

Financial Statements of the Government of New Zealand

For the Seven Months Ended
31 January 2010



Prepared by The Treasury
5 March 2010

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

978-0-478-35016-6 (Print)
978-0-478-35017-3 (Online)

New Zealand Government



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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 seven months ended 31 January 2010 and its financial position as at that date.

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

At a Glance

Table 1 – Key indicators for the seven months ended 31 January 2010 compared to HYEFU

\$ million	Year to date				Full Year
	January	January	Variance to HYEFU	Variance to HYEFU	June
	2010	2010			2010
Actual ¹	Forecast ¹	\$m	%	Forecast ²	
Core Crown					
Core Crown tax revenue	29,057	28,985	72	0.2	51,248
Core Crown revenue	32,401	32,299	102	0.3	56,751
Core Crown expenses	36,169	36,847	678	1.8	65,520
Core Crown residual cash	(5,188)	(5,524)	336	6.1	(10,091)
Gross debt ³	48,791	51,716	2,926	5.7	53,651
<i>as a percentage of GDP</i>	26.4%	28.0%			29.1%
Net debt ⁴	22,820	22,832	12	0.1	27,371
<i>as a percentage of GDP</i>	12.3%	12.3%			14.8%
Total Crown					
Operating balance before gains and losses	(3,361)	(4,244)	883	20.8	(7,465)
Operating balance	(630)	(2,064)	1,434	69.5	(4,794)
Net worth	98,700	97,386	1,314	1.3	94,809

1 Using GDP for the year ended 30 September 2009 of \$184,917 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 seven months ended 31 January 2010:

- Core Crown tax revenue was \$72 million (0.2%) higher than forecast. Within this result, there was some variation across individual tax types.

Excluding the settlement of structured finance transactions, corporate tax revenue was around \$150 million or 4.3% below forecast due to weaker-than-expected current tax year profitability. There was also an underlying corporate tax receipts shortfall highlighting a potential future risk to tax revenue. Weaker-than-expected business profitability is also contributing to the other individuals' tax shortfall, which is likely to persist through to year end.

Despite a shortfall in underlying income taxes, GST provided a partial offset (\$258 million or 3.9% higher than forecast). Indicators of December quarter private consumption, such as retail sales volumes, are tracking above what had been expected at the *HYEFU*, suggesting that GST is likely to remain above forecast for the rest of the 2010 fiscal year.

- Core Crown expenses were \$678 million (1.8%) lower than forecast due to the timing of Treaty of Waitangi settlements being later than forecast (\$146 million) and a \$128 million reduction in the provision for the deposit guarantee scheme. The remainder of the variances are individually small across a number of departments.
- Given the higher tax revenue and lower expenses, the operating balance before gains and losses deficit was \$883 million smaller than expected.

- After taking account of the impact of gains and losses (driven primarily by gains on the Crown's investment portfolios and an actuarial gain on the valuation of the ACC insurance liability), the operating deficit was \$1.4 billion smaller than forecast.
- Gross debt was \$2.9 billion lower than forecast, with Treasury bills on issue \$2.1 billion lower than expected reflecting reduced market demand for the securities at cost effective levels. In addition, the Reserve Bank's unsettled trade liabilities and NZDMO's collateral liabilities were lower than forecast.
- In contrast, net debt was close to forecast at \$22.8 billion (12.3% of GDP) as the factors driving the gross debt variance had a neutral impact on the net debt position.

Further analysis of the January 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 seven months ended 31 January 2010 compared to *HYEFU*

Item/indicator	Variance ¹	Key drivers
Core Crown		
Core Crown revenue	\$102 million (higher than forecast)	<ul style="list-style-type: none"> • Core Crown tax revenue was \$72m (0.2%) higher than forecast. This was mainly due to: <ul style="list-style-type: none"> ○ Corporate tax revenue was \$163m (4.7%) higher than forecast. Excluding the structured finance transactions that occurred in December, underlying corporate tax revenue is close to \$150m (4.3%) less than forecast. The corporate tax shortfall was largely due to lower-than-expected provisional tax and indicates that underlying business profitability in the 2009/10 tax year is weaker than we had expected at <i>HYEFU</i>. Financial statements published by publicly listed companies in the current reporting season largely support current weaker-than-expected provisional tax outturns. ○ GST revenue was \$258m (3.9%) higher than forecast. Some of the variance relates to greater-than-expected private consumption. The December quarter retail trade survey revealed a higher-than-expected level of retail sales volumes over this period. In addition, indicators of services such as the Performance of Services Index are also pointing to a significant pick-up in sales volumes through the final quarter of 2009. Consequently, stronger-than-expected sales of both goods and services lead us to believe that fourth quarter private consumption is greater than we had expected at <i>HYEFU</i>. Greater-than-expected consumption is likely to have continued in January. <p>The remainder of the variance is not attributable to timing effects or developments in the economy and is more likely to relate to the volatility of the monthly forecast model. Consequently, there is a risk that GST revenue will remain above forecast through to year end.</p> <p>These revenue variances were partly offset by:</p> <ul style="list-style-type: none"> ○ Other individuals tax was \$189m (10.8%) lower than forecast. Lower-than-expected provisional and terminal tax contributed to the variance and like corporate tax suggests that business profitability may be weaker than expected at <i>HYEFU</i>. There is a risk that other individuals' tax shortfall will persist through to year end, which was supported by receipts being \$264 million (22.1%) lower than forecast.

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	\$678 million (lower than forecast)	<ul style="list-style-type: none"> • Treaty of Waitangi settlements of approximately \$146m 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. • The provision for the deposit guarantee scheme was \$128m lower than forecast at \$771m. • The remainder of the variances are individually small across a number of departments.
Core Crown residual cash deficit	\$336 million (lower than forecast)	<ul style="list-style-type: none"> • Core Crown tax receipts were largely on target at \$52m (0.2%) lower than forecast. This variance was mainly due to: <ul style="list-style-type: none"> ○ Other individuals' tax receipts were \$264m (22.1%) 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 \$218m (1.7%) lower than forecast. The December receipts variance did not reverse to the same extent as revenue in January and reflects the difficulty of forecasting the volatile nature of source deductions on a month-to-month basis. The source deductions receipts variance highlights a risk to the revenue through the 2009/10 fiscal year. <p>These lower tax receipts were partly offset by:</p> <ul style="list-style-type: none"> ○ Corporate tax receipts were \$326m (6.9%) higher than forecast. Included in these results were receipts in relation to the settlement of structured finance transactions. Excluding these receipts, corporate tax receipts were tracking below forecast. Similar to revenue, lower-than-forecast provisional tax is driving the underlying tax shortfall and indicates a downside risk for corporate tax revenue over the remainder of the fiscal year; and ○ GST receipts were \$120m (1.9%) higher than forecast. The majority of the variance is related to greater-than-forecast private consumption and as a result GST receipts are likely to remain above forecast by year end. <ul style="list-style-type: none"> • Receipts from interest were \$217m higher than forecast mainly due to cash receipts on reverse repo transactions being received earlier than expected. This is a temporary timing difference as the receipts were forecast to be received later in the year; • Receipts from dividends were \$136m higher than forecast due mainly to Housing NZ Corporation paying a higher-than-expected dividend to the Crown; and • Net purchases of physical assets were \$199m lower than forecast due mainly to continued delays in defence acquisition projects (Project Protector, P-3 Orion and C-130 Hercules Life Extension).

