ALLIED FARMERS LIMITED
ANNUAL REPORT 2010

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OVERVIEW FROM THE MANAGING DIRECTOR

ANNUAL RESULT 2010

Shareholders should feel encouraged by the progress that has been achieved in the last twelve months stabilizing the company and providing a platform to move forward from and start restoring value. We have paid back almost all bank senior debt, moved to realise a number of property assets in very difficult property market and restructured assets and parts of the business. All of these changes do not come without some costs, huge time commitments and a lot of hard work.

With the recent series of announcements the next twelve months offers our chance to continue to reposition the company so that we can deliver the value that your Directors believe exists in the assets and the company.

However as I sit down and reflect on the past twelve months it seems as though the world has moved in slow motion. We have had to guide Allied Farmers through a very unsettled period, and witnessed the demise of a number of respected finance companies – including our own. The impact of the decimation of this sector to providing finance for businesses and the productive economy will leave holes in financing which we believe will impact upon the New Zealand economy for some years, reducing growth, reducing competition for businesses to finance assets and farmers to finance their seasonal requirements.

Allied Farmers has been trading for 120 years, and has had its fair share of troubles during that time. The recent foray into the finance segment must now count as one of those, and one which we recognize has cost our shareholders dearly.

For the full year Allied Farmers reported an operating loss after tax of $77.587 million (2009: $34.198 million loss) for the 12 month period ended 30 June 2010. The result for the year includes a $21.395 million impairment of goodwill in its investment in subsidiary Allied Nationwide Finance which was placed in receivership on 20 August 2010. Consequent to receivership, all of the goodwill related to this investment has been written off. Corporate expenses for the year include one off acquisition costs of $5.984 million, directly related to the purchase of the Hanover Finance and United Finance assets. Impairment losses of $20.203 million on the ex Hanover Finance and United Finance assets relating to events after the 18 December 2009 acquisition date have been recognised in the result for the year.

I am pleased to report that we have achieved a significant reduction in our senior term debt facilities during the year, closing as at 30 June 2010 at $16.5 million (2009: $21.0 million). Allied Farmers has been over geared, and debt reduction has been my key objective during the year and will remain a focal point for the company for some time. Since balance date we have further reduced term debt to just $1.65 million and expect to have fully repaid Westpac by early October.

A highlight for the year was of course the acquisition of the assets of Hanover Finance and United Finance. Whilst leading up to settlement of the transaction our due diligence confirmed the ascribed value with a comfortable level of reasonability, the fair value assessments of the assets acquired has been a huge disappointment, and illustrated a number of shortcomings with governance and management systems at Hanover.

These assets, which include loans and properties, have remained quarantined within Allied Farmers Investments Limited since the transfer of ownership. In a number of cases, the combined effect of reduced liquidity in the financial sector and reduced demand for property has severely diminished the security value which backs these assets. Many had been historically valued based on what I would describe as ‘blue sky’, which can only be described, in hindsight, as highly optimistic.

Allied Farmers has been the centre of much criticism around its due diligence processes surrounding the acquisition however, it appears to have been conveniently forgotten that these same assets were audited, overseen by an independent Trustee and the subject of review by other third parties on numerous occasions, with a valuation not too dissimilar to the attributed acquisition value of $396.2 million.

Our fair value assessment process undertaken since the acquisition has been designed to be just that, fair, taking into account parameters such as security value, prior charges, borrower risk, guarantor risk and country risk – and has delivered what we believe to be a realistic representation of the value, as it stands today.

The recovery process on loans and properties has been encouraging with circa $9.5 million recovered in the six months to 30 June 2010. We have continued the sale of these non-core assets steadily so as not to induce any further degradation of value in a market which is saturated with distressed property. Highlights over the period have included the sale of Five Mile Stage Two, and a partial, but significant recovery on the MAC Reeves loan, of $6.2 million (together with $3.7 million received in August 2010) which has involved obtaining interim distributions from a court appointed receiver. Also in Queenstown, sales of residential sections in the acclaimed Jacks Point subdivision have been strong, with 23 sites sold to date. We will of course continue to take a steady and controlled approach to the sale of non-core assets, maximising balance sheet value.

