274	1	0.4	416
1,281	1,059	KiwiSaver	710	700	(10)	(1.4)	1,138
2,605	1,552	Other social assistance benefits	1,639	1,659	20	1.2	2,617
19,504	12,745	Total social assistance	13,649	13,671	22	0.2	21,059
458	354	Official development assistance	313	352	39	11.1	474
19,962	13,099	Total social assistance and official development assistance	13,962	14,023	61	0.4	21,533
NOTE 4: Personnel Expenses							
6,037	4,056	Core Crown	3,912	4,016	104	2.6	5,899
9,592	6,325	Crown entities	6,546	6,547	1	-	9,884
2,447	1,605	State-owned Enterprises	1,605	1,611	6	0.4	2,425
(12)	(7)	Inter-segment eliminations	(6)	(5)	1	20.0	(7)
18,064	11,979	Total personnel expenses	12,057	12,169	112	0.9	18,201
NOTE 5: Operating Expenses							
<i>By type</i>							
4,305	2,790	Depreciation and amortisation	2,719	2,762	43	1.6	4,201
34,116	20,411	Other operating expenses	20,095	20,802	707	3.4	33,487
-	-	Forecast new operating spending	-	-	-	-	13
-	-	Top-down expense adjustment	-	(268)	(268)	(100.0)	(1,150)
38,421	23,201	Total operating expenses	22,814	23,296	482	2.1	36,551
<i>By source</i>							
35,292	20,804	Core Crown	21,748	22,443	695	3.1	35,412
17,332	10,310	Crown entities	11,592	11,387	(205)	(1.8)	18,146
10,172	6,899	State-owned Enterprises	6,121	6,174	53	0.9	9,493
(24,375)	(14,812)	Inter-segment eliminations	(16,647)	(16,708)	(61)	(0.4)	(26,500)
38,421	23,201	Total operating expenses	22,814	23,296	482	2.1	36,551

NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2009 Actual \$m	8 Months to 28 Feb 2009 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
		NOTE 6: Interest Expenses					
		<i>By type</i>					
3,404	2,435	Interest on financial liabilities	2,015	2,398	383	16.0	3,830
88	90	Interest unwind on provisions	49	50	1	2.0	76
3,492	2,525	Total interest expenses	2,064	2,448	384	15.7	3,906
		<i>By source</i>					
2,429	1,678	Core Crown	1,502	1,559	57	3.7	2,404
185	151	Crown entities	110	111	1	0.9	136
1,392	1,107	State-owned Enterprises	803	1,028	225	21.9	1,741
(514)	(411)	Inter-segment eliminations	(351)	(250)	101	40.4	(375)
3,492	2,525	Total interest expenses	2,064	2,448	384	15.7	3,906
		NOTE 7: Insurance Expenses					
		<i>By entity</i>					
3,762	2,078	ACC	1,793	2,020	227	11.2	3,190
88	69	EQC	42	26	(16)	(61.5)	39
32	17	Other insurance expenses	15	11	(4)	(36.4)	17
3,882	2,164	Total insurance expenses	1,850	2,057	207	10.1	3,246
		NOTE 8: Gains and Losses on Financial Instruments					
		<i>By source</i>					
(1,616)	(2,118)	Core Crown	2,189	1,764	425	24.1	2,117
(669)	(774)	Crown entities	1,044	698	346	49.6	682
(138)	(350)	State-owned Enterprises	(49)	85	(134)	(157.6)	7
(211)	(233)	Inter-segment eliminations	(123)	(81)	(42)	(51.9)	(121)
(2,634)	(3,475)	Net gains/(losses) on financial instruments	3,061	2,466	595	24.1	2,685
		NOTE 9: Gains and Losses on Non-Financial Instruments					
		<i>By type</i>					
(695)	(2,378)	Actuarial gains/(losses) on GSF liability	(409)	(206)	(203)	(98.5)	(206)
(4,491)	(2,908)	Actuarial gains/(losses) on ACC liability	151	(52)	203	390.4	39
1,019	66	Other	67	76	(9)	(11.8)	55
(4,167)	(5,220)	Net gains/(losses) on non-financial instruments	(191)	(182)	(9)	(4.9)	(112)
		<i>By source</i>					
125	(2,409)	Core Crown	(423)	(218)	(205)	(94.0)	(287)
(4,475)	(2,904)	Crown entities	130	(69)	199	288.4	17
200	94	State-owned Enterprises	102	105	(3)	(2.9)	158
(17)	(1)	Inter-segment eliminations	-	-	-	-	-
(4,167)	(5,220)	Net gains/(losses) on non-financial instruments	(191)	(182)	(9)	(4.9)	(112)
		NOTE 10: Operating Balance					
		<i>By source</i>					
(5,862)	(4,901)	Core Crown	(3,304)	(4,049)	745	18.4	(6,914)
(4,727)	(2,773)	Crown entities	2,109	1,425	684	48.0	1,966
911	369	State-owned Enterprises	626	666	(40)	(6.0)	987
(827)	(1,141)	Inter-segment eliminations	(1,052)	(767)	(285)	(37.2)	(833)
(10,505)	(8,446)	Total operating balance	(1,621)	(2,725)	1,104	40.5	(4,794)

