

Financial Statements of the Government of New Zealand

For the Four Months Ended
31 October 2008



Prepared by The Treasury
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New Zealand Government

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COMMENTARY

S U M M A R Y

Results for the four months ended 31 October 2008

- The Financial Statements of the Government provide a record of the Government's financial performance over the four months ended 31 October 2008 and its financial position as at 31 October 2008. They provide a comparison with the fiscal forecasts in the *2008 Pre-election Economic and Fiscal Update*.
- Overall, tax revenue, core Crown expenses and the operating balance before gains and losses (OBEGAL) were broadly in line with forecast.
- The operating balance deficit of \$3.5b was \$5.0b lower than the forecast surplus. The two main contributors to this lower-than-expected result were:
 - The NZ Superannuation Fund (NZS Fund), ACC and EQC all suffered losses on their investment portfolios that were larger than expected (\$3.5b, \$0.6b and \$0.2b respectively) as a result of continuing turmoil in global financial markets.
 - GSF and ACC also recorded losses of \$1.0b and \$0.4b respectively as a result of recent revaluations of their long term liabilities.
- The core Crown residual cash deficit was \$0.9b lower than forecast at \$3.7b. This was mainly due to delays in transferring \$0.7b to the NZ Fast Forward Fund and higher-than-expected petroleum mining royalties received due to high oil prices earlier in the year.
- Gross sovereign-issued debt (GSID) was \$3.1b higher than forecast at \$33.6b (18.8% of GDP). This was due to stronger-than-expected demand for government-issued assets, depreciation of the NZ dollar impacting on foreign currency liabilities, and an increase in the volume of derivatives in loss compared to forecast. These factors all have a broadly corresponding impact on the Crown's financial asset portfolio and so have minimal impact on net core Crown debt.
- Net core Crown debt was \$1.9b lower than forecast at \$2.2b mainly due to the lower-than-expected residual cash deficit (noted above), \$0.3b higher-than-forecast circulating currency, and \$0.6b due to an increase in derivative holdings.

Table 1 – Key indicators for the four months to 31 October 2008

	Year to date				Full Year
	October 2008 Actual ²	October 2008 Forecast ²	Variance \$m	Variance %	PREFU June 2009 Forecast ³
\$ million					
Core Crown					
Core Crown revenue (excl. NZS Fund) ¹	20,680	20,487	193	0.9	61,102
Core Crown expenses	20,071	20,366	295	1.4	62,359
NZS Fund operating balance	(2,315)	312	(2,627)	(842.0)	986
Core Crown residual cash	(3,692)	(4,564)	872	19.1	(5,909)
GSID (excl. settlement cash)	33,632	30,554	(3,078)	(10.1)	32,087
<i>as a percentage of GDP</i>	18.8%	17.1%			17.4%
Net Core Crown debt	2,178	4,116	1,938	47.1	5,207
<i>as a percentage of GDP</i>	1.2%	2.3%			2.8%
Net Core Crown debt (incl. NZS Fund)	(10,268)	(10,017)	251	2.5	(10,430)
<i>as a percentage of GDP</i>	(5.7)%	(5.6)%			(5.7)%
Total Crown					
OBEGAL	898	781	117	15.0	(64)
Net gains/(losses) and other items	(4,405)	689	(5,094)		1,973
Operating Balance	(3,507)	1,470	(4,977)	(338.6)	1,909

- 1 For the purposes of this indicator, the NZS Fund is treated as a third party (i.e. its revenue is not included but the tax it pays is)
- 2 Using GDP for the year ended 30 June 2008 of \$179,048 million (Source: Statistics New Zealand).
- 3 Using forecast GDP for the year ended 30 June 2009 of \$184,390 million (Source: Treasury)

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.

Table 2 – Key indicator variances for the four months to 31 October 2008

Key Indicator	Variance	Key Drivers
Core Crown		
Core Crown revenue (excl. NZS Fund revenue)	\$0.2 billion (higher than forecast)	<ul style="list-style-type: none"> • Core Crown tax revenue was \$0.4b (2.1%) higher than forecast as follows: <ul style="list-style-type: none"> ○ Source deductions (e.g. PAYE) were \$0.4b (5.6%) higher than forecast. Most of this variance is attributable to an incorrect timing assumption in the forecast track which is expected to unwind by year end. ○ GST revenue was \$0.2b (4.4%) lower than forecast. We do not believe this indicates economic weakness, as consumption is tracking in line with forecast and GST receipts were above forecast for the four months ended 31 October. ○ Other individuals tax was \$0.2b (16.6%) higher than forecast. This is related to greater-than-expected provisional tax assessments. Provisional tax is based on assessments from individual provisional tax payers and, as a result, is subject to error. The high level of provisional tax is likely to reflect an over estimation of individuals' 2009 tax year liability, rather than underlying economic conditions. ○ Corporate tax revenue was on forecast, but there were two significant variances within that result: <ul style="list-style-type: none"> - The reversal of a \$0.2b provision that should have been reversed in the 2006/07 year but was only brought to account in September 2008. The reversal increased company tax revenue, but did not affect tax receipts; and - Lower-than-expected provisional income tax assessments, particularly from financial and multi-national companies. ○ The underlying corporate tax variance is expected to persist through to the end of the 2008/09 fiscal year, as the effects of worldwide financial events flow through to New Zealand firms' profitability. • Other revenue was \$0.3b higher than forecast, primarily in relation to petroleum mining royalties. The high price of oil last year led to a number of operations moving to a higher royalty threshold earlier than expected. • The higher-than-forecast income above was partly offset by interest revenue which was \$0.4b lower than forecast, primarily due to lower-than-forecast interest rates.

Key Indicator	Variance	Key Drivers
Core Crown expenses	\$0.3 billion (lower than forecast)	<ul style="list-style-type: none"> • Core Crown expenses were \$0.3b lower than forecast. This was mainly due to: <ul style="list-style-type: none"> ○ Transport operating expenditure was \$0.3b lower than forecast primarily as a result of capital expenditure being included in the operating expenditure forecast in error. ○ Interest expenses were \$0.2b lower than forecast. This was mainly due to a reduction in interest expense due to lower-than-forecast interest rates offset by an increase in interest expense due to an increase in Reserve Bank settlement cash holdings. ○ The lower-than-forecast expenditure above was partly offset by an impairment of the investment in KiwiRail of \$0.2b, which was not forecast.
NZS Fund operating balance	-\$2.6 billion (lower than forecast)	<ul style="list-style-type: none"> • The Fund's return for the month of October was -13.5%. This was the lowest return recorded by the Fund (for a single month) since its inception and reflects the weak performance of global equity markets as a result of the continuing downturn of the financial markets during the first four months of the fiscal year. The Fund's annualised return since inception (September 2003) is 4.86%, compared to 6.92% for the risk-free rate of return.
Core Crown residual cash deficit	\$0.9 billion (lower than forecast)	<ul style="list-style-type: none"> • The residual cash deficit was lower than forecast. This was primarily due to: <ul style="list-style-type: none"> ○ A delay in the transfer of \$0.7b funding to the NZ Fast Forward Fund. ○ Petroleum mining royalty receipts were higher than expected due to the cash impact of petroleum mining royalty revenue (as noted above). • Core Crown tax receipts were largely on forecast.
GSID (excl. settlement cash)	-\$3.1 billion (higher than forecast)	<ul style="list-style-type: none"> • GSID (excluding settlement cash) was higher than forecast. This was due to: <ul style="list-style-type: none"> ○ Just under a third was due to stronger-than-expected demand for government-issued assets due to heightened concerns around credit risk. ○ A third relates to an increase in the foreign currency debt portfolio due to the depreciation of the NZ dollar against major currencies since the PREFU forecast was prepared. ○ The remainder of the variance is due to an increase in the volume of derivatives in loss compared to what was forecast. • All of these factors have a broadly corresponding impact on the Crown's financial asset portfolio, so there is minimal impact on the net core Crown debt indicator.
Net core Crown debt (excl. NZS Fund)	\$1.9 billion (lower than forecast)	<ul style="list-style-type: none"> ○ Net core Crown debt was lower than forecast. This was mainly due to the lower-than-expected residual cash deficit (noted above), \$0.3b higher than forecast circulating currency, and \$0.6b due to an increase in derivative holdings.
Net core Crown debt (incl. NZS Fund)	\$0.3 billion (lower than forecast)	<ul style="list-style-type: none"> • The lower than forecast net core Crown debt of \$1.9b (refer above) was offset by the lower than forecast value of assets in the NZS Fund (\$1.7b lower than forecast).