On to Allied Nationwide Finance, and a tumultuous year which has seen the destruction of much value for investors. The appointment of a receiver was regretful and forced the company to write-off around $30 million.

The Retail Deposit Guarantee Scheme (RDGS), while a welcome safety net for investors, established a new set of challenges for the finance sector. The influx of new deposits in 2008-2009 at levels never experienced before by finance companies, ultimately led to an oversupply of funding.

During the year Allied Farmers was called on to provide Allied Nationwide Finance with further support and a further extension of $5 million to the existing credit enhancement facilities were entered into, to cover losses associated with provisioning of bad loans. Further substantial capital would have been required for the company to meet the new Reserve Bank regulations covering non-bank deposit takers (NBDT) due to come into effect from 01 December 2010. A subset of the ex Hanover Finance and United Finance assets were originally earmarked for transfer to the subsidiary, to strengthen its balance sheet. This transfer did not occur for a number of reasons, one such being related to asset quality.

Our rural services subsidiary, Allied Farmers Rural has encountered tough trading conditions during the year and reported an operating loss of $757,000 (2009: $2.047 million profit).

Increased competition in the merchandising segment has put pressure on margins and caused us to examine the way we do business in many areas. Our trade receivable position within the division had lost sync with our revenue and margin figures, peaking at almost $22 million. This in turn has led to a tightening of credit policies, and the achievement of a reduction to less than $15 million over a three month period. There are further gains to be made in this area, as we improve our overall business fitness by introducing simple yet effective systems for management of our debtor and creditor accounts.

The Livestock division experienced a reduction in stock numbers across a number of regions. This was due to drought in some areas, and once again a tightening of on farm cash flows led by the major banks who we believe are heavily exposed to the rural sector. We do however see some strong signals for recovery coming out of the dairy sector, and have moved to rebuild and grow our livestock network in the South Island, with the appointment of a new Regional Manager and additional livestock agents.

In light of recent events, we have seized the opportunity to revisit our operating overheads with a view to further reducing cost. I have commenced a restructuring programme which is progressing steadily, which will result in a reduction in operating expenditures of more than $2.0 million in the next financial year, and is focused on making the company more efficient in all areas.

Finally you may be aware of the decision I have taken to step down from the role of Managing Director in December this year. I took the role on in August 2009 in a temporary capacity, as both a director and major shareholder, when the challenge in front of the company was becoming apparent. I am confident we are now well on track to restoring our company to a stable position, having significantly restructured our balance sheet, and reduced core debt to its lowest level in many years. This has been very challenging personally, and I feel it is time for us to select someone else to now take the helm, allowing me to step back and focus on governance and strategy once again.

Allied Farmers has been a strong rural services sector company for generations and getting back to our roots is the focus over the next period. We have a sound, loyal customer base, particularly in the North Island and we can restore and build our market share by concentrating on what we have always been good at, rural services. The decision to move away from diversified finance gives us greater clarity and certainty as we look forward to the future.

It has been a difficult period for the company and I feel it is important that we all recognize the considerable efforts of our staff over the past 12 months under very trying conditions. I would also like to thank my fellow directors, who have been thoroughly tested with some very complex issues in recent times and continued to deliver under very difficult circumstances.

I wish to pay particular note to Mr John Loughlin, who as Chairman of the board of both Allied Nationwide Finance and Allied Farmers felt his resignation was appropriate following the receivership of Allied Nationwide Finance. John had been a director for a number of years and had worked very hard for the company. He guided the company, the board and executive through the difficult environment in the last twelve months.