Item/indicator	Variance ¹	Key drivers
Gross debt	\$2,926 million (lower than forecast)	<ul style="list-style-type: none"> • Treasury bills on issue were \$2,088m lower than expected, reflecting reduced market demand for the securities at cost effective levels. This variance was net debt neutral because the lower holdings of liabilities were offset by (corresponding) lower holdings of financial assets; • Unsettled RBNZ trade liabilities were \$679m lower than forecast; and • Third party collateral deposits held by NZDMO were \$777m lower than forecast. These liabilities are driven by market conditions and are net debt neutral.
Net debt	\$12 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	\$883 million (lower than forecast)	<ul style="list-style-type: none"> • Core Crown revenue was \$102m higher than forecast (as noted above). • Core Crown expenses were \$678m lower than forecast (as noted above). • ACC insurance expenses were \$201m lower than forecast due to lower claims costs.
Operating balance deficit	\$1,434 million (lower than forecast)	<ul style="list-style-type: none"> • In addition to the operating balance before gains and losses deficit being \$883m lower than forecast, net gains were \$551m 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 \$222m and \$122m 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 \$255m compared to a forecast loss of \$87m; a favourable variance of \$342m. This variance mainly reflects the impact of claims experience due to fewer claims than expected in receipt of weekly compensation resulting from fewer new claims combined with improved continuance rates. There were also decreases in rehabilitation and medical costs.
Net worth	\$1,314 million (higher than forecast)	<ul style="list-style-type: none"> • The variance in net worth was mainly due to the \$1,434m 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).

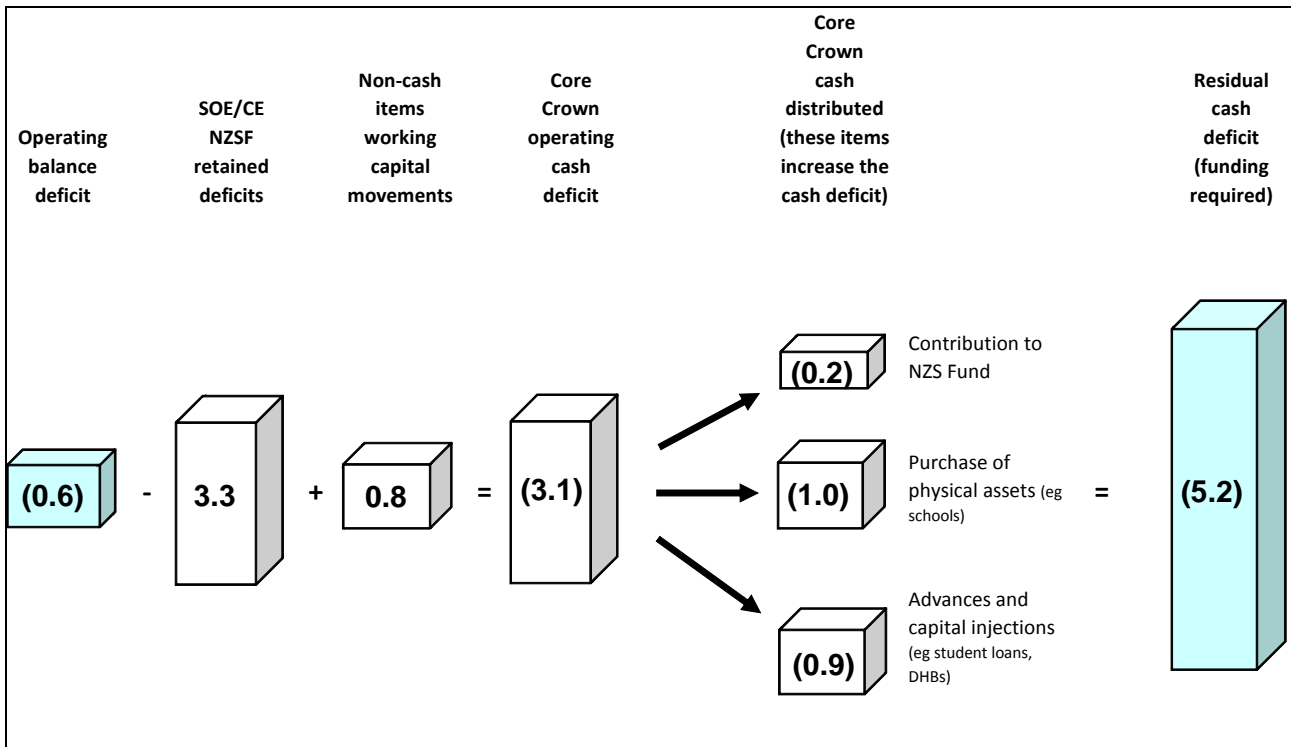
Table 3 – Fiscal Strategy and financial results

Fiscal Strategy		Financial Results		31 Jan 2010 Actual \$m	31 Jan 2010 Forecast \$m	Variance \$m	Variance %	Annual Forecast \$m
		Taxation as a % of GDP		26.9%	26.9%			27.8%
Operating revenue Ensure sufficient revenue to meet the operating balance objective		Core Crown taxation revenue ...		29,057	28,985	72	0.2	51,248
		... combined with other core Crown revenue ...		3,344	3,314	30	0.9	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...		(36,169)	(36,847)	678	1.8	(65,520)
		... and with SOE and Crown entity results and core Crown gains and losses...		3,138	2,484	654	26.3	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...		(630)	(2,064)	1,434	69.5	(4,794)
		...with income in SOEs, CEs and the NZS Fund retained...		(3,302)	(2,505)	(797)	(31.8)	(4,116)
		... and some items do not impact cash ...		834	1,244	(410)	(33.0)	3,450
		... leaving operating cash flows to ...		(3,098)	(3,325)	227	6.8	(5,460)
	... build up assets in the NZS Fund ...		(250)	(250)	-	-	(250)	
	... meet the capital expenditure budget ...		(971)	(1,070)	99	9.3	(1,858)	
	... and make advances (e.g. to students and DHBs)		(869)	(879)	10	1.1	(2,523)	
	With the residual cash ...		(5,188)	(5,524)	336	6.1	(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 ...		513	189	(324)	(171.4)	161
		... results in a closing net debt ...		22,820	22,832	12	0.1	27,371
		... and as a % of GDP		12.3%	12.3%			14.8%

¹ GDP for the seven months ended 31 January 2010 (actual and forecast) is the actual data for the year ended 30 September 2009 (Source: Statistics New Zealand) prorated for seven 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

	January 2010 Actual \$m	January 2009 Actual \$m	Change ¹ \$m	Change %
Statement of Financial Performance				
Core Crown revenue				
Taxation revenue	29,057	32,413	(3,356)	(10.4)
Other revenue	3,344	2,837	507	17.9
Total Core Crown Revenue	32,401	35,250	(2,849)	(8.1)
Core Crown expenses				
Social security and welfare	12,127	10,989	1,138	10.4
GSF pension expenses	191	385	(194)	(50.4)
Health	7,618	7,087	531	7.5
Education	6,412	5,967	445	7.5
Core government services	1,760	1,924	(164)	(8.5)
Law and order	1,822	1,748	74	4.2
Defence	1,019	992	27	2.7
Transport and communications	1,141	1,324	(183)	(13.8)
Economic and industrial services	1,641	1,837	(196)	(10.7)
Primary services	330	309	21	6.8
Heritage, culture and recreation	546	606	(60)	(9.9)
Housing and community development	199	169	30	17.8
Other	61	77	(16)	(20.8)
Finance costs	1,302	1,463	(161)	(11.0)
Total Core Crown Expenses	36,169	34,877	1,292	3.7
Net surplus of SOE/CE's	407	227	180	79.3
OBEGAL	(3,361)	600	(3,961)	-
Total gains/(losses)	2,754	(6,301)	9,055	143.7
Other operating items	(23)	182	(205)	(112.6)
Operating Balance	(630)	(5,519)	4,889	88.6
Core Crown residual cash	(5,188)	(5,776)	588	10.2
Debt indicators				
Gross debt²	48,791	45,409	3,381	7.4
Net debt³	22,820	13,111	9,709	74.1

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 seven months ended 31 January 2010 has decreased by \$3.4 billion (10.4%) on the same period last year. The decrease was primarily in corporate, source deductions, other individuals' tax and other direct taxes. 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 2008 and 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 lower resident withholding tax on interest income.