Key Indicator	Variance	Key Drivers
Total Crown		
OBEGAL (Operating balance before gains and losses)	\$0.1 billion (higher than forecast)	<ul style="list-style-type: none"> • Total Crown revenue was \$0.9b higher than forecast. The main components were: <ul style="list-style-type: none"> ○ Core Crown revenue was \$0.2b higher than forecast (as noted above). ○ Sales of goods and services were \$0.3b higher than forecast. This variance predominantly related to entities in the energy sector and was mainly caused by higher-than-expected spot electricity prices. This variance was partly offset by a corresponding variance in expenditure (as noted below). ○ SOE interest and dividends revenue was \$0.3b higher than forecast largely due to a classification issue in NZ Post's forecast as interest from Kiwibank was forecast on a net basis. This was offset by a corresponding variance in interest expense (as noted below). • Total Crown expenditure was \$0.8b higher than forecast. The main components were: <ul style="list-style-type: none"> ○ \$0.2b higher-than-forecast expenditure by entities in the electricity sector (as noted above); and \$0.2b higher-than-forecast expenditure by District Health Boards. ○ \$0.2b higher than forecast SOE interest expense (as noted above). ○ The remainder of the variance was due to small increases across insurance, personnel and other operating expenses.
Operating balance	-\$5.0 billion (lower than forecast)	<ul style="list-style-type: none"> • OBEGAL was \$0.1b higher than forecast (as noted above). • Net gains were \$5.1b lower than forecast. The main contributors were: <ul style="list-style-type: none"> ○ The NZS Fund, ACC and EQC all suffered losses on their financial instrument portfolios that were larger than expected. The amounts of the greater-than-forecast losses were \$3.5b, \$0.6b and \$0.2b respectively. The losses were the result of continuing turmoil in global financial markets. ○ GSF recorded a \$1.0b loss arising from a valuation of its assets and liabilities as at 31 October. This loss arose partly from a decrease in the discount rate (\$0.4b) and partly from poor investment performance (\$0.6b). ○ ACC also recorded a \$0.4b loss in the valuation of its outstanding claims liability. The loss arose from a decrease in the discount rate used to calculate the liability and was not included in the forecast (consistent with forecasting policy). • The losses above were partly offset by net gains by RBNZ and DMO, mainly due to changes in FX and interest rates, which are held constant for forecasting purposes.

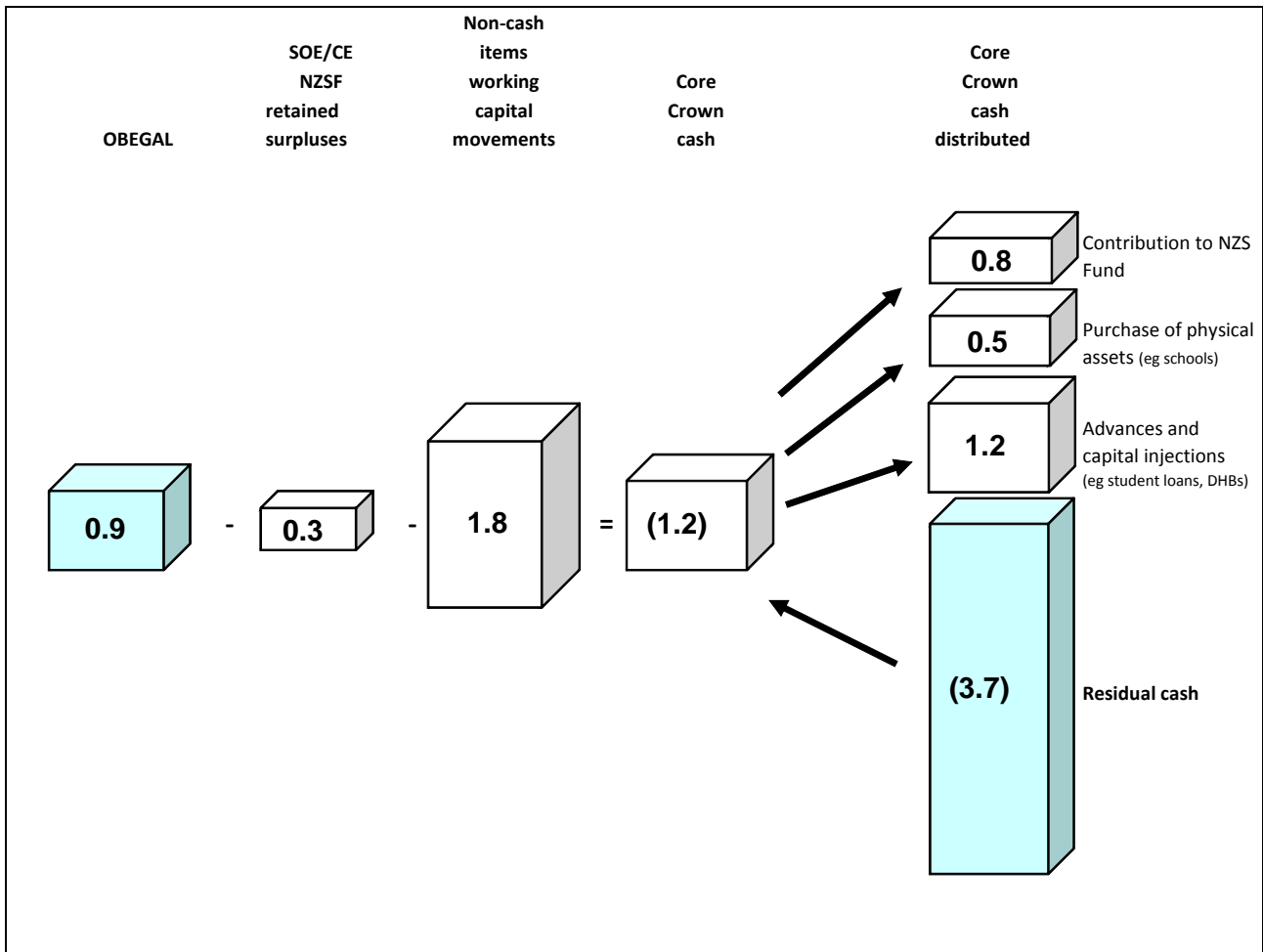
Table 3 – Reconciliation of Total Crown OBEGAL to core Crown residual cash

Amounts in \$ millions	Fiscal Indicators/Financial Statements	Year to date				Full Year
		October	October	Variance	Variance	PREFU
		2008	2008			June 2009
		Actual	Forecast	\$m	%	Forecast
	Taxation as a percentage of GDP ¹	31.8%	31.0%			30.1%
Taxes...	Taxation	18,966	18,526	440	2.4	55,538
... combined with other revenue ...	Core Crown other revenue, gains and losses	(1,195)	2,524	(3,719)	(147.3)	7,060
... fund core crown expenses ...	Core Crown expenses	(20,071)	(20,366)	295	(1.4)	(62,359)
... and with the results of entities outside the budget process ...	Net surpluses/(deficits) of SOEs and Crown entities	(1,207)	786	(1,993)	(253.6)	1,670
... results in a net operating balance (surplus or deficit)...	Operating balance	(3,507)	1,470	(4,977)	(338.6)	1,909
...part of which is due to gains or losses set aside for fiscal purposes...	Other (gains)/losses	4,405	(689)	5,094	(739.3)	(1,973)
... and so we have developed an operating indicator excluding these items.	OBEGAL	898	781	117	15.0	(64)
Some of this is income retained that is not available for fiscal purposes	Net return on NZS Fund (excl. gains and losses)	(117)	25	(142)	(568.0)	33
" " "	Net retained surpluses of SOEs and Crown entities	(142)	(638)	496	(77.7)	(1,088)
and some is income and expenses not impacting cash	Non-cash items and working capital movements	(1,805)	(1,637)	(168)	10.3	1,905
The operating cash flow that results, needs to provide sufficient funds for - building up assets in NZ Superannuation	Core Crown Cash flow from Operations	(1,166)	(1,469)	303	(20.6)	786
- meeting the capital expenditure budget, and	Contribution to NZS Fund	(778)	(778)	-	-	(2,242)
- making advances (e.g. to students and DHBs)	Purchase of physical assets	(496)	(506)	10	(2.0)	(1,700)
with a residual impact on debt that allows it to remain at prudent levels	Advances and Capital injections	(1,252)	(1,811)	559	(30.9)	(2,753)
	Residual Cash	(3,692)	(4,564)	872	(19.1)	(5,909)
	... and as a percentage of GDP	-2.1%	-2.5%			-3.2%

¹ GDP for the four months ended 31 October (actual and forecast) is the actual data for the year ended 30 June 2008 (Source: Statistics New Zealand) extrapolated for four months.