ALLIED FARMERS LIMITED

Robert M Alloway
Managing Director

Allied Farmers Limited and Subsidiaries

FIVE YEAR FINANCIAL SUMMARY

Profit summary	Pro-forma* June-10 $000	June-10 $000 **	June-09 $000 **	June-08 $000 **	June-07 $000 **	June-06 $000
Total operating revenue	66,546	106,732	110,875	110,368	107,430	85,173
Depreciation and amortisation	746	1,833	2,397	2,425	2,098	2,263
Interest expense	9,796	32,290	33,462	24,093	16,502	2,959
Other expenses	133,786	142,684	108,777	80,618	92,179	77,970
Net surplus (deficit) before tax	(77,782)	(70,075)	(33,761)	3,232	(3,349)	1,981
Tax	(1,361)	(7,512)	(437)	(863)	578	(749)
Net surplus (deficit) after tax	(79,143)	(77,587)	(34,198)	2,369	(2,771)	1,232
Minority interests	-	(967)	(819)	-	-	102
Net surplus (deficit) after tax and minorities	(79,143)	(78,554)	(35,017)	2,369	(2,771)	1,334
Dividend paid	-	-	-	477	958	2,391
Surplus (deficit) retained in the Group	(79,143)	(78,554)	(35,017)	1,892	(3,729)	(1,057)

Statement of Financial Position summary	Pro-forma* June-10 $000	June-10 $000 **	June-09 $000 **	June-08 $000 **	June-07 $000 **	June-06 $000
Shareholders equity	31,035	44,465	10,007	27,306	25,462	23,552
Non current liabilities	15,244	95,105	131,643	67,758	140,627	61,723
Current liabilities	97,229	238,817	250,705	143,192	175,494	118,779
Total liabilities	112,473	333,922	382,348	210,950	316,121	180,502
Equity and liabilities	143,508	378,387	392,355	238,256	341,583	204,054
Current assets	47,233	199,072	235,946	156,014	213,633	118,695
Fixed assets	7,832	10,473	11,636	10,651	13,913	13,962
Non current assets	45,038	123,331	110,991	39,108	87,577	62,994
Investments	42,155	44,040	2,151	193	142	-
Total tangible assets	142,258	376,916	360,724	205,966	315,265	195,651
Intangibles	1,250	1,471	31,631	32,290	26,318	8,403
Total assets	143,508	378,387	392,355	238,256	341,583	204,054

Cash Flow summary	Pro-forma* June-10 $000	June-10 $000 **	June-09 $000 **	June-08 $000 **	June-07 $000 **	June-06 $000
Operating cash flow	(925)	59,354	62,070	84,555	6,911	2,988
Investing cash flow	8,739	9,796	9,848	2,252	27,277	(10,130)
Financing cash flow	(6,251)	(105,943)	(51,633)	(106,950)	(5,697)	17,864
Net change in cash	1,563	(36,793)	20,285	(20,143)	28,491	10,722

The amounts shown in this Five Year Financial Summary have been extracted from the audited financial statements of Allied Farmers Limited and subsidiaries for the respective years.

* The Group Pro-forma column represents the consolidated Group without Allied Nationwide Finance Limited which was placed in receivership on 20 August 2010. It provides a more relevant reflection of the consolidated Group.

** Data is extracted from NZIFRS compliant financial statements.

DIRECTORS

Mr Garry C Bluett - Acting Chairman

Mr Bluett was appointed a Director of Allied Farmers Limited and its finance company subsidiary in October 2004. He has been Finance Director of a major New Zealand retail group and has broad experience in the finance company and corporate finance sectors. He currently has an ownership interest in a large dairy operation in the Waikato. Under NZX listing rule 3.3.1B(a) Mr Bluett is classified as an independent Director of Allied Farmers Limited. He has the following qualifications: BMS, CA.

Mr Robert M Alloway - Managing Director

Mr Alloway was appointed a Director of Allied Farmers Limited and its subsidiaries