Total **core Crown expenses** have increased by \$1.3 billion (3.7%) 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	+ \$1.1 billion	<ul style="list-style-type: none">• Indexation of welfare benefits and higher beneficiary recipient numbers
Health	+ \$0.5 billion	<ul style="list-style-type: none">• Funding provided in the 2009 Budget to maintain and improve existing service levels
Education	+ \$0.4 billion	<ul style="list-style-type: none">• Higher demand-driven expenses from roll growth• Funding provided in the 2009 Budget
Transport and communications	- \$0.2 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	+ \$1.3 billion	

Total gains and losses were in a net gain position of \$2.8 billion for the period ended 31 January 2010, compared to a net loss of \$6.3 billion for the same period last year. The \$9.1 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 seven months ended 31 January 2010

Year to 30 Jun 2009	7 Months to 31 Jan 2009		Note	Current Year Actual vs Forecast				Annual Forecast \$m
				Actual \$m	Forecast \$m	Variance \$m	%	
		Revenue						
54,145	32,156	Taxation revenue	1	28,775	28,754	21	0.1	50,843
4,118	2,333	Other sovereign revenue	1	2,702	2,637	65	2.5	4,634
58,263	34,489	Total Revenue Levied through the Crown's Sovereign Power		31,477	31,391	86	0.3	55,477
15,356	9,042	Sales of goods and services		8,227	8,030	197	2.5	14,005
3,419	2,122	Interest revenue and dividends	2	1,596	1,949	(353)	(18.1)	3,659
2,890	1,775	Other revenue		1,544	1,647	(103)	(6.3)	2,831
21,665	12,939	Total revenue earned through the Crown's operations		11,367	11,626	(259)	(2.2)	20,495
79,928	47,428	Total revenue (excluding gains)		42,844	43,017	(173)	(0.4)	75,972
		Expenses						
19,962	11,590	Social assistance and official development assistance	3	12,345	12,394	49	0.4	21,533
18,064	10,636	Personnel expenses	4	10,690	10,772	82	0.8	18,201
4,305	2,474	Depreciation and amortisation	5	2,370	2,414	44	1.8	4,201
34,116	17,970	Other operating expenses	5	17,373	18,001	628	3.5	33,487
3,492	2,219	Interest expenses	6	1,817	2,090	273	13.1	3,906
3,882	1,939	Insurance expenses	7	1,610	1,791	181	10.1	3,246
-	-	Forecast new operating spending	5	-	-	-	-	13
-	-	Top-down expense adjustment	5	-	(201)	(201)	(100.0)	(1,150)
83,821	46,828	Total expenses (excluding losses)		46,205	47,261	1,056	2.2	83,437
(3,893)	600	Operating balance before gains/(losses)		(3,361)	(4,244)	883	20.8	(7,465)
(2,634)	(2,239)	Net gains/(losses) on financial instruments	8	2,647	2,377	270	11.4	2,685
(4,167)	(4,062)	Net gains/(losses) on non-financial instruments	9	107	(228)	335	146.9	(112)
(6,801)	(6,301)	Total gains/(losses)		2,754	2,149	605	28.2	2,573
212	178	Net surplus/(deficit) from associates and joint ventures		(23)	31	(54)	(174.2)	99
(10,482)	(5,523)	Operating balance from continuing activities		(630)	(2,064)	1,434	69.5	(4,793)
2	4	Gain/(loss) from discontinued operations	4	-	-	-	-	(1)
(10,480)	(5,519)	Operating balance (including minority interest)		(630)	(2,064)	1,434	69.5	(4,794)
(25)	-	Attributable to minority interest in Air New Zealand		-	-	-	-	-
(10,505)	(5,519)	Operating balance	10	(630)	(2,064)	1,434	69.5	(4,794)

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

ANALYSIS OF EXPENSES BY FUNCTIONAL CLASSIFICATION

for the seven months ended 31 January 2010

Year to 30 Jun 2009 Actual \$m	7 Months to 31 Jan 2009 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
		Total Crown expenses					
23,273	12,961	Social security and welfare	13,737	14,009	272	1.9	24,268
655	385	GSF pension expenses	195	222	27	12.2	368
12,042	6,953	Health	7,409	7,357	(52)	(0.7)	12,889
12,465	6,632	Education	6,971	7,030	59	0.8	12,358
5,137	1,886	Core government services	1,758	2,033	275	13.5	3,957
3,250	1,850	Law and order	1,936	1,981	45	2.3	3,473
1,712	961	Defence	992	1,014	22	2.2	1,796
9,023	5,295	Transport and communications	4,553	4,587	34	0.7	8,421
7,695	4,756	Economic and industrial services	4,061	4,179	118	2.8	7,690
1,487	845	Primary services	860	864	4	0.5	1,628
2,397	1,410	Heritage, culture and recreation	1,239	1,264	25	2.0	2,358
1,075	604	Housing and community development	616	630	14	2.2	1,031
118	71	Other	61	202	141	69.8	431
3,492	2,219	Finance costs	1,817	2,090	273	13.1	3,906
-	-	Forecast new operating spending	-	-	-	-	13
-	-	Top-down expense adjustment	-	(201)	(201)	(100.0)	(1,150)
83,821	46,828	Total Crown expenses excluding losses	46,205	47,261	1,056	2.2	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	7 Months to 31 Jan 2009 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
		Core Crown expenses					
19,382	10,989	Social security and welfare	12,127	12,154	27	0.2	21,155
655	385	GSF pension expenses	191	216	25	11.6	357
12,368	7,087	Health	7,618	7,638	20	0.3	13,434
11,455	5,967	Education	6,412	6,456	44	0.7	11,649
5,293	1,984	Core government services	1,820	2,103	283	13.5	4,071
3,089	1,748	Law and order	1,822	1,870	48	2.6	3,269
1,757	992	Defence	1,019	1,042	23	2.2	1,844
2,663	1,324	Transport and communications	1,141	1,233	92	7.5	2,807
2,960	1,837	Economic and industrial services	1,641	1,720	79	4.6	3,167
534	309	Primary services	270	281	11	3.9	589
1,002	606	Heritage, culture and recreation	546	574	28	4.9	1,142
297	169	Housing and community development	199	201	2	1.0	338
118	77	Other	61	207	146	70.5	431
2,429	1,463	Finance costs	1,302	1,353	51	3.8	2,404
-	-	Forecast new operating spending	-	-	-	-	13
-	-	Top-down expense adjustment	-	(201)	(201)	(100.0)	(1,150)
64,002	34,937	Total core Crown expenses excluding losses	36,169	36,847	678	1.8	65,520