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

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



YEAR - ON - YEAR PERSPECTIVE

Table 4 – Comparison with previous year

	October 2008	October 2007	Change ¹	Change
	Actual \$m	Actual \$m	\$m	%
Statement of Financial Performance				
Core Crown revenue				
Taxation revenue	19,061	17,934	1,127	6.3
Other revenue	1,766	1,602	164	10.2
Total Core Crown Revenue	20,827	19,536	1,291	6.6
Core Crown expenses				
Social security and welfare	6,318	5,972	346	5.8
GSF pension expenses	218	210	8	3.8
Health	4,034	3,732	302	8.1
Education	3,537	3,196	341	10.7
Core government services	1,058	830	228	27.5
Law and order	985	943	42	4.5
Defence	567	478	89	18.6
Transport and communications	832	819	13	1.6
Economic and industrial services	1,055	864	191	22.1
Primary services	157	143	14	9.8
Heritage, culture and recreation	367	290	77	26.6
Housing and community development	111	98	13	13.3
Other	45	9	36	400.0
Finance costs	787	796	(9)	(1.1)
Total Core Crown Expenses	20,071	18,380	1,691	9.2
Net surplus of SOE/CE's	142	567	(425)	(75.0)
OBEGAL	898	1,723	(825)	(47.9)
Total gains/(losses)	(4,520)	916	(5,436)	-
Other operating items	115	51	64	125.5
Operating Balance	(3,507)	2,690	(6,197)	(230.4)
Core Crown residual cash	(3,692)	30	(3,722)	-
Debt indicators				
Gross sovereign-issued debt (excluding settlement cash)	33,632	32,313	1,319	4.1
Net Core Crown debt	2,178	3,777	(1,599)	(42.3)

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

Revenue and Expenses

Total taxation revenue for the four months ended 31 October 2008 has increased by \$1.1 billion (6.3%) on the same period last year. The increase was primarily in GST, PAYE and other individuals tax, and corporate tax. The increase in GST revenue was primarily due to timing effects in the accrual of GST revenue in June/July 2007, which artificially lowered GST revenue in the October 2007 period, thereby increasing the growth rate for the October 2008 period. The increase in PAYE was driven by high wage growth and the increase in other individuals tax was due to growth in provisional tax assessments, which at this stage of the tax year, are more likely to be based on 'last year + 5%' rather than reflecting underlying profit growth. The increase in corporate tax was mainly driven by growth in terminal tax assessments, which relate to 2007/08 tax year activity, and as a result do not reflect current profitability.

Total **core Crown expenses** were \$1.7 billion (9.2%) higher than the comparable period from the previous financial 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	+ \$0.3 billion	<ul style="list-style-type: none">• Indexation of welfare benefits
Health	+ \$0.3 billion	<ul style="list-style-type: none">• Funding provided in the 2008 Budget to maintain and improve existing service levels
Education	+ \$0.3 billion	<ul style="list-style-type: none">• Higher demand-driven expenses from roll growth• Funding provided in the 2008 Budget
Core government services	+ \$0.2 billion	<ul style="list-style-type: none">• Primarily due to policy initiatives from the 2008 Budget
Economic and industrial services	+ \$0.2 billion	<ul style="list-style-type: none">• Primarily due to the introduction of the KiwiSaver initiative
Other	+ \$0.4 billion	<ul style="list-style-type: none">• Mainly due to policy initiatives from the 2008 Budget
Total	+ \$1.7 billion	

Total Gains and losses were in a net loss position of \$4.5 billion for the period ended 31 October 2008, compared to a net gain position of \$0.9 billion for the same period the previous year. The \$5.4 billion difference is due to:

- lower than expected investment returns experienced in the 2008/09 financial year primarily resulting from the current downturn in financial markets;
- an increase in the ACC unfunded liability since October 2007 due to increases in expected claim costs driven by economic assumptions (e.g. discount and inflation rates); and
- an increase in the GSF liability as at 31 October 2008 due to a decrease in the discount rate and lower than expected investment performance.

The **Core Crown residual cash** deficit increased by \$3.7 billion compared to the same period last year. This is primarily due to:

- the purchase of KiwiRail Holdings Limited
- the increase in core Crown expenses (as noted above); and
- a decrease in tax receipts

Net Core Crown debt has reduced by \$1.6 billion as a result of an increase in financial assets, primarily due to the strong outturn reported as at 30 June 2008.



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 85 and 86 of the *Pre-election Economic and Fiscal Update 2008* released on 6 October 2008.

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/finmgmt-reporting/nzifrs/policies-guidance>

4 Forecast Results and Assumptions

The forecast results in these financial statements have been derived from the forecasts released in the *Pre-election Economic and Fiscal Update (PREFU)*, on 6 October 2008.

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/prefu2008>

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.

Percentage variances between the actual and prior year balances exceeding 500% are not shown where the dollar variance is immaterial.

STATEMENT OF FINANCIAL PERFORMANCE

for the four months ended 31 October 2008

Year 4 Months to 30 Jun 2008		to 31 Oct 2007		Current Year Actual vs Forecast				
Actual \$m	Actual \$m	Note	Actual \$m	Forecast \$m	Variance \$m	%	Annual Forecast \$m	
Revenue								
56,372	17,726							
3,879	1,274	1	18,966	18,526	440	2.4	55,538	
		1	1,322	1,307	15	1.1	3,993	
60,251	19,000		20,288	19,833	455	2.3	59,531	
Total Revenue Levied through the Crown's Sovereign Power								
15,399	4,473		5,504	5,171	333	6.4	16,084	
3,214	1,064	2	1,217	1,322	(105)	(7.9)	3,828	
2,615	776		1,124	853	271	31.8	2,247	
21,228	6,313		7,845	7,346	499	6.8	22,159	
81,479	25,313		28,133	27,179	954	3.5	81,690	
Expenses								
18,374	6,023	3	6,632	6,526	(106)	(1.6)	20,151	
16,478	5,307	4	5,856	5,784	(72)	(1.2)	17,800	
3,670	1,169	5	1,502	1,294	(208)	(16.1)	3,973	
30,656	8,925	5	10,848	10,562	(286)	(2.7)	33,721	
3,101	1,008	6	1,265	1,188	(77)	(6.5)	3,311	
3,563	1,158	7	1,132	1,044	(88)	(8.4)	4,076	
-	-	5	-	-	-	-	172	
-	-	5	-	-	-	-	(1,450)	
75,842	23,590		27,235	26,398	(837)	(3.2)	81,754	
5,637	1,723		898	781	117	15.0	(64)	
Operating balance before gains/(losses)								
(617)	908	8	(3,142)	515	(3,657)	-	1,462	
(2,925)	8	9	(1,378)	71	(1,449)	-	178	
(3,542)	916		(4,520)	586	(5,106)	-	1,640	
Total gains/(losses)								
334	51		115	103	12	11.7	334	
2,429	2,690		(3,507)	1,470	(4,977)	(338.6)	1,910	
Operating balance from continuing activities								
22	-		-	-	-	-	(1)	
2,451	2,690		(3,507)	1,470	(4,977)	(338.6)	1,909	
Operating balance (including minority interest)								
(67)	-		-	-	-	-	-	
2,384	2,690	10	(3,507)	1,470	(4,977)	(338.6)	1,909	
Operating Balance								

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

ANALYSIS OF EXPENSES BY FUNCTIONAL CLASSIFICATION

for the four months ended 31 October 2008

Year 4 Months to 30 Jun 2008		to 31 Oct 2007		Current Year Actual vs Forecast				Annual Forecast \$m
Actual \$m	Actual \$m	Actual \$m	Forecast \$m	Variance \$m	%			
Total Crown expenses								
21,509	7,140			7,452	7,279	(173)	(2.4)	23,382
690	210			218	217	(1)	(0.5)	654
10,809	3,785			3,928	3,928	-	-	11,884
10,397	3,430			4,032	3,964	(68)	(1.7)	11,643
3,274	801			1,032	1,167	135	11.6	3,576
3,082	1,027			1,038	1,086	48	4.4	3,370
1,525	465			548	515	(33)	(6.4)	1,716
7,424	2,263			2,960	2,722	(238)	(8.7)	9,487
9,038	2,011			3,062	2,679	(383)	(14.3)	8,641
1,459	430			458	473	15	3.2	1,450
2,337	685			832	788	(44)	(5.6)	2,808
938	326			368	356	(12)	(3.4)	1,053
259	9			42	36	(6)	(16.7)	57
3,101	1,008			1,265	1,188	(77)	(6.5)	3,311
-	-			-	-	-	-	172
-	-			-	-	-	-	(1,450)
75,842	23,590			27,235	26,398	(837)	(3.2)	81,754

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 4 Months to 30 Jun 2008		to 31 Oct 2007		Current Year Actual vs Forecast				Annual Forecast \$m
Actual \$m	Actual \$m	Actual \$m	Forecast \$m	Variance \$m	%			
Core Crown								
Core Crown expenses								
17,877	5,972			6,318	6,187	(131)	(2.1)	19,156
690	210			218	217	(1)	(0.5)	654
11,297	3,732			4,034	4,131	97	2.3	12,377
9,551	3,196			3,537	3,488	(49)	(1.4)	10,739
3,371	830			1,058	1,192	134	11.2	3,649
2,894	943			985	1,030	45	4.4	3,139
1,562	478			567	530	(37)	(7.0)	1,756
2,244	819			832	942	110	11.7	3,566
2,889	864			1,055	1,051	(4)	(0.4)	3,549
541	143			157	150	(7)	(4.7)	545
1,107	290			367	351	(16)	(4.6)	1,446
260	98			111	110	(1)	(0.9)	347
254	9			45	28	(17)	(60.7)	57
2,460	796			787	959	172	17.9	2,657
-	-			-	-	-	-	172
-	-			-	-	-	-	(1,450)
56,997	18,380			20,071	20,366	295	1.4	62,359