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2009 \$m	As at 28 Feb 2009 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 11: Financial Assets							
6,268	6,783	Cash and cash equivalents	6,914	8,371	(1,457)	(17.4)	7,997
7,649	7,895	Tax receivables	6,827	7,470	(643)	(8.6)	6,245
6,970	4,525	Trade and other receivables	4,749	4,954	(205)	(4.1)	6,617
6,553	7,046	Student loans	6,848	6,822	26	0.4	6,937
8,492	7,322	Kiwibank mortgages	9,950	9,990	(40)	(0.4)	10,632
3,136	3,155	Long-term deposits	2,068	2,536	(468)	(18.5)	2,480
454	383	Reserve position at the IMF	2,275	2,267	8	0.4	2,261
559	722	Other loans	648	557	91	16.3	563
11,160	10,129	Share investments	13,174	13,003	171	1.3	13,357
3,745	4,180	Derivatives in gain	2,797	3,102	(305)	(9.8)	2,575
38,373	45,066	Other marketable securities	36,849	38,723	(1,874)	(4.8)	37,833
93,359	97,206	Total financial assets	93,099	97,795	(4,696)	(4.8)	97,497
Financial assets by entity							
22,831	20,387	NZDMO	21,532	24,861	(3,329)	(13.4)	22,956
22,372	30,228	Reserve Bank of New Zealand	19,246	19,785	(539)	(2.7)	19,862
12,877	11,735	NZ Superannuation Fund	15,352	14,667	685	4.7	14,836
17,399	19,132	Other core Crown	17,999	17,754	245	1.4	17,503
(9,866)	(10,678)	Intra-segment eliminations	(8,672)	(8,013)	(659)	(8.2)	(8,598)
65,613	70,804	Total core Crown segment	65,457	69,054	(3,597)	(5.2)	66,559
14,281	11,898	ACC portfolio	14,667	13,881	786	5.7	16,069
5,639	5,718	EQC portfolio	5,988	5,859	129	2.2	5,968
6,924	6,723	Other Crown entities	6,437	6,582	(145)	(2)	6,489
(1,521)	(652)	Intra-segment eliminations	(1,453)	(1,507)	54	3.6	(1,513)
25,323	23,687	Total Crown entities segment	25,639	24,815	824	3.3	27,013
14,702	15,581	Total State-owned enterprises segment	16,093	16,415	(322)	(2.0)	16,755
(12,279)	(12,866)	Inter-segment eliminations	(14,090)	(12,489)	(1,601)	(12.8)	(12,830)
93,359	97,206	Total financial assets	93,099	97,795	(4,696)	(4.8)	97,497
NOTE 12: Property, Plant and Equipment							
By Class of asset							
Net Carrying Value							
16,289	17,802	Land (valuation)	16,479	16,420	59	0.4	16,618
23,719	22,628	Buildings (valuation)	23,782	23,947	(165)	(0.7)	24,490
2,046	1,996	Electricity distribution network (cost)	2,367	2,185	182	8.3	2,297
11,664	11,554	Electricity generation assets (valuation)	11,693	11,947	(254)	(2.1)	12,103
1,952	1,913	Aircraft (excl military) (valuation)	1,979	1,942	37	1.9	2,171
24,067	21,371	State highways (valuation)	24,549	24,498	51	0.2	24,830
12,506	11,905	Rail network (valuation)	12,654	13,024	(370)	(2.8)	12,882
3,927	3,295	Specialist military equipment (valuation)	3,853	4,043	(190)	(4.7)	4,087
5,383	4,988	Other plant and equipment (cost)	5,557	5,718	(161)	(2.8)	6,129
8,582	7,960	Specified cultural and heritage assets (valuation)	8,601	8,583	18	0.2	8,614
110,135	105,412	Total net carrying value	111,514	112,307	(793)	(0.7)	114,221

NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2009 \$m	8 Months to 28 Feb 2009 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 13: NZ Superannuation Fund							
383	262	Revenue	234	207	27	13.0	355
4	(32)	Less current tax expense	18	131	113	86.3	117
(323)	(1,032)	Less other expenses ¹	441	337	(104)	(30.9)	481
(3,495)	(4,892)	Add gains/(losses)	2,162	1,629	533	32.7	1,880
(2,793)	(3,566)	Operating balance	1,937	1,368	569	41.6	1,637
14,212	14,212	Opening net worth	13,688	13,688	-	-	13,688
2,243	1,468	Gross contribution from the Crown	250	250	-	-	250
(2,793)	(3,566)	Operating balance	1,937	1,368	569	41.6	1,637
26	78	Other movements in reserves	8	(2)	10	-	(2)
13,688	12,192	Closing net worth	15,883	15,304	579	3.8	15,573
<i>comprising:</i>							
12,877	11,735	Financial assets	15,352	14,667	685	4.7	14,836
811	457	Net other assets	531	637	(106)	(16.6)	737
13,688	12,192	Closing net worth	15,883	15,304	579	3.8	15,573
Core Crown revenue (excl NZS Fund)							
59,482	39,344	Core Crown revenue	36,284	36,632	(348)	(0.9)	56,751
383	262	Less NZS Fund revenue	234	207	27	13.0	355
4	(32)	Add back NZS Fund intra-segment revenue	18	131	(113)	(86.3)	117
59,103	39,050	Core Crown revenue (excl NZS Fund)	36,068	36,556	(488)	(1.3)	56,513
OBEGAL excluding NZS Fund							
(3,893)	49	Total Crown OBEGAL	(4,486)	(5,053)	567	11.2	(7,465)
383	262	Less NZS Fund revenue	234	207	27	13.0	355
77	66	Less NZS Fund external expenses	49	60	(11)	(18.3)	97
4	(32)	Add back NZS Fund tax	18	131	(113)	(86.3)	117
(4,195)	(179)	OBEGAL excluding NZS Fund	(4,653)	(5,069)	416	8.2	(7,606)

¹ NZS Fund other expenses include deferred tax expense/(credits)

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2009 \$m	As at 28 Feb 2009 \$m		Current Year Actual vs Forecast				
			Actual \$m	Forecast \$m	Variance \$m	%	Annual Forecast \$m
NOTE 14: Payables							
5,380	4,459	Accounts payable	4,553	5,998	1,445	24.1	6,771
3,759	3,710	Taxes repayable	2,983	3,759	776	20.6	3,759
9,139	8,169	Total payables	7,536	9,757	2,221	22.8	10,530
NOTE 15: Insurance liabilities							
26,446	22,307	ACC liability	24,958	25,204	246	1.0	26,919
87	91	EQC liability	82	86	4	4.7	86
34	65	Other insurance liabilities	39	34	(5)	(14.7)	32
26,567	22,463	Total insurance liabilities	25,079	25,324	245	1.0	27,037
NOTE 16: Provisions							
-	546	Provision for Kyoto ¹	-	-	-	-	-
831	-	Provision for the net cost of defaults under the deposit guarantee scheme (refer note 19)	849	899	50	5.6	470
954	988	Provision for National Provident Fund guarantee	944	940	(4)	(0.4)	922
2,580	2,293	Provision for employee entitlements	2,486	2,346	(140)	(6.0)	2,496
1,188	1,122	Other provisions	1,156	1,128	(28)	(2.5)	1,220
5,553	4,949	Total provisions	5,435	5,313	(122)	(2.3)	5,108
NOTE 17: Changes in Net Worth							
46,700	46,700	Opening taxpayers funds	36,382	36,382	-	-	36,382
(10,505)	(8,446)	Operating balance excluding minority interest	(1,621)	(2,725)	1,104	40.5	(4,794)
187	60	Transfers from/(to) other reserves	214	108	106	98.1	114
36,382	38,314	Closing taxpayers funds	34,975	33,765	1,210	3.6	31,702
58,566	58,566	Opening revaluation reserve	62,612	62,612	-	-	62,612
4,235	389	Net revaluations	6	128	(122)	(95.3)	232
(189)	(60)	Transfers from/(to) other reserves	(215)	(110)	(105)	(95.5)	(107)
62,612	58,895	Closing revaluation reserve	62,403	62,630	(227)	(0.4)	62,737
(134)	(134)	Opening other reserves	74	74	-	-	74
208	664	Net movements	(166)	(175)	9	5.1	(151)
74	530	Closing other reserves	(92)	(101)	9	8.9	(77)

¹ The Crown's net Kyoto position as at 28 February 2010 is a \$180 million net asset.