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

STATEMENT OF CASH FLOWS

for the seven months ended 31 January 2010

Year to 30 Jun 2009 Actual \$m	7 Months to 31 Jan 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	30,603	Taxation receipts	28,992	29,010	(18)	(0.1)	50,967
3,716	2,332	Other sovereign receipts	2,613	2,559	54	2.1	4,379
16,592	10,138	Sales of goods and services	8,908	8,747	161	1.8	14,704
2,792	1,982	Interest and dividends	1,690	1,320	370	28.0	2,642
2,204	1,605	Other operating receipts	1,343	1,524	(181)	(11.9)	2,288
76,423	46,660	Total cash provided from operations	43,546	43,160	386	0.9	74,980
		Cash was disbursed to					
		Social assistance and official development assistance					
19,673	11,497		12,541	12,555	14	0.1	21,462
50,391	30,434	Personnel and operating payments	30,251	30,676	425	1.4	52,791
2,880	2,007	Interest payments	1,531	1,359	(172)	(12.7)	2,986
-	-	Forecast new operating spending	-	-	-	-	13
-	-	Top-down expense adjustment	-	(201)	(201)	(100.0)	(1,150)
72,944	43,938	Total cash disbursed to operations	44,323	44,389	66	0.1	76,102
3,479	2,722	Net cash flows from operations	(777)	(1,229)	452	36.8	(1,122)
		Cash Flows From Investing Activities					
		Cash was provided from/(disbursed to)					
(5,437)	(2,986)	Net purchase of physical assets	(3,421)	(3,880)	459	11.8	(7,357)
(2,338)	(1,992)	Net purchase of shares and other securities	673	81	592	-	761
(433)	(187)	Net purchase of intangible assets	(184)	(190)	6	3.2	(381)
(1,129)	(87)	Net (issue)/repayment of advances	519	141	378	268.1	(801)
(399)	(274)	Net acquisition of investments in associates	24	20	4	20.0	(127)
-	-	Capital contingency provision	-	-	-	-	(38)
-	-	Top-down capital adjustment	-	100	(100)	(100.0)	550
(9,736)	(5,526)	Net cash flows from investing activities	(2,389)	(3,728)	1,339	35.9	(7,393)
(6,257)	(2,804)	Net cash flows from operating and investing activities	(3,166)	(4,957)	1,791	36.1	(8,515)
		Cash Flows From Financing Activities					
		Cash was provided from/(disbursed to)					
475	527	Issues of circulating currency	174	(25)	199	-	16
2,344	(1,084)	Net issue/(repayment) of Government stock ¹	3,119	3,595	(476)	(13.2)	6,721
(1,836)	(2,936)	Net issue/(repayment) of foreign currency borrowing	2,781	(2,502)	5,283	211.2	(5,098)
7,752	9,615	Net issue/(repayment) of other New Zealand dollar borrowing	(2,629)	6,232	(8,861)	(142.2)	8,885
8,735	6,122	Net cash flows from financing activities	3,445	7,300	(3,855)	(52.8)	10,524
2,478	3,318	Net movement in cash	279	2,343	(2,064)	(88.1)	2,009
3,804	3,804	Opening Cash Balance	6,268	6,268	-	-	6,268
(14)	89	Foreign-exchange gains/(losses) on opening cash	(214)	(241)	27	11.2	(280)
6,268	7,211	Closing Cash Balance	6,333	8,370	(2,037)	(24.3)	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 seven months ended 31 January 2010

Year to 30 Jun 2009 Actual \$m	7 Months to 31 Jan 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	2,722	Net Cash Flows from Operations	(777)	(1,229)	452	36.8	(1,122)
<i>Items included in the operating balance but not in net cash flows from operations.</i>							
Gains/(losses)							
(2,634)	(2,239)	Gains/(losses) on other financial instruments	2,647	2,377	270	11.4	2,685
(4,167)	(4,062)	Gains/(losses) on other non-financial instruments	107	(228)	335	146.9	(112)
(6,801)	(6,301)	Total gains/(losses)	2,754	2,149	605	28.2	2,573
Other Non-cash Items in Operating Balance							
(4,305)	(2,474)	Depreciation and amortisation	(2,370)	(2,414)	44	1.8	(4,201)
(630)	(231)	Write-down on initial recognition of loans Impairment on financial assets (excluding receivables)	(299)	(314)	15	4.8	(847)
(851)	10	Decrease/(increase) in defined benefit retirement plan liabilities	1	4	(3)	(75.0)	4
(41)	(6)	Decrease/(increase) in insurance liabilities	173	152	21	13.8	279
(1,592)	705	Other	1,202	1,137	65	5.7	(509)
212	181		(23)	34	(57)	(167.6)	99
(7,207)	(1,815)	Total other non-cash Items	(1,316)	(1,401)	85	6.1	(5,175)
Movements in Working Capital							
461	(1,926)	Increase/(decrease) in receivables	(2,605)	(2,012)	(593)	(29.5)	(1,756)
16	(71)	Increase/(decrease) in accrued interest	(379)	(103)	(276)	(268.0)	98
118	120	Increase/(decrease) in inventories	59	30	29	96.7	50
31	216	Increase/(decrease) in prepayments	194	63	131	207.9	(36)
(134)	(709)	Decrease/(increase) in deferred revenue	(151)	(220)	69	31.4	124
(468)	2,245	Decrease/(increase) in payables	1,591	659	932	141.4	450
24	(125)	Total movements in working capital	(1,291)	(1,583)	292	18.4	(1,070)
(10,505)	(5,519)	Operating Balance	(630)	(2,064)	1,434	69.5	(4,794)

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

STATEMENT OF COMPREHENSIVE INCOME

for the seven months ended 31 January 2010

Year to 30 Jun 2009 Actual \$m	7 Months to 31 Jan 2009 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
4,235	311	Revaluation of physical assets	6	112	(106)	(94.6)	232
333	492	Effective portion of changes in value of cash flow hedges	(194)	(130)	(64)	(49.2)	(148)
-	(1)	Net change in fair value of cash flow hedges transferred to operating balance	-	-	-	-	-
(153)	(45)	Net change in fair value of cash flow hedges transferred to the hedged item	21	(22)	43	195.5	(21)
15	93	Foreign currency translation differences for foreign operations	(15)	(17)	2	11.8	25
22	62	Valuation gains/(losses) on investments available for sale taken to reserves	-	(8)	8	100.0	(7)
-	-	Other movements	-	-	-	-	7
4,452	912	Comprehensive income for the year	(182)	(65)	(117)	(180.0)	88
(10,480)	(5,519)	Operating Balance (including minority interest)	(630)	(2,064)	1,434	69.5	(4,794)
(6,028)	(4,607)	Total comprehensive income	(812)	(2,129)	1,317	61.9	(4,706)
		Attributable to:					
34	-	- minority interest in Air New Zealand	-	-	-	-	-
(6,062)	(4,607)	- the Crown	(812)	(2,129)	1,317	61.9	(4,706)
(6,028)	(4,607)	Total comprehensive income	(812)	(2,129)	1,317	61.9	(4,706)