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

STATEMENT OF CASH FLOWS

for the four months ended 31 October 2008

Year 4 Months to 30 Jun to 31 Oct		Current Year Actual vs Forecast					
2008	2007					Annual	
Actual	Actual			Variance		Forecast	
\$m	\$m	Actual	Forecast	\$m	%	\$m	
		Cash Flows From Operations					
		Cash was provided from					
55,168	17,763	Taxation receipts	17,413	16,848	565	3.4	54,159
3,460	1,437	Other sovereign receipts	1,482	1,439	43	3.0	3,737
14,635	4,449	Sales of goods and services	6,326	5,579	747	13.4	16,599
3,111	1,004	Interest and dividends	1,255	1,195	60	5.0	3,292
2,211	931	Other operating receipts	844	870	(26)	(3.0)	2,727
78,585	25,584	Total cash provided from operations	27,320	25,931	1,389	5.4	80,514
		Cash was disbursed to					
		Social assistance and official development assistance					
18,026	5,992		6,873	6,764	(109)	(1.6)	19,675
45,972	15,644	Personnel and operating payments	18,873	17,657	(1,216)	(6.9)	54,076
2,820	1,035	Interest payments	1,195	825	(370)	(44.8)	2,970
-	-	Forecast new operating spending	-	-	-	-	172
-	-	Top-down expense adjustment	-	-	-	-	(1,450)
66,818	22,671	Total cash disbursed to operations	26,941	25,246	(1,695)	(6.7)	75,443
11,767	2,913	Net cash flows from operations	379	685	(306)	(44.7)	5,071
		Cash Flows From Investing Activities					
		Cash was provided from/(disbursed to)					
(4,922)	(1,545)	Net purchase of physical assets	(1,460)	(2,186)	726	33.2	(6,909)
(6,080)	(2,637)	Net purchase of shares and other securities	3,115	3,922	(807)	(20.6)	499
(320)	(62)	Net purchase of intangible assets	(134)	(63)	(71)	(112.7)	(444)
(2,646)	(69)	Net issue/(repayment) of advances	852	(469)	1,321	281.7	359
(363)	(221)	Net acquisition of investments in associates	(220)	(163)	(57)	(35.0)	(1,024)
-	-	Capital contingency provision	-	-	-	-	(184)
-	-	Top-down capital adjustment	-	-	-	-	485
(14,331)	(4,534)	Net cash flows from investing activities	2,153	1,041	1,112	106.8	(7,218)
(2,564)	(1,621)	Net cash flows from operating and investing activities	2,532	1,726	806	46.7	(2,147)
		Cash Flows From Financing Activities					
		Cash was provided from/(disbursed to)					
86	133	Issues of circulating currency	326	(9)	335	-	172
1,674	1,394	Net issue/(repayment) of Government stock ¹	(1,331)	(1,404)	73	5.2	1,748
1,099	667	Net issue/(repayment) of foreign currency borrowing	176	(244)	420	172.1	(336)
(697)	(911)	Net issue/(repayment) of other New Zealand dollar borrowing	770	417	353	84.7	637
2,162	1,283	Net cash flows from financing activities	(59)	(1,240)	1,181	95.2	2,221
(402)	(338)	Net movement in cash	2,473	486	1,987	408.8	74
4,162	4,208	Opening Cash Balance	3,804	3,804	-	-	3,804
44	67	Foreign-exchange gains/(losses) on opening cash	23	4	19	475.0	(10)
3,804	3,937	Closing Cash Balance	6,300	4,294	2,006	46.7	3,868

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 four months ended 31 October 2008

Year 4 Months to 30 Jun to 31 Oct		Current Year Actual vs Forecast					
2008	2007					Annual	
Actual	Actual			Variance		Forecast	
\$m	\$m	Actual	Forecast	\$m	%	\$m	
		\$m	\$m				
Reconciliation Between the Net Cash Flows from Operations and the Operating Balance							
11,767	2,913	Net Cash Flows from Operations	379	685	(306)	(44.7)	5,071
		<i>Items included in the operating balance but not in net cash flows from operations.</i>					
		Gains/(losses)					
(617)	908	Gains/(losses) on other financial instruments	(3,142)	515	(3,657)	-	1,462
(2,925)	8	Gains/(losses) on other non-financial instruments	(1,378)	71	(1,449)	-	178
(3,542)	916	Total gains/(losses)	(4,520)	586	(5,106)	-	1,640
		Other Non-cash Items in Operating Balance					
(3,670)	(1,169)	Depreciation and amortisation	(1,502)	(1,294)	(208)	(16.1)	(3,973)
(559)	(143)	Write-down on initial recognition of loans	(156)	(170)	14	8.2	(611)
213	3	Impairment on financial assets (excluding receivables)	-	-	-	-	3
2	34	Decrease/(increase) in defined benefit retirement plan liabilities	26	145	(119)	(82.1)	(75)
(1,358)	325	Decrease/(increase) in insurance liabilities	401	591	(190)	(32.1)	(1,498)
334	51	Other	116	103	13	12.6	334
(5,038)	(899)	Total other non-cash Items	(1,115)	(625)	(490)	(78.4)	(5,820)
		Movements in Working Capital					
2,100	(682)	Increase/(decrease) in receivables	(689)	850	(1,539)	(181.1)	321
(179)	85	Increase/(decrease) in accrued interest	(107)	(236)	129	54.7	196
138	43	Increase/(decrease) in inventories	62	20	42	210.0	46
77	228	Increase/(decrease) in prepayments	56	89	(33)	(37.1)	9
(326)	(3)	Decrease/(increase) in deferred revenue	(43)	(308)	265	86.0	87
(2,613)	89	Decrease/(increase) in payables	2,470	409	2,061	-	359
(803)	(240)	Total movements in working capital	1,749	824	925	112.3	1,018
2,384	2,690	Operating Balance	(3,507)	1,470	(4,977)	(338.6)	1,909

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

STATEMENT OF RECOGNISED INCOME AND EXPENSE

for the four months ended 31 October 2008

Year 4 Months to 30 Jun to 31 Oct			Current Year Actual vs Forecast				
2008	2007		Actual	Forecast	Variance	Annual	
Actual	Actual		\$m	\$m	\$m	%	
\$m	\$m						
6,214	16	Revaluation of physical assets	103	(12)	115	-	292
9	126	Effective portion of changes in value of cash flow hedges	425	(6)	431	-	19
22	27	Net change in fair value of cash flow hedges transferred to operating balance	1	-	1	-	-
(60)	(29)	Net change in fair value of cash flow hedges transferred to the hedged item	(57)	-	(57)	-	34
17	9	Foreign currency translation differences for foreign operations	21	-	21	-	(1)
11	3	Valuation gain/(losses) on investments available for sale taken to reserves	30	(1)	31	-	1
-	-	Other movements	-	-	-	-	1
6,213	152	Total income/(expense) recognised directly in Net Worth	523	(19)	542	-	346
2,451	2,690	Operating Balance (including minority	(3,507)	1,470	(4,977)	(338.6)	1,909
8,664	2,842	Total recognised income and expense	(2,984)	1,451	(4,435)	(305.7)	2,255
		Attributable to:					
83	-	- minority interest in Air New Zealand	-	-	-	-	-
8,581	2,842	- the Crown	(2,984)	1,451	(4,435)	(305.7)	2,255
8,664	2,842	Total recognised income and expense	(2,984)	1,451	(4,435)	(305.7)	2,255