The net asset is included in the intangible asset line within these financial statements. A full copy of the Net Position report 2009 can be found on the Ministry for the Environment's website: www.mfe.govt.nz

NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2009 \$m	8 Months to 28 Feb 2009 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 18: Reconciliation of core Crown operating cash flows to residual core Crown cash							
Core Crown Cash Flows from Operations							
51,362	33,999	Total tax receipts	32,588	32,863	(275)	(0.8)	51,503
489	343	Total other sovereign receipts	366	372	(6)	(1.6)	577
1,441	1,062	Interest, profits and dividends	1,359	982	377	38.4	1,637
2,288	1,341	Sale of goods & services and other receipts	1,826	1,785	41	2.3	2,308
(19,953)	(13,001)	Subsidies and transfer payments	(14,305)	(14,300)	(5)	-	(21,733)
(35,394)	(23,486)	Personnel and operating costs	(24,514)	(24,882)	368	1.5	(38,857)
(2,200)	(1,478)	Finance costs	(1,009)	(1,052)	43	4.1	(2,032)
-	-	Forecast for future new operating spending	-	-	-	-	(13)
-	-	Top-down expense adjustment	-	268	(268)	(100.0)	1,150
(1,967)	(1,220)	Net cash flows from core Crown operations	(3,689)	(3,964)	275	6.9	(5,460)
(1,625)	(985)	Net purchase of physical assets	(1,123)	(1,399)	276	19.7	(2,370)
(860)	(617)	Net increase in advances	(506)	(526)	20	3.8	(1,244)
(1,944)	(2,323)	Net purchase of investments	(771)	(687)	(84)	(12.2)	(1,279)
(2,243)	(1,467)	Contribution to NZ Superannuation Fund	(250)	(250)	-	-	(250)
-	-	Forecast for future new capital spending	-	-	-	-	(38)
-	-	Top-down capital adjustment	-	150	(150)	(100.0)	550
(8,639)	(6,612)	Residual cash	(6,339)	(6,676)	337	5.0	(10,091)
Financed by:							
(512)	(2,034)	Other net sale/(purchase) of marketable securities and deposits	2,795	280	2,515	-	871
(9,151)	(8,646)	Total operating and investing activities	(3,544)	(6,396)	2,852	44.6	(9,220)
Used in:							
9,359	13,165	Net (repayment)/issue of other New Zealand dollar borrowing	(3,215)	6,950	(10,165)	(146.3)	8,151
(1,973)	(3,435)	Net (repayment)/issue of foreign currency borrowing	3,046	(3,222)	6,268	194.5	(5,137)
475	509	Issues of circulating currency	108	(17)	125	-	16
(1,761)	(1,667)	Decrease/(increase) in cash	(816)	(1,487)	671	45.1	(578)
6,100	8,572		(877)	2,224	(3,101)	(139.4)	2,452
(3,051)	(74)	Net cash inflow/(outflow) to be offset by domestic bonds	(4,421)	(4,172)	(249)	(6.0)	(6,768)
Gross Cash Proceeds from Domestic Bonds							
5,775	2,775	Domestic bonds (market)	8,570	8,318	252	3.0	10,818
541	514	Domestic bonds (non-market)	704	707	(3)	(0.4)	803
6,316	3,289	Total gross cash proceeds from domestic bonds	9,274	9,025	249	2.8	11,621
(2,750)	(2,700)	Repayment of domestic bonds (market)	(4,197)	(4,197)	-	-	(4,197)
(515)	(515)	Repayment of domestic bonds (non-market)	(656)	(656)	-	-	(656)
(3,265)	(3,215)	Total repayment of domestic bonds	(4,853)	(4,853)	-	-	(4,853)
3,051	74	Net (repayments of)/cash proceeds from domestic bonds	4,421	4,172	249	6.0	6,768

NOTES TO THE FINANCIAL STATEMENTS

Note 19: Deposit Guarantee Schemes

The Government provides two guarantee schemes in relation to financial institution deposits: the Retail Deposit Guarantee Scheme and the Wholesale Funding Guarantee Facility. Information on the Government's exposure as a result of these schemes, the management of these exposures and the impact of these schemes is detailed below.