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

STATEMENT OF FINANCIAL POSITION

as at 31 January 2010

As at 30 Jun 2009 Actual \$m	As at 31 Jan 2009 Actual \$m		Current Year Actual vs Forecast					
			Note	Actual \$m	Forecast \$m	Variance \$m	%	Annual Forecast \$m
		Assets						
6,268	7,211	Cash and cash equivalents	11	6,333	8,370	(2,037)	(24.3)	7,997
14,619	12,232	Receivables	11	11,884	12,211	(327)	(2.7)	12,862
		Marketable securities, deposits and						
		derivatives in gain	11	44,427	47,065	(2,638)	(5.6)	45,149
11,160	10,912	Share investments	11	13,124	12,864	260	2.0	13,357
15,604	14,716	Advances	11	17,150	17,075	75	0.4	18,132
1,082	1,084	Inventory		1,141	1,111	30	2.7	1,132
1,630	2,028	Other assets		1,748	1,603	145	9.0	1,507
110,135	105,100	Property, plant & equipment	12	111,182	111,949	(767)	(0.7)	114,221
8,777	8,481	Equity accounted investments ¹		8,796	8,835	(39)	(0.4)	8,960
2,168	1,844	Intangible assets and goodwill ²		2,120	2,178	(58)	(2.7)	2,312
-	-	Forecast for new capital spending		-	-	-	-	38
-	-	Top-down capital adjustment		-	(100)	100	100.0	(550)
217,151	217,432	Total assets		217,905	223,161	(5,256)	(2.4)	225,117
		Liabilities						
4,005	4,057	Issued currency		4,179	3,980	(199)	(5.0)	4,021
9,139	8,494	Payables	14	7,464	9,426	1,962	20.8	10,530
1,426	2,000	Deferred revenue		1,577	1,646	69	4.2	1,302
61,953	64,953	Borrowings		66,568	70,823	4,255	6.0	73,389
26,567	22,903	Insurance liabilities	15	25,110	25,517	407	1.6	27,037
8,993	9,252	Retirement plan liabilities		9,014	9,047	33	0.4	8,921
5,553	4,868	Provisions	16	5,293	5,336	43	0.8	5,108
117,636	116,527	Total liabilities		119,205	125,775	6,570	5.2	130,308
99,515	100,905	Total assets less total liabilities		98,700	97,386	1,314	1.3	94,809
		Net Worth						
36,382	41,238	Taxpayer funds	17	35,961	34,425	1,536	4.5	31,702
62,612	58,819	Revaluation reserve	17	62,406	62,615	(209)	(0.3)	62,737
74	466	Other reserves	17	(114)	(101)	(13)	(12.9)	(77)
99,068	100,523	Total net worth attributable to the Crown		98,253	96,939	1,314	1.4	94,362
		Net worth attributable to minority						
447	382	in Air New Zealand		447	447	-	-	447
99,515	100,905	Total net worth		98,700	97,386	1,314	1.3	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 31 January 2010

As at 30 Jun 2009 Actual \$m	As at 31 Jan 2009 Actual \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
21,164	18,450	Government stock ¹	24,478	24,270	(208)	(0.9)	27,033
7,432	4,122	Treasury bills	8,004	10,092	2,088	20.7	9,535
491	594	Government retail stock	349	436	87	20.0	435
6,908	8,683	Settlement deposits with Reserve Bank	7,618	6,338	(1,280)	(20.2)	6,338
2,158	6,444	Derivatives in loss	2,274	1,683	(591)	(35.1)	1,259
1,002	1,121	Finance lease liabilities	923	947	24	2.5	1,046
22,798	25,539	Other borrowings	22,922	27,057	4,135	15.3	27,743
61,953	64,953	Total borrowings	66,568	70,823	4,255	6.0	73,389
44,448	46,818	Sovereign-guaranteed debt	47,629	51,008	3,379	6.6	53,007
17,505	18,135	Non sovereign-guaranteed debt	18,939	19,815	876	4.4	20,382
61,953	64,953	Total borrowings	66,568	70,823	4,255	6.0	73,389
		Net Debt:					
50,545	53,249	Core Crown borrowings ²	54,449	57,531	3,082	5.4	59,919
428	(674)	Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings	420	619	199	32.1	166
50,973	52,575	Gross sovereign-issued debt³	54,869	58,150	3,281	5.6	60,085
55,769	61,723	Less core Crown financial assets ⁴	57,109	59,882	(2,773)	(4.6)	58,600
(4,796)	(9,148)	Net core Crown debt (incl NZS Fund)⁵	(2,240)	(1,732)	508	29.3	1,485
11,486	11,437	Add back NZS Fund holdings of core Crown financial assets and NZS Fund fin assets ⁶	14,300	13,858	442	3.2	14,811
6,690	2,289	Net core Crown debt (excl NZS Fund)⁵	12,060	12,126	66	0.5	16,296
10,429	10,822	Advances	10,760	10,706	(54)	(0.5)	11,075
17,119	13,111	Net core Crown debt (excl NZS Fund and advances)⁷	22,820	22,832	12	0.1	27,371
		Gross Debt:					
50,973	52,575	Gross sovereign-issued debt ³	54,869	58,150	3,281	5.6	60,085
(9,217)	(8,766)	Less Reserve Bank settlement cash and Reserve Bank bills	(7,678)	(8,034)	(355)	(4.4)	(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	45,409	Gross sovereign-issued debt excluding Reserve Bank settlement cash and Reserve bank bills	48,791	51,716	2,926	5.7	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 31 January 2010

	As at 31 Jan 2010 \$m	As at 30 Jun 2009 \$m	As at 31 Jan 2009 \$m
Capital Commitments			
Specialist military equipment	556	699	758
Land and buildings	750	699	1,239
Other property, plant and equipment	4,665	4,859	4,037
Other capital commitments	427	429	366
Tertiary Education Institutions	245	245	209
Total capital commitments	6,643	6,931	6,609
Operating Commitments			
Non-cancellable accommodation leases	2,655	2,366	2,423
Other non-cancellable leases	2,126	2,630	2,673
Non-cancellable contracts for the supply of goods and services	2,206	2,256	2,409
Other operating commitments	10,251	9,731	6,913
Tertiary Education Institutions	335	335	315
Total operating commitments	17,573	17,318	14,733
Total commitments	24,216	24,249	21,342
Total Commitments by Segment			
Core Crown	13,445	20,300	13,829
Crown entities	15,193	15,972	13,475
State-owned Enterprises	5,447	5,706	4,801
Inter-segment eliminations	(9,869)	(17,729)	(10,763)
Total commitments	24,216	24,249	21,342

STATEMENT OF CONTINGENT LIABILITIES AND ASSETS

as at 31 January 2010

	As at 31 Jan 2010 \$m	As at 30 Jun 2009 \$m	As at 31 Jan 2009 \$m
Quantifiable Contingent Liabilities			
Guarantees and indemnities	110	96	1,011
Uncalled capital	2,331	2,506	3,287
Legal proceedings and disputes	344	1,754	327
Other contingent liabilities	3,907	4,133	2,456
Total quantifiable contingent liabilities	6,692	8,489	7,081
Total Quantifiable Contingent Liabilities by Segment			
Core Crown	6,501	8,287	6,905
Crown entities	79	90	109
State-owned Enterprises	112	112	67
Inter-segment eliminations	-	-	-
Total quantifiable contingent liabilities	6,692	8,489	7,081
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	7 Months to 31 Jan 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	13,732	PAYE	12,945	13,006	(61)	(0.5)	22,353
4,408	2,840	Other persons	2,273	2,511	(238)	(9.5)	4,428
(1,636)	(891)	Refunds	(983)	(1,043)	60	5.8	(1,886)
500	291	Fringe benefit tax	274	286	(12)	(4.2)	501
25,859	15,972	Total individuals	14,509	14,760	(251)	(1.7)	25,396
Corporate Tax							
8,245	3,887	Gross companies tax	2,966	2,851	115	4.0	6,301
(430)	(199)	Refunds	(197)	(182)	(15)	(8.2)	(360)
1,451	984	Non-resident withholding tax	639	624	15	2.4	1,060
10	(6)	Foreign-source dividend w/holding payments	(3)	(1)	(2)	(200.0)	3
9,276	4,666	Total corporate tax	3,405	3,292	113	3.4	7,004
Other Income Tax							
2,571	1,662	Resident w/holding tax on interest income	983	1,037	(54)	(5.2)	1,872
65	39	Resident w/holding tax on dividend income	74	86	(12)	(14.0)	146
1	1	Estate and gift duties	1	1	-	-	1
2,637	1,702	Total other income tax	1,058	1,124	(66)	(5.9)	2,019
37,772	22,340	Total income tax	18,972	19,176	(204)	(1.1)	34,419
Goods and Services Tax							
20,551	12,623	Gross goods and services tax	11,513	11,287	226	2.0	18,835
(9,000)	(5,785)	Refunds	(4,648)	(4,681)	33	0.7	(7,428)
11,551	6,838	Total goods and services tax	6,865	6,606	259	3.9	11,407
Other Taxation							
868	517	Road user charges	514	517	(3)	(0.6)	900
781	487	Petroleum fuels excise - domestic production	512	523	(11)	(2.1)	856
616	380	Alcohol excise - domestic production	371	371	-	-	640
172	142	Tobacco excise - domestic production	135	124	11	8.9	185
514	281	Petroleum fuels excise - imports ¹	336	278	58	20.9	547
213	143	Alcohol excise - imports ¹	141	138	3	2.2	219
891	540	Tobacco excise - imports ¹	523	574	(51)	(8.9)	904
262	166	Other customs duty	109	139	(30)	(21.6)	235
215	128	Gaming duties	134	140	(6)	(4.3)	239
171	125	Motor vehicle fees	98	97	1	1.0	166
80	47	Approved issuer levy and cheque duty	42	49	(7)	(14.3)	88
39	22	Energy resources levies	23	22	1	4.5	38
4,822	2,978	Total other indirect taxation	2,938	2,972	(34)	(1.1)	5,017
16,373	9,816	Total indirect taxation	9,803	9,578	225	2.3	16,424
54,145	32,156	Total taxation revenue	28,775	28,754	21	0.1	50,843
Other Sovereign Revenue (accrual)							
2,880	1,595	ACC levies	1,857	1,830	27	1.5	3,248
299	186	Fire Service levies	188	187	1	0.5	302
86	50	EQC levies	50	51	(1)	(2.0)	88
853	502	Other miscellaneous items	607	569	38	6.7	996
4,118	2,333	Total other sovereign revenue	2,702	2,637	65	2.5	4,634
58,263	34,489	Total sovereign revenue	31,477	31,391	86	0.3	55,477