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

STATEMENT OF FINANCIAL POSITION

as at 31 October 2008

As at 30 June 2008 Actual \$m	As at 31 Oct 2007 Actual \$m		Note	Current Year Actual vs Forecast				Annual Forecast \$m
				Actual \$m	Forecast \$m	Variance \$m	%	
		Assets						
3,804	3,937	Cash and cash equivalents	11	6,300	4,294	2,006	46.7	3,868
14,158	10,894	Receivables	11	13,470	15,008	(1,538)	(10.2)	14,479
41,189	36,338	Marketable securities, deposits and derivatives in gain	11	42,656	38,270	4,386	11.5	37,672
12,964	14,193	Share investments	11	11,472	13,533	(2,061)	(15.2)	14,293
12,948	12,348	Advances	11	13,899	13,264	635	4.8	17,134
964	865	Inventory		1,026	984	42	4.3	1,010
1,663	1,517	Other assets		1,547	1,605	(58)	(3.6)	1,441
103,329	96,025	Property, plant & equipment	12	104,275	104,592	(317)	(0.3)	107,895
8,065	7,107	Equity accounted investments ¹		8,353	8,254	99	1.2	8,820
1,751	1,617	Intangible assets and goodwill		1,793	2,114	(321)	(15.2)	2,308
-	-	Forecast for new capital spending		-	-	-	-	184
-	-	Top-down capital adjustment		-	-	-	-	(485)
200,835	184,841	Total assets		204,791	201,918	2,873	1.4	208,619
		Liabilities						
3,530	3,577	Issued currency		3,856	3,524	(332)	(9.4)	3,702
10,895	8,215	Payables	14	8,263	11,263	3,000	26.6	11,936
1,292	982	Deferred revenue		1,334	1,599	265	16.6	1,205
46,110	43,854	Borrowings		54,237	46,121	(8,116)	(17.6)	48,618
20,484	17,094	Insurance liabilities	15	20,500	19,893	(607)	(3.1)	21,982
8,257	7,126	Retirement plan liabilities		9,220	8,112	(1,108)	(13.7)	8,332
4,753	4,449	Provisions	16	4,852	4,440	(412)	(9.3)	5,075
95,321	85,297	Total liabilities		102,262	94,952	(7,310)	(7.7)	100,850
105,514	99,544	Total assets less total liabilities		102,529	106,966	(4,437)	(4.1)	107,769
		Net Worth						
46,700	46,857	Taxpayer funds	17	42,808	48,183	(5,375)	(11.2)	48,675
58,566	52,388	Revaluation reserve	17	59,054	58,542	512	0.9	58,793
(134)	3	Other reserves	17	285	(141)	426	302.1	(81)
105,132	99,248	Total net worth attributable to the		102,147	106,584	(4,437)	(4.2)	107,387
382	296	Net worth attributable to minority in Air New Zealand		382	382	-	-	382
105,514	99,544	Total net worth		102,529	106,966	(4,437)	(4.1)	107,769

¹Tertiary education institutions constitute most equity accounted investments.

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

STATEMENT OF BORROWINGS

as at 31 October 2008

As at 30 June 2008 Actual \$m	As at 31 Oct 2007 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
18,516	16,920	Government stock ¹	17,037	16,261	(776)	(4.8)	19,244
1,484	2,340	Treasury bills	1,736	1,381	(355)	(25.7)	1,116
423	373	Government retail stock	588	422	(166)	(39.3)	416
7,750	7,025	Settlement deposits with Reserve Bank	9,315	7,910	(1,405)	(17.8)	7,750
1,591	1,100	Derivatives in loss ²	4,726	1,509	(3,217)	(213.2)	746
955	977	Finance lease liabilities	1,058	969	(89)	(9.2)	1,124
15,391	15,119	Other borrowings	19,777	17,669	(2,108)	(11.9)	18,222
46,110	43,854	Total borrowings³	54,237	46,121	(8,116)	(17.6)	48,618
33,192	32,415	Sovereign-guaranteed debt	38,823	32,769	(6,054)	(18.5)	33,378
12,918	11,439	Non sovereign-guaranteed debt	15,414	13,352	(2,062)	(15.4)	15,240
46,110	43,854	Total borrowings³	54,237	46,121	(8,116)	(17.6)	48,618
		Gross and net debt analysis:					
37,336	37,197	Core Crown borrowings	43,013	36,319	(6,694)	(18.4)	37,793
409	667	Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings	(1,571)	590	2,161	366.3	649
37,745	37,864	Gross sovereign-issued debt⁴	41,442	36,909	(4,533)	(12.3)	38,442
50,698	47,374	Less core Crown financial assets ⁵	51,710	46,926	4,784	10.2	48,872
(12,953)	(9,510)	Net core Crown debt (incl NZS Fund)⁶	(10,268)	(10,017)	251	2.5	(10,430)
12,934	13,287	Add back NZS Fund holdings of core Crown financial assets and NZS Fund fin assets	12,446	14,133	(1,687)	(11.9)	15,637
(19)	3,777	Net core Crown debt (excl NZS Fund)⁷	2,178	4,116	1,938	47.1	5,207
		Gross sovereign-issued debt excluding settlement cash:					
37,745	37,864	Gross sovereign-issued debt ⁴	41,442	36,909	(4,533)	(12.3)	38,442
(7,955)	(7,151)	Less Reserve Bank settlement cash (including Kiwibank)	(9,410)	(7,955)	1,455	18.3	(7,955)
1,600	1,600	Add back changes to DMO borrowing due to settlement cash ⁸	1,600	1,600	-	-	1,600
31,390	32,313	Gross sovereign-issued debt excluding settlement cash	33,632	30,554	(3,078)	(10.1)	32,087

Notes on Borrowings

- Government stock includes \$395 million of infrastructure bonds.
- Derivatives are included in either borrowings or marketable securities, deposits and equity investments depending on their balance date value. This treatment leads to fluctuations in individual items within the Statement of Borrowings, primarily due to exchange rate movements.
- Total Borrowings (Gross Debt) is the total borrowings (both sovereign-guaranteed and non sovereign-guaranteed) of the total Crown. This equates to the amount in the total Crown balance sheet and represents the complete picture of whole-of-Crown debt obligations to external parties. Total Borrowings can be split into sovereign-guaranteed and non sovereign-guaranteed debt. This split reflects the fact that borrowings by SOEs and Crown entities is not explicitly guaranteed by the Crown. No debt of SOEs and Crown entities is currently guaranteed by the Crown.
- Gross sovereign-issued debt is debt issued by the sovereign (i.e. core Crown) and includes Government stock held by the NZS Fund, ACC or EQC for example. In other words, the total sovereign-issued debt does not eliminate any internal cross-holdings held by these entities. The Government's debt objective uses this measure of debt.
- Core Crown financial assets exclude receivables.
- Net core Crown debt is the Government sovereign-issued debt 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 creditworthiness of a country. However, as some financial assets are not easily converted into cash, and some are restricted, it is important to view net debt alongside gross sovereign-issued debt.
- Adding back the NZ Superannuation 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.
- The Reserve Bank has used \$1.6 billion of settlement cash to purchase reserves that were to have been funded by DMO borrowing. Therefore the impact of settlement cash on GSID is adjusted by this amount.

STATEMENT OF COMMITMENTS

as at 31 October 2008

	As at 31 Oct 2008 \$m	As at 30 June 2008 \$m	As at 31 Oct 2007 \$m
Capital Commitments			
Specialist military equipment	705	873	576
Land and buildings	1,225	1,121	824
Other property, plant and equipment	3,305	4,303	2,693
Other capital commitments	285	304	242
Tertiary Education Institutions	209	209	90
Total capital commitments	5,729	6,810	4,425
Operating Commitments			
Non-cancellable accommodation leases	2,425	2,460	2,218
Other non-cancellable leases	2,541	2,390	2,263
Non-cancellable contracts for the supply of goods and services	2,083	2,157	1,598
Other operating commitments	7,447	7,995	7,215
Tertiary Education Institutions	315	315	303
Total operating commitments	14,811	15,317	13,597
Total commitments	20,540	22,127	18,022
Total Commitments by Segment			
Core Crown	16,304	19,627	15,597
Crown entities	13,575	15,830	9,415
State-owned Enterprises	4,788	4,724	3,615
Inter-segment eliminations	(14,127)	(18,054)	(10,605)
Total commitments	20,540	22,127	18,022

STATEMENT OF CONTINGENT LIABILITIES AND ASSETS

as at 31 October 2008

	As at 31 Oct 2008 \$m	As at 30 June 2008 \$m	As at 31 Oct 2007 \$m
Quantifiable Contingent Liabilities			
Guarantees and indemnities	363	286	151
Uncalled capital	2,860	2,205	2,138
Legal proceedings and disputes	447	383	1,090
Other contingent liabilities	2,202	1,995	1,895
Total quantifiable contingent liabilities	5,872	4,869	5,274
Total Quantifiable Contingent Liabilities by Segment			
Core Crown	5,698	4,685	5,151
Crown entities	107	86	11
State-owned Enterprises	67	98	112
Inter-segment eliminations	-	-	-
Total quantifiable contingent liabilities	5,872	4,869	5,274
Quantifiable Contingent Assets			
Core Crown	389	389	90
Crown entities	-	-	-
Total quantifiable contingent assets	389	389	90

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

NOTES TO THE FINANCIAL STATEMENTS

Year 4 Months to 30 Jun to 31 Oct		Current Year Actual vs Forecast					
2008	2007					Annual	
Actual	Actual	Actual	Forecast	Variance		Forecast	
\$m	\$m	\$m	\$m	\$m	%	\$m	
NOTE 1: Revenue Collected Through the Crown's Sovereign Power							
Taxation Revenue (accrual)							
Individuals							
23,345	7,416	PAYE	7,960	7,540	420	5.6	23,073
5,071	1,482	Other persons	1,705	1,466	239	16.3	4,972
(1,470)	(513)	Refunds	(611)	(552)	(59)	(10.7)	(1,494)
522	188	Fringe benefit tax	158	160	(2)	(1.3)	514
27,468	8,573	Total individuals	9,212	8,614	598	6.9	27,065
Corporate Tax							
8,787	2,236	Gross companies tax	2,528	2,559	(31)	(1.2)	7,651
(242)	46	Refunds	(88)	(64)	(24)	(37.5)	(310)
1,506	566	Non-resident withholding tax	699	588	111	18.9	1,549
71	64	Foreign-source dividend w/holding payments	(5)	21	(26)	(123.8)	42
10,122	2,912	Total corporate tax	3,134	3,104	30	1.0	8,932
Other Income Tax							
2,699	831	Resident w/holding tax on interest income	924	917	7	0.8	2,822
69	32	Resident w/holding tax on dividend income	4	6	(2)	(33.3)	60
3	1	Estate and gift duties	-	1	(1)	(100.0)	3
2,771	864	Total other income tax	928	924	4	0.4	2,885
40,361	12,349	Total income tax	13,274	12,642	632	5.0	38,882
Goods and Services Tax							
20,631	6,683	Gross goods and services tax	7,467	7,431	36	0.5	21,460
(9,516)	(2,861)	Refunds	(3,400)	(3,177)	(223)	(7.0)	(9,773)
11,115	3,822	Total goods and services tax	4,067	4,254	(187)	(4.4)	11,687
Other Taxation							
819	246	Petroleum fuels excise	269	270	(1)	(0.4)	880
159	60	Tobacco excise	67	68	(1)	(1.5)	151
1,857	601	Customs duty	602	592	10	1.7	1,889
851	276	Road user charges	297	313	(16)	(5.1)	877
573	181	Alcohol excise	197	201	(4)	(2.0)	602
260	69	Gaming duties	70	63	7	11.1	252
226	77	Motor vehicle fees	73	76	(3)	(3.9)	185
46	16	Energy resources levies	14	16	(2)	(12.5)	43
105	29	Approved issuer levy and cheque duty	36	31	5	16.1	90
4,896	1,555	Total other indirect taxation	1,625	1,630	(5)	(0.3)	4,969
16,011	5,377	Total indirect taxation	5,692	5,884	(192)	(3.3)	16,656
56,372	17,726	Total taxation revenue	18,966	18,526	440	2.4	55,538
Other Sovereign Revenue (accrual)							
2,718	880	ACC levies	890	908	(18)	(2.0)	2,742
279	107	Fire Service levies	111	115	(4)	(3.5)	303
86	29	EQC levies	29	29	-	-	87
796	258	Other miscellaneous items	292	255	37	14.5	861
3,879	1,274	Total other sovereign revenue	1,322	1,307	15	1.1	3,993
60,251	19,000	Total sovereign revenue	20,288	19,833	455	2.3	59,531

NOTES TO THE FINANCIAL STATEMENTS

Year 4 Months to 30 Jun to 31 Oct		Current Year Actual vs Forecast					
2008	2007					Annual	
Actual	Actual	Actual	Forecast	Variance		Forecast	
\$m	\$m	\$m	\$m	\$m	%	\$m	
NOTE 1 (continued): Receipts Collected Through the Crown's Sovereign Power							
Income Tax Receipts (cash)							
Individuals							
22,830	7,316	PAYE	7,956	7,994	(38)	(0.5)	23,041
5,469	1,538	Other persons	1,458	1,289	169	13.1	5,447
(2,171)	(904)	Refunds	(1,036)	(991)	(45)	(4.5)	(2,369)
489	230	Fringe benefit tax	235	237	(2)	(0.8)	507
26,617	8,180	Total individuals	8,613	8,529	84	1.0	26,626
Corporate Tax							
9,075	2,846	Gross companies tax	2,323	1,956	367	18.8	7,954
(1,026)	(291)	Refunds	(528)	(428)	(100)	(23.4)	(1,150)
1,638	665	Non-resident withholding tax	636	573	63	11.0	1,344
72	58	Foreign-source dividend w/holding payments	(6)	22	(28)	(127.3)	42
9,759	3,278	Total corporate tax	2,425	2,123	302	14.2	8,190
Other Income Tax							
2,616	833	Resident w/holding tax on interest income	945	935	10	1.1	2,823
40	29	Resident w/holding tax on dividend income	20	32	(12)	(37.5)	90
2	1	Estate and gift duties	1	1	-	-	3
2,658	863	Total other income tax	966	968	(2)	(0.2)	2,916
39,034	12,321	Total income tax	12,004	11,620	384	3.3	37,732
Goods and Services Tax							
20,085	6,673	Gross goods and services tax	7,125	6,893	232	3.4	20,727
(8,859)	(2,824)	Refunds	(3,297)	(3,248)	(49)	(1.5)	(9,260)
11,226	3,849	Total goods and services tax	3,828	3,645	183	5.0	11,467
Other Taxation							
809	261	Petroleum fuels excise	261	285	(24)	(8.4)	880
160	50	Tobacco excise	51	53	(2)	(3.8)	151
1,946	618	Customs duty	573	542	31	5.7	1,889
851	276	Road user charges	296	313	(17)	(5.4)	877
554	173	Alcohol excise	172	183	(11)	(6.0)	602
238	82	Gaming duties	79	80	(1)	(1.3)	248
223	90	Motor vehicle fees	97	76	21	27.6	185
42	18	Energy resources levies	11	16	(5)	(31.3)	48
85	25	Approved issuer levy and cheque duty	41	35	6	17.1	80
4,908	1,593	Total other indirect taxation	1,581	1,583	(2)	(0.1)	4,960
16,134	5,442	Total indirect taxation	5,409	5,228	181	3.5	16,427
55,168	17,763	Total tax receipts collected	17,413	16,848	565	3.4	54,159
Other Sovereign Receipts (cash)							
2,561	1,113	ACC levies	1,147	1,103	44	4.0	2,752
281	107	Fire Service levies	111	115	(4)	(3.5)	303
86	32	EQC levies	31	29	2	6.9	87
532	185	Other miscellaneous items	193	192	1	0.5	595
3,460	1,437	Total other sovereign receipts	1,482	1,439	43	3.0	3,737
58,628	19,200	Total sovereign receipts	18,895	18,287	608	3.3	57,896

NOTES TO THE FINANCIAL STATEMENTS

Year 4 Months to 30 Jun to 31 Oct		Current Year Actual vs Forecast					
2008	2007					Annual	
Actual	Actual	Actual	Forecast	Variance		Forecast	
\$m	\$m	\$m	\$m	\$m	%	\$m	
NOTE 2: Interest Revenue and Dividends							
<i>By type</i>							
2,803	963	Interest revenue	1,099	1,211	(112)	(9.2)	3,378
411	101	Dividends	118	111	7	6.3	450
3,214	1,064	Total interest revenue and dividends	1,217	1,322	(105)	(7.9)	3,828
<i>By source</i>							
2,344	856	Core Crown	726	1,088	(362)	(33.3)	2,647
1,233	371	Crown entities	405	362	43	11.9	1,162
704	240	State-owned Enterprises	440	230	210	91.3	673
(1,067)	(403)	Inter-segment eliminations	(354)	(358)	4	1.1	(654)
3,214	1,064	Total interest revenue and dividends	1,217	1,322	(105)	(7.9)	3,828
NOTE 3: Social Assistance and Official Development Assistance							
7,348	2,428	New Zealand superannuation	2,561	2,563	2	0.1	7,785
1,478	492	Domestic purposes benefit	511	506	(5)	(1.0)	1,501
458	160	Unemployment benefit	159	137	(22)	(16.1)	487
1,216	396	Invalids benefit	430	437	7	1.6	1,273
1,897	660	Family tax credit	692	662	(30)	(4.5)	2,153
891	296	Accommodation supplement	315	306	(9)	(2.9)	951
582	201	Sickness benefit	200	194	(6)	(3.1)	570
386	165	Student allowances	173	168	(5)	(3.0)	411
278	93	Disability allowances	129	128	(1)	(0.8)	389
1,102	227	KiwiSaver	520	516	(4)	(0.8)	1,440
2,376	793	Other social assistance benefits	791	780	(11)	(1.4)	2,707
18,012	5,911	Total social assistance	6,481	6,397	(84)	(1.3)	19,667
362	112	Official development assistance	151	129	(22)	(17.1)	484
18,374	6,023	Total social assistance and official development assistance	6,632	6,526	(106)	(1.6)	20,151
NOTE 4: Personnel Expenses							
5,584	1,853	Core Crown	2,029	1,987	(42)	(2.1)	5,865
8,741	2,745	Crown entities	3,033	3,010	(23)	(0.8)	9,505
2,164	710	State-owned Enterprises	797	790	(7)	(0.9)	2,438
(11)	(1)	Inter-segment eliminations	(3)	(3)	-	-	(8)
16,478	5,307	Total personnel expenses	5,856	5,784	(72)	(1.2)	17,800
NOTE 5: Operating Expenses							
<i>By type</i>							
3,670	1,169	Depreciation and amortisation ¹	1,502	1,294	(208)	(16.1)	3,973
30,656	8,925	Other operating expenses	10,848	10,562	(286)	(2.7)	33,721
-	-	Forecast new operating spending	-	-	-	-	172
-	-	Top-down expense adjustment	-	-	-	-	(1,450)
34,326	10,094	Total operating expenses	12,350	11,856	(494)	(4.2)	36,416
<i>By source</i>							
30,432	9,669	Core Crown	10,566	10,838	272	2.5	33,518
15,754	4,699	Crown entities	5,715	5,492	(223)	(4.1)	16,028
10,945	3,016	State-owned Enterprises	3,808	3,653	(155)	(4.2)	11,426
(22,805)	(7,290)	Inter-segment eliminations	(7,739)	(8,127)	(388)	(4.8)	(24,556)
34,326	10,094	Total operating expenses	12,350	11,856	(494)	(4.2)	36,416

¹ Refer Note 19

NOTES TO THE FINANCIAL STATEMENTS

Year 4 Months to 30 Jun to 31 Oct 2008 2007		Current Year Actual vs Forecast				Annual Forecast \$m	
Actual \$m	Actual \$m	Actual \$m	Forecast \$m	Variance \$m	%		
		NOTE 6: Interest Expenses					
		<i>By type</i>					
3,015	1,000	Interest on financial liabilities	1,245	1,183	(62)	(5.2)	3,219
86	8	Interest unwind on provisions	20	5	(15)	(300.0)	92
3,101	1,008	Total interest expenses	1,265	1,188	(77)	(6.5)	3,311
		<i>By source</i>					
2,460	796	Core Crown	787	959	172	17.9	2,650
248	96	Crown entities	83	87	4	4.6	254
870	284	State-owned Enterprises	552	338	(214)	(63.3)	1,022
(477)	(168)	Inter-segment eliminations	(157)	(196)	(39)	(19.9)	(615)
3,101	1,008	Total interest expenses	1,265	1,188	(77)	(6.5)	3,311
		NOTE 7: Insurance Expenses					
		<i>By entity</i>					
3,423	1,126	ACC	1,079	1,025	(54)	(5.3)	4,020
130	29	EQC	44	13	(31)	(238.5)	39
10	3	Other insurance expenses	9	6	(3)	(50.0)	17
3,563	1,158	Total insurance expenses	1,132	1,044	(88)	(8.4)	4,076
		NOTE 8: Gains and Losses on Financial Instruments					
		<i>By source</i>					
353	529	Core Crown	(2,054)	526	(2,580)	(490.5)	1,287
(743)	391	Crown entities	(772)	123	(895)	-	412
(37)	16	State-owned Enterprises	(241)	(45)	(196)	(435.6)	17
(190)	(28)	Inter-segment eliminations	(75)	(89)	14	15.7	(254)
(617)	908	Net gains/(losses) on financial instruments	(3,142)	515	(3,657)	-	1,462
		NOTE 9: Gains and Losses on Non-Financial Instruments					
		<i>By type</i>					
(1,098)	-	Actuarial gains/(losses) on GSF liability	(989)	-	(989)	-	-
(1,709)	-	Actuarial gains/(losses) on ACC outstanding	(417)	-	(417)	-	-
(118)	8	claims	28	71	(43)	(60.6)	178
(2,925)	8	Net gains/(losses) on non-financial instruments	(1,378)	71	(1,449)	-	178
		<i>By source</i>					
(1,369)	(5)	Core Crown	(1,031)	3	(1,034)	-	33
(1,725)	6	Crown entities	(420)	2	(422)	-	(13)
170	8	State-owned Enterprises	73	65	8	12.3	158
(1)	(1)	Inter-segment eliminations	-	1	(1)	(100.0)	-
(2,925)	8	Net gains/(losses) on non-financial instruments	(1,378)	71	(1,449)	-	178
		NOTE 10: Operating Balance					
		<i>By source</i>					
3,891	1,684	Core Crown	(2,300)	684	(2,984)	(436.3)	239
(1,526)	1,000	Crown entities	(868)	807	(1,675)	(207.6)	970
723	296	State-owned Enterprises	172	297	(125)	(42.1)	938
(704)	(290)	Inter-segment eliminations	(511)	(318)	(193)	(60.7)	(238)
2,384	2,690	Total operating balance	(3,507)	1,470	(4,977)	(338.6)	1,909

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2008 \$m	As at 31 Oct 2007 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 11: Financial Assets							
3,804	3,937	Cash and cash equivalents	6,300	4,294	2,006	46.7	3,868
7,398	6,055	Tax receivables	7,890	8,800	(910)	(10.3)	7,637
6,760	4,839	Trade and other receivables	5,580	6,208	(628)	(10.1)	6,842
6,741	6,112	Student loans	6,859	6,902	(43)	(0.6)	7,173
5,581	4,605	Kiwibank mortgages	6,279	5,429	850	15.7	8,500
2,787	1,945	Long-term deposits	2,750	2,850	(100)	(3.5)	1,670
188	188	Reserve position at the IMF	219	186	33	17.7	174
626	1,631	Other loans	761	933	(172)	(18.4)	1,461
12,964	14,193	Share investments	11,472	13,533	(2,061)	(15.2)	14,293
1,563	2,452	Derivatives in gain	2,657	1,539	1,118	72.6	858
36,651	31,753	Other marketable securities	37,030	33,695	3,335	9.9	34,970
85,063	77,710	Total financial assets	87,797	84,369	3,428	4.1	87,446
Financial assets by portfolio							
23,228	26,248	Reserve Bank and DMO managed funds	23,555	18,631	4,924	26.4	15,127
13,791	13,369	NZ Superannuation Fund	13,561	14,450	(889)	(6.2)	16,563
19,080	12,261	Other core Crown	20,199	20,907	(708)	(3.4)	23,194
(563)	(941)	Intra-segment eliminations	(96)	(316)	220	69.6	(660)
55,536	50,937	Total core Crown	57,219	53,672	3,547	6.6	54,224
11,977	11,187	ACC portfolio	10,659	11,336	(677)	(6.0)	12,599
1,872	2,041	EQC portfolio	1,768	1,930	(162)	(8.4)	2,019
4,304	4,242	Other Crown entities	4,577	5,420	(843)	(15.6)	4,645
18,153	17,470	Total Crown entities	17,004	18,686	(1,682)	(9.0)	19,263
11,374	9,303	Total State Owned Enterprises	13,574	12,011	1,563	13.0	13,959
85,063	77,710	Total financial assets by portfolio	87,797	84,369	3,428	4.1	87,446
NOTE 12: Property, Plant and Equipment							
By Class of asset							
Net Carrying Value							
17,609	16,723	Land (valuation)	17,594	17,518	76	0.4	18,122
22,257	20,809	Buildings (valuation)	22,525	22,383	142	0.6	22,977
1,887	2,038	Electricity distribution network (cost)	1,991	2,050	(59)	(2.9)	2,255
11,202	10,493	Electricity generation assets (valuation)	11,340	11,407	(67)	(0.6)	11,890
2,071	2,082	Aircraft (exclng military) (valuation)	2,000	2,159	(159)	(7.4)	2,051
20,947	19,577	State highways (valuation)	21,084	21,138	(54)	(0.3)	21,628
11,621	10,569	Rail network (valuation)	12,158	12,160	(2)	-	11,979
3,345	3,082	Specialist military equipment (valuation)	3,343	3,384	(41)	(1.2)	3,421
4,412	3,527	Other plant and equipment (cost)	4,284	4,547	(263)	(5.8)	5,578
7,978	7,125	Specified cultural and heritage assets (valuation)	7,956	7,846	110	1.4	7,994
103,329	96,025	Total net carrying value	104,275	104,592	(317)	(0.3)	107,895

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2008 \$m	As at 31 Oct 2007 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 13: NZ Superannuation Fund							
385	124	Revenue	141	120	21	17.5	431
237	158	Less current tax expense	(6)	99	105	106.1	326
34	(42)	Less other expenses ¹	(673)	52	725	-	156
(995)	318	Add gains/(losses)	(3,135)	343	(3,478)	-	1,037
(881)	326	Operating balance	(2,315)	312	(2,627)	-	986
12,973	12,973	Opening net worth	14,212	14,212	-	-	14,212
2,104	728	Gross contribution from the Crown	778	778	-	-	2,242
(881)	326	Operating balance	(2,315)	312	(2,627)	-	986
16	2	Other movements in reserves	20	20	-	-	-
14,212	14,029	Closing net worth	12,695	15,322	(2,627)	(17.1)	17,440
<i>comprising:</i>							
13,791	13,369	Financial assets	13,561	14,450	(889)	(6.2)	16,563
421	660	Net other assets	(866)	872	(1,738)	(199.3)	877
14,212	14,029	Closing net worth	12,695	15,322	(2,627)	(17.1)	17,440
Core Crown revenue (excl NZS Fund)							
61,819	19,536	Core Crown revenue	20,827	20,508	319	1.6	61,207
385	124	Less NZS Fund revenue	141	120	21	17.5	431
237	158	Add back NZS Fund intra-segment revenue	(6)	99	(105)	(106.1)	326
61,671	19,570	Core Crown revenue (excl NZS Fund)	20,680	20,487	193	0.9	61,102
OBEGAL excluding NZS Fund							
5,637	1,723	Total Crown OBEGAL	898	781	117	15.0	(64)
385	124	Less NZS Fund revenue	141	120	21	17.5	431
97	52	Less NZS Fund expenses	30	46	(16)	(34.8)	138
237	158	Add back NZS Fund tax	(6)	99	(105)	(106.1)	326
5,586	1,809	OBEGAL excluding NZS Fund	781	806	(25)	(3.1)	(31)

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

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2008 \$m	As at 31 Oct 2007 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 14: Payables							
6,444	4,823	Accounts payable	4,770	6,812	2,042	30.0	7,485
4,451	3,392	Taxes repayable	3,493	4,451	958	21.5	4,451
10,895	8,215	Total payables	8,263	11,263	3,000	26.6	11,936
NOTE 15: Insurance liabilities							
20,374	17,023	ACC liability	20,376	19,799	(577)	(2.9)	21,876
97	64	EQC liability	112	79	(33)	(41.8)	97
13	7	Other insurance liabilities	12	15	3	20.0	9
20,484	17,094	Total insurance liabilities	20,500	19,893	(607)	(3.1)	21,982
NOTE 16: Provisions							
562	708	Provision for Kyoto	593	562	(31)	(5.5)	562
907	771	Provision for National Provident Fund	907	907	-	-	978
2,220	1,819	Provision for employee entitlements	2,278	2,176	(102)	(4.7)	2,206
1,064	1,151	Other provisions	1,074	795	(279)	(35.1)	1,329
4,753	4,449	Total provisions	4,852	4,440	(412)	(9.3)	5,075
NOTE 17: Changes in Net Worth							
44,222	44,169	Opening taxpayers funds	46,700	46,700	-	-	46,700
2,384	2,690	Operating balance excluding minority interest	(3,507)	1,470	(4,977)	(338.6)	1,909
94	(2)	Transfers from/(to) other reserves	(385)	13	(398)	-	66
46,700	46,857	Closing taxpayers funds	42,808	48,183	(5,375)	(11.2)	48,675
52,442	52,371	Opening revaluation reserve	58,566	58,566	-	-	58,566
6,214	16	Net revaluations	103	(12)	115	-	292
(90)	1	Transfers from/(to) other reserves	385	(12)	397	-	(65)
58,566	52,388	Closing revaluation reserve	59,054	58,542	512	0.9	58,793
(133)	(132)	Opening other reserves	(134)	(134)	-	-	(134)
(1)	135	Net movements	419	(7)	426	-	53
(134)	3	Closing other reserves	285	(141)	426	302.1	(81)

NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2008 \$m	4 Months to 31 Oct 2007 \$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					
55,975	18,209	Total tax receipts	17,307	17,069	238	1.4	54,851
486	178	Total other sovereign receipts	178	184	(6)	(3.3)	536
2,128	765	Interest, profits and dividends	700	890	(190)	(21.3)	2,009
1,411	520	Sale of goods & services and other receipts	725	492	233	47.4	1,641
(19,562)	(6,529)	Subsidies and transfer payments	(7,634)	(7,429)	(205)	(2.8)	(22,045)
(30,792)	(10,722)	Personnel and operating costs	(11,636)	(11,731)	95	0.8	(35,043)
(2,354)	(860)	Finance costs	(806)	(944)	138	14.6	(2,441)
-	-	Forecast for future new operating spending	-	-	-	-	(172)
-	-	Top-down expense adjustment	-	-	-	-	1,450
7,292	1,561	Net cash flows from core Crown operations	(1,166)	(1,469)	303	20.6	786
(1,433)	(377)	Net purchase of physical assets	(496)	(506)	10	2.0	(2,001)
(1,254)	(326)	Net increase in advances	(420)	(277)	(143)	(51.6)	(903)
(444)	(101)	Net purchase of investments	(832)	(1,534)	702	45.8	(1,850)
(2,104)	(727)	Contribution to NZ Superannuation Fund	(778)	(778)	-	-	(2,242)
-	-	Forecast for future new capital spending	-	-	-	-	(184)
-	-	Top-down capital adjustment	-	-	-	-	485
2,057	30	Residual cash	(3,692)	(4,564)	872	19.1	(5,909)
		Financed by:					
(3,595)	(992)	Other net sale/(purchase) of marketable securities and deposits	3,955	6,185	(2,230)	(36.1)	4,493
(1,538)	(962)	Total operating and investing activities	263	1,621	(1,358)	(83.8)	(1,416)
		Used in:					
(1,585)	(1,310)	Net (repayment)/issue of other New Zealand dollar borrowing	1,345	327	1,018	311.3	440
901	667	Net (repayment)/issue of foreign currency borrowing	85	(364)	449	123.4	(602)
86	133	Issues of circulating currency	326	(9)	335	-	172
249	439	Increase/(decrease) in cash	(826)	(2)	(824)	-	(29)
(349)	(71)		930	(48)	978	-	(19)
(1,887)	(1,033)	Net cash inflow/(outflow) to be offset by domestic bonds	1,193	1,573	(380)	(24.2)	(1,435)
		Gross Cash Proceeds from Domestic Bonds					
1,757	971	Domestic bonds (market)	1,508	1,159	349	30.1	4,048
130	62	Domestic bonds (non-market)	450	519	(69)	(13.3)	738
1,887	1,033	Total gross cash proceeds from domestic	1,958	1,678	280	16.7	4,786
-	-	Repayment of domestic bonds (market)	(2,700)	(2,800)	100	3.6	(2,900)
-	-	Repayment of domestic bonds (non-market)	(451)	(451)	-	-	(451)
-	-	Total repayment of domestic bonds	(3,151)	(3,251)	100	3.1	(3,351)
1,887	1,033	Net (repayments of)/cash proceeds from domestic bonds	(1,193)	(1,573)	380	24.2	1,435

NOTES TO THE FINANCIAL STATEMENTS

Note 19: Acquisition of Toll (NZ) Limited

On 1 July 2008, negotiations were completed and an agreement was signed for the purchase of 100% of the shares in Toll (New Zealand) Limited. Prior to the acquisition, assets and operations not integral to the rail operation were separated out of Toll (New Zealand) Limited. On acquisition by the Government, the company was renamed KiwiRail Holdings Limited.

Ownership of the rail business is intended to place the Government in a better position to integrate rail planning and funding with its wider transport policy, and to ensure capital investment for improving the rolling stock.

The cost of acquisition of the company was \$690 million, settled in cash on 1 July. A provisional assessment as at 30 September 2008 of the fair value of the assets acquired and liabilities assumed through this purchase was \$442 million. No goodwill has been recognised and the difference between the provisional assessment of the fair value of the assets acquired and liabilities assumed and the cost of acquisition has been charged to the statement of financial performance.

The fair value of the assets acquired and liabilities assumed may be adjusted in future reporting periods to reflect final valuations. Final valuations must be completed within one year of the purchase date.

In the four month period to 31 October 2008, revenue earned by KiwiRail Holdings Limited of \$222 million and an operating deficit of \$4 million has been included in the financial statements of the Government.

Note 20: Crown Retail Deposit Guarantee Scheme and Wholesale Funding Guarantee Facility

The Government has recently announced the introduction of two guarantee schemes in relation to financial institution deposits; the retail deposit scheme and the wholesale funding guarantee facility.

As the likelihood that the guarantees will be called is considered remote, they do not meet the definition of a contingent liability and is therefore excluded from the statement of contingent liabilities and assets on page 21.

Retail Deposit Scheme

On 12 October 2008 the Minister of Finance announced an opt-in retail deposit guarantee scheme. The objective of the two year opt-in retail deposit 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 (i.e., greater than \$5 billion) or if they experience significant growth in deposits (i.e., greater than 10% per annum). Approved deposit takers to date are listed on the Treasury web-site.

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 arms-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.

NOTES TO THE FINANCIAL STATEMENTS

Note 20: Crown Retail Deposit Guarantee Scheme and Wholesale Funding Guarantee Facility (continued)

As at 31 October 2008 six financial institutions had joined the scheme and deposits totalling \$15.6 billion had been guaranteed. Subsequent to balance date the exposure has increased to \$125 billion covering 40 institutions. 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.

Wholesale Funding Guarantee Facility

On 1 November 2008 the Minister of Finance announced an opt-in wholesale funding guarantee facility. The objective of the opt-in wholesale funding guarantee facility is to facilitate access to international financial markets by New Zealand financial institutions, in a global environment where international investors remain highly risk averse and where many other governments have 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 seeking to utilise the wholesale funding guarantee facility will be expected to 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 scheme 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.

At this stage no wholesale deposits have been guaranteed.