Retail Deposit Guarantee Scheme

On 12 October 2008 the Minister of Finance initiated an opt-in Retail Deposit Guarantee Scheme. The objective of this scheme is to ensure ongoing retail depositor confidence in New Zealand's financial system given the international financial market turbulence. Under the Retail Deposit Guarantee Scheme, fees are payable to the Government by participating institutions if they hold significant deposits (ie, greater than \$5 billion) or if they experience significant growth in deposits (ie, greater than 10% per annum). Approved deposit takers to date are listed on the Treasury website.

The Government is managing its exposure to this risk both through the prudential regulation processes for registered banks, and by requiring other deposit takers who sign the guarantee to agree to certain controls on their business including:

- some restrictions on distributions to shareholders
- some assurance that the business dealings of the deposit taker are on arm's-length terms
- the ability for the Crown to appoint an inspector
- the ability for the Crown to withdraw the guarantee if the business is being deliberately operated in a way to undermine the intention of the guarantee, and
- personal undertakings from directors to ensure the non-bank deposit takers comply with the guarantee.
- In addition, the Crown has established a monitoring regime to continually assess the risk associated with the scheme as it develops.

As at 28 February 2010, 73 financial institutions had joined the scheme and deposits totalling \$133 billion had been guaranteed. This is the maximum exposure and does not include any offset resulting from the recovery of the remaining assets of the financial institution in the event the guarantee is called upon. The Crown assesses the potential loss to be associated with the entities that hold significant deposits (ie, greater than \$5 billion) as being remote. It is recognising the revenue received from these institutions over the guarantee period and has made no provision for any loss associated with these entities.

For other entities within the scheme (ie entities that hold deposits less than \$5 billion) a provision has been made to provide for losses that are considered more likely than not to occur. The Crown continually updates both the likelihood of further default actions triggering the guarantee and the expected loss given default. Based on these assessments, the Crown has provided for a net expected loss given default of \$849 million as at 28 February 2010, being the cost of future payments under the scheme after expected recoveries.

While the provision represents a best estimate of likely loss, a significant range of outcomes are possible under the scheme in terms of which entities may default and the eventual loss to the Crown following an event of default. This reflects the significant uncertainty as to the value that can be realised from an entity's assets following an event of default. Except as provided on the Treasury web site, further information on the Retail Deposit Guarantee Scheme cannot be provided due to commercial sensitivity.

NOTES TO THE FINANCIAL STATEMENTS

Wholesale Funding Guarantee Facility

On 1 November 2008 the Minister of Finance initiated an opt-in wholesale funding guarantee facility. The objective of the opt-in wholesale funding guarantee facility was to facilitate access to international financial markets by New Zealand financial institutions, in a global environment where international investors were highly risk averse and where many other governments had offered guarantees on their banks' wholesale debt. Under the wholesale funding guarantee facility, the Government receives a fee from each participating institution based on the institution's credit rating and the term and amount of guaranteed debt issued.

Deposit-taking financial institutions utilising the wholesale funding guarantee facility have applied for a guarantee under the Crown retail deposit guarantee scheme. In addition to the risk management under the retail scheme, the Government further manages its risk exposure by:

- limiting the availability of the facility to financial institutions that have an investment grade credit rating (BBB- or better), and have substantial New Zealand borrowing and lending operations (but not to institutions that are simply financing a parent or related company)
- limiting the amount of debt covered by the guarantee to debt up to 125 percent of the total stock of eligible types of debt in issue prior to the intensification of the crisis
- establishing additional capital buffers by requiring an additional two percent Tier 1 capital buffer above the four percent regulatory minimum, and
- requiring the debt issuer to hedge and manage any foreign exchange risk.

As at 28 February 2010, the value of wholesale securities guaranteed was \$10.4 billion. No provision is made in these financial statements for losses under this scheme as these are considered remote.

On 10 March 2010 the Minister of Finance announced the closure of the Wholesale funding guarantee facility effective from 30 April 2010. As at 10 March 2010, the Crown had issued 24 guarantee certificates. The benefit of those guarantees will remain in place for the underlying securities until the earlier of the scheduled maturity of those securities or 5 years from the date the securities were issued. The terms of these securities range from 2 to 5 years. Over time, the value of securities issued with the benefit of Crown guarantees will reduce, with the last guarantee certificate expiring in October 2014.