1. Customs excise-equivalent duty

NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2009	7 Months to 31 Jan 2009	Current Year Actual vs Forecast				Annual Forecast \$m	
		Actual \$m	Actual \$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	13,678	PAYE	12,752	12,973	(221)	(1.7)	22,305
4,988	2,627	Other persons	2,404	2,522	(118)	(4.7)	4,939
(2,488)	(1,468)	Refunds	(1,811)	(1,677)	(134)	(8.0)	(2,537)
506	372	Fringe benefit tax	337	350	(13)	(3.7)	491
25,573	15,209	Total individuals	13,682	14,168	(486)	(3.4)	25,198
Corporate Tax							
7,742	4,263	Gross companies tax	5,034	4,669	365	7.8	8,111
(2,013)	(864)	Refunds	(853)	(803)	(50)	(6.2)	(1,501)
1,437	916	Non-resident withholding tax	653	638	15	2.4	1,059
(2)	(7)	Foreign-source dividend w/holding payments	6	9	(3)	(33.3)	13
7,164	4,308	Total corporate tax	4,840	4,513	327	7.2	7,682
Other Income Tax							
2,593	1,661	Resident w/holding tax on interest income	1,035	1,052	(17)	(1.6)	1,838
97	47	Resident w/holding tax on dividend income	77	81	(4)	(4.9)	146
2	1	Estate and gift duties	1	1	-	-	2
2,692	1,709	Total other income tax	1,113	1,134	(21)	(1.9)	1,986
35,429	21,226	Total income tax	19,635	19,815	(180)	(0.9)	34,866
Goods and Services Tax							
19,715	12,004	Gross goods and services tax	10,802	10,853	(51)	(0.5)	18,525
(8,894)	(5,598)	Refunds	(4,340)	(4,559)	219	4.8	(7,428)
10,821	6,406	Total goods and services tax	6,462	6,294	168	2.7	11,097
Other Taxation							
864	515	Road user charges	514	517	(3)	(0.6)	900
786	471	Petroleum fuels excise	479	496	(17)	(3.4)	836
587	361	Alcohol excise	383	381	2	0.5	640
170	155	Tobacco excise	149	135	14	10.4	185
1,957	1,117	Other customs duty	1,061	1,061	-	-	1,905
227	136	Gaming duties	134	140	(6)	(4.3)	240
165	136	Motor vehicle fees	111	97	14	14.4	166
36	20	Energy resources levies	20	22	(2)	(9.1)	44
77	60	Approved issuer levy and cheque duty	44	52	(8)	(15.4)	88
4,869	2,971	Total other indirect taxation	2,895	2,901	(6)	(0.2)	5,004
15,690	9,377	Total indirect taxation	9,357	9,195	162	1.8	16,101
51,119	30,603	Total tax receipts collected	28,992	29,010	(18)	(0.1)	50,967
Other Sovereign Receipts (cash)							
2,792	1,765	ACC levies	2,026	1,970	56	2.8	3,362
300	186	Fire Service levies	188	187	1	0.5	302
87	51	EQC levies	52	51	1	2.0	88
537	330	Other miscellaneous items	347	351	(4)	(1.1)	627
3,716	2,332	Total other sovereign receipts	2,613	2,559	54	2.1	4,379
54,835	32,935	Total sovereign receipts	31,605	31,569	36	0.1	55,346

NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2009	7 Months to 31 Jan 2009	Current Year Actual vs Forecast				Annual Forecast \$m
		Actual \$m	Actual \$m	Forecast \$m	Variance \$m	
NOTE 2: Interest Revenue and Dividends						
<i>By type</i>						
3,000	1,923	1,413	1,739	(326)	(18.7)	3,228
419	199	183	210	(27)	(12.9)	431
3,419	2,122	1,596	1,949	(353)	(18.1)	3,659
<i>By source</i>						
1,872	1,151	1,404	1,444	(40)	(2.8)	2,312
1,248	1,037	561	506	55	10.9	881
1,193	764	596	762	(166)	(21.8)	1,530
(894)	(830)	(965)	(763)	(202)	(26.5)	(1,064)
3,419	2,122	1,596	1,949	(353)	(18.1)	3,659
NOTE 3: Social Assistance and Official Development Assistance						
7,744	4,488	4,815	4,818	3	0.1	8,296
1,530	887	986	986	-	-	1,696
586	303	553	559	6	1.1	974
1,260	741	764	762	(2)	(0.3)	1,309
2,062	1,187	1,270	1,263	(7)	(0.6)	2,186
989	562	673	676	3	0.4	1,170
613	352	414	415	1	0.2	723
444	222	297	294	(3)	(1.0)	534
390	226	242	242	-	-	416
1,281	933	600	595	(5)	(0.8)	1,138
2,605	1,360	1,446	1,472	26	1.8	2,617
19,504	11,261	12,060	12,082	22	0.2	21,059
458	329	285	312	27	8.7	474
19,962	11,590	12,345	12,394	49	0.4	21,533
NOTE 4: Personnel Expenses						
6,037	3,651	3,521	3,606	85	2.4	5,899
9,592	5,577	5,763	5,753	(10)	(0.2)	9,884
2,447	1,414	1,411	1,417	6	0.4	2,425
(12)	(6)	(5)	(4)	1	25.0	(7)
18,064	10,636	10,690	10,772	82	0.8	18,201
NOTE 5: Operating Expenses						
<i>By type</i>						
4,305	2,474	2,370	2,414	44	1.8	4,201
34,116	17,970	17,373	18,001	628	3.5	33,487
-	-	-	-	-	-	13
-	-	-	(201)	(201)	(100.0)	(1,150)
38,421	20,444	19,743	20,214	471	2.3	36,551
<i>By source</i>						
35,292	18,076	18,841	19,336	495	2.6	35,412
17,332	8,973	10,189	10,017	(172)	(1.7)	18,146
10,172	6,114	5,327	5,429	102	1.9	9,493
(24,375)	(12,719)	(14,614)	(14,568)	46	0.3	(26,500)
38,421	20,444	19,743	20,214	471	2.3	36,551

NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2009 Actual \$m	7 Months to 31 Jan 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	2,140	Interest on financial liabilities	1,774	2,046	272	13.3	3,830
88	79	Interest unwind on provisions	43	44	1	2.3	76
3,492	2,219	Total interest expenses	1,817	2,090	273	13.1	3,906
		<i>By source</i>					
2,429	1,463	Core Crown	1,302	1,353	51	3.8	2,404
185	138	Crown entities	97	98	1	1.0	136
1,392	1,033	State-owned Enterprises	706	872	166	19.0	1,741
(514)	(415)	Inter-segment eliminations	(288)	(233)	55	23.6	(375)
3,492	2,219	Total interest expenses	1,817	2,090	273	13.1	3,906
		NOTE 7: Insurance Expenses					
		<i>By entity</i>					
3,762	1,861	ACC	1,557	1,758	201	11.4	3,190
88	64	EQC	39	23	(16)	(69.6)	39
32	14	Other insurance expenses	14	10	(4)	(40.0)	17
3,882	1,939	Total insurance expenses	1,610	1,791	181	10.1	3,246
		NOTE 8: Gains and Losses on Financial Instruments					
		<i>By source</i>					
(1,616)	(1,322)	Core Crown	1,803	1,670	133	8.0	2,117
(669)	(271)	Crown entities	980	696	284	40.8	682
(138)	(402)	State-owned Enterprises	(35)	83	(118)	(142.2)	7
(211)	(244)	Inter-segment eliminations	(101)	(72)	(29)	(40.3)	(121)
(2,634)	(2,239)	Net gains/(losses) on financial instruments	2,647	2,377	270	11.4	2,685
		NOTE 9: Gains and Losses on Non-Financial Instruments					
		<i>By type</i>					
(695)	(989)	Actuarial gains/(losses) on GSF liability	(194)	(206)	12	5.8	(206)
(4,491)	(3,124)	Actuarial gains/(losses) on ACC liability	255	(87)	342	393.1	39
1,019	51	Other	46	65	(19)	(29.2)	55
(4,167)	(4,062)	Net gains/(losses) on non-financial instruments	107	(228)	335	146.9	(112)
		<i>By source</i>					
125	(1,024)	Core Crown	(212)	(220)	8	3.6	(287)
(4,475)	(3,120)	Crown entities	237	(100)	337	337.0	17
200	82	State-owned Enterprises	82	92	(10)	(10.9)	158
(17)	-	Inter-segment eliminations	-	-	-	-	-
(4,167)	(4,062)	Net gains/(losses) on non-financial instruments	107	(228)	335	146.9	(112)
		NOTE 10: Operating Balance					
		<i>By source</i>					
(5,862)	(1,943)	Core Crown	(2,235)	(3,110)	875	28.1	(6,914)
(4,727)	(2,618)	Crown entities	2,097	1,295	802	61.9	1,966
911	242	State-owned Enterprises	552	588	(36)	(6.1)	987
(827)	(1,200)	Inter-segment eliminations	(1,044)	(837)	(207)	(24.7)	(833)
(10,505)	(5,519)	Total operating balance	(630)	(2,064)	1,434	69.5	(4,794)

NOTES TO THE FINANCIAL STATEMENTS

As at 30 June 2009 \$m	As at 31 Jan 2009 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 11: Financial Assets							
6,268	7,211	Cash and cash equivalents	6,333	8,370	(2,037)	(24.3)	7,997
7,649	7,422	Tax receivables	6,407	7,265	(858)	(11.8)	6,245
6,970	4,810	Trade and other receivables	5,477	4,946	531	10.7	6,617
6,553	6,899	Student loans	6,676	6,680	(4)	(0.1)	6,937
8,492	7,106	Kiwibank mortgages	9,820	9,830	(10)	(0.1)	10,632
3,136	3,402	Long-term deposits	2,103	2,536	(433)	(17.1)	2,480
454	387	Reserve position at the IMF	2,279	2,263	16	0.7	2,261
559	711	Other loans	654	565	89	15.8	563
11,160	10,912	Share investments	13,124	12,864	260	2.0	13,357
3,745	4,701	Derivatives in gain	2,827	3,236	(409)	(12.6)	2,575
38,373	45,334	Other marketable securities	37,218	39,030	(1,812)	(4.6)	37,833
93,359	98,895	Total financial assets	92,918	97,585	(4,667)	(4.8)	97,497
Financial assets by entity							
22,831	21,196	NZDMO	22,876	25,274	(2,398)	(9.5)	22,956
22,372	30,756	Reserve Bank of New Zealand	19,309	19,776	(467)	(2.4)	19,862
12,877	12,540	NZ Superannuation Fund	15,419	14,644	775	5.3	14,836
17,399	17,620	Other core Crown	16,700	17,152	(452)	(2.6)	17,503
(9,866)	(10,960)	Intra-segment eliminations	(8,721)	(8,002)	(719)	(9.0)	(8,598)
65,613	71,152	Total core Crown segment	65,583	68,844	(3,261)	(4.7)	66,559
14,281	12,462	ACC portfolio	14,380	14,048	332	2.4	16,069
5,639	5,872	EQC portfolio	5,920	5,832	88	1.5	5,968
6,924	7,568	Other Crown entities	6,522	6,585	(63)	(1)	6,489
(1,521)	(656)	Intra-segment eliminations	(1,378)	(1,507)	129	8.6	(1,513)
25,323	25,246	Total Crown entities segment	25,444	24,958	486	1.9	27,013
14,702	15,458	Total State-owned enterprises segment	15,628	16,253	(625)	(3.8)	16,755
(12,279)	(12,961)	Inter-segment eliminations	(13,737)	(12,470)	(1,267)	(10.2)	(12,830)
93,359	98,895	Total financial assets	92,918	97,585	(4,667)	(4.8)	97,497
NOTE 12: Property, Plant and Equipment							
By Class of asset							
Net Carrying Value							
16,289	17,787	Land (valuation)	16,480	16,407	73	0.4	16,618
23,719	22,543	Buildings (valuation)	23,737	23,865	(128)	(0.5)	24,490
2,046	1,987	Electricity distribution network (cost)	2,298	2,145	153	7.1	2,297
11,664	11,497	Electricity generation assets (valuation)	11,684	11,929	(245)	(2.1)	12,103
1,952	1,910	Aircraft (excl military) (valuation)	1,985	1,909	76	4.0	2,171
24,067	21,306	State highways (valuation)	24,450	24,441	9	-	24,830
12,506	11,879	Rail network (valuation)	12,699	12,989	(290)	(2.2)	12,882
3,927	3,224	Specialist military equipment (valuation)	3,868	3,995	(127)	(3.2)	4,087
5,383	5,007	Other plant and equipment (cost)	5,381	5,688	(307)	(5.4)	6,129
8,582	7,960	Specified cultural and heritage assets (valuation)	8,600	8,581	19	0.2	8,614
110,135	105,100	Total net carrying value	111,182	111,949	(767)	(0.7)	114,221

NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2009 \$m	7 Months to 31 Jan 2009 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 13: NZ Superannuation Fund							
383	240	Revenue	207	184	23	12.5	355
4	(28)	Less current tax expense	-	110	110	100.0	117
(323)	(961)	Less other expenses ¹	394	328	(66)	(20.1)	481
(3,495)	(4,075)	Add gains/(losses)	1,886	1,557	329	21.1	1,880
(2,793)	(2,846)	Operating balance	1,699	1,303	396	30.4	1,637
14,212	14,212	Opening net worth	13,688	13,688	-	-	13,688
2,243	1,295	Gross contribution from the Crown	250	250	-	-	250
(2,793)	(2,846)	Operating balance	1,699	1,303	396	30.4	1,637
26	76	Other movements in reserves	(2)	(2)	-	-	(2)
13,688	12,737	Closing net worth	15,635	15,239	396	2.6	15,573
<i>comprising:</i>							
12,877	12,540	Financial assets	15,419	14,644	775	5.3	14,836
811	197	Net other assets	216	595	(379)	(63.7)	737
13,688	12,737	Closing net worth	15,635	15,239	396	2.6	15,573
Core Crown revenue (excl NZS Fund)							
59,482	35,250	Core Crown revenue	32,401	32,299	102	0.3	56,751
383	240	Less NZS Fund revenue	207	184	23	12.5	355
4	(28)	Add back NZS Fund intra-segment revenue	-	110	(110)	(100.0)	117
59,103	34,982	Core Crown revenue (excl NZS Fund)	32,194	32,225	(31)	(0.1)	56,513
OBEGAL excluding NZS Fund							
(3,893)	600	Total Crown OBEGAL	(3,361)	(4,244)	883	20.8	(7,465)
383	240	Less NZS Fund revenue	207	184	23	12.5	355
77	55	Less NZS Fund external expenses	43	53	(10)	(18.9)	97
4	(28)	Add back NZS Fund tax	-	110	(110)	(100.0)	117
(4,195)	387	OBEGAL excluding NZS Fund	(3,525)	(4,265)	740	17.4	(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 31 Jan 2009 \$m		Current Year Actual vs Forecast				Annual Forecast \$m
			Actual \$m	Forecast \$m	Variance \$m	%	
NOTE 14: Payables							
5,380	4,975	Accounts payable	4,692	5,667	975	17.2	6,771
3,759	3,519	Taxes repayable	2,772	3,759	987	26.3	3,759
9,139	8,494	Total payables	7,464	9,426	1,962	20.8	10,530
NOTE 15: Insurance liabilities							
26,446	22,738	ACC liability	24,988	25,397	409	1.6	26,919
87	93	EQC liability	83	86	3	3.5	86
34	72	Other insurance liabilities	39	34	(5)	(14.7)	32
26,567	22,903	Total insurance liabilities	25,110	25,517	407	1.6	27,037
NOTE 16: Provisions							
-	550	Provision for Kyoto ¹	-	-	-	-	-
831	-	Provision for the net cost of defaults under the deposit guarantee scheme (refer note 19)	771	899	128	14.2	470
954	982	Provision for National Provident Fund guarantee	941	942	1	0.1	922
2,580	2,273	Provision for employee entitlements	2,479	2,350	(129)	(5.5)	2,496
1,188	1,063	Other provisions	1,102	1,145	43	3.8	1,220
5,553	4,868	Total provisions	5,293	5,336	43	0.8	5,108
<p>¹ The Crown's net Kyoto position as at 31 January 2010 is a \$194 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</p>							
NOTE 17: Changes in Net Worth							
46,700	46,700	Opening taxpayers funds	36,382	36,382	-	-	36,382
(10,505)	(5,519)	Operating balance excluding minority interest	(630)	(2,064)	1,434	69.5	(4,794)
187	57	Transfers from/(to) other reserves	209	107	102	95.3	114
36,382	41,238	Closing taxpayers funds	35,961	34,425	1,536	4.5	31,702
58,566	58,566	Opening revaluation reserve	62,612	62,612	-	-	62,612
4,235	311	Net revaluations	6	112	(106)	(94.6)	232
(189)	(58)	Transfers from/(to) other reserves	(212)	(109)	(103)	(94.5)	(107)
62,612	58,819	Closing revaluation reserve	62,406	62,615	(209)	(0.3)	62,737
(134)	(134)	Opening other reserves	74	74	-	-	74
208	600	Net movements	(188)	(175)	(13)	(7.4)	(151)
74	466	Closing other reserves	(114)	(101)	(13)	(12.9)	(77)

NOTES TO THE FINANCIAL STATEMENTS

Year to 30 Jun 2009 \$m	7 Months to 31 Jan 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	30,512	Total tax receipts	29,199	29,251	(52)	(0.2)	51,503
489	305	Total other sovereign receipts	327	330	(3)	(0.9)	577
1,441	964	Interest, profits and dividends	1,283	930	353	38.0	1,637
2,288	1,247	Sale of goods & services and other receipts	1,694	1,664	30	1.8	2,308
(19,953)	(11,593)	Subsidies and transfer payments	(12,699)	(12,712)	13	0.1	(21,733)
(35,394)	(20,994)	Personnel and operating costs	(21,945)	(21,992)	47	0.2	(38,857)
(2,200)	(1,409)	Finance costs	(957)	(997)	40	4.0	(2,032)
-	-	Forecast for future new operating spending	-	-	-	-	(13)
-	-	Top-down expense adjustment	-	201	(201)	(100.0)	1,150
(1,967)	(968)	Net cash flows from core Crown operations	(3,098)	(3,325)	227	6.8	(5,460)
(1,625)	(894)	Net purchase of physical assets	(971)	(1,170)	199	17.0	(2,370)
(860)	(401)	Net increase in advances	(204)	(240)	36	15.0	(1,244)
(1,944)	(2,219)	Net purchase of investments	(665)	(639)	(26)	(4.1)	(1,279)
(2,243)	(1,294)	Contribution to NZ Superannuation Fund	(250)	(250)	-	-	(250)
-	-	Forecast for future new capital spending	-	-	-	-	(38)
-	-	Top-down capital adjustment	-	100	(100)	(100.0)	550
(8,639)	(5,776)	Residual cash	(5,188)	(5,524)	336	6.1	(10,091)
Financed by:							
(512)	(1,527)	Other net sale/(purchase) of marketable securities and deposits	1,487	165	1,322	-	871
(9,151)	(7,303)	Total operating and investing activities	(3,701)	(5,359)	1,658	30.9	(9,220)
Used in:							
9,359	11,873	Net (repayment)/issue of other New Zealand dollar borrowing	(2,811)	5,829	(8,640)	(148.2)	8,151
(1,973)	(3,216)	Net (repayment)/issue of foreign currency borrowing	2,743	(2,536)	5,279	208.2	(5,137)
475	527	Issues of circulating currency	174	(25)	199	-	16
(1,761)	(1,466)	Decrease/(increase) in cash	(99)	(1,492)	1,393	93.4	(578)
6,100	7,718		7	1,776	(1,769)	(99.6)	2,452
(3,051)	415	Net cash inflow/(outflow) to be offset by domestic bonds	(3,694)	(3,583)	(111)	(3.1)	(6,768)
Gross Cash Proceeds from Domestic Bonds							
5,775	2,286	Domestic bonds (market)	7,843	7,729	114	1.5	10,818
541	514	Domestic bonds (non-market)	704	707	(3)	(0.4)	803
6,316	2,800	Total gross cash proceeds from domestic bonds	8,547	8,436	111	1.3	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	(415)	Net (repayments of)/cash proceeds from domestic bonds	3,694	3,583	111	3.1	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 (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 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 31 January 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 (i.e., 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 (i.e. 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 \$771 million as at 31 January 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

Note 19: Deposit Guarantee Schemes (continued)

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 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 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 31 January 2010, \$10.2 billion wholesale securities had been guaranteed. No provision is made in these financial statements for losses under this scheme as these are considered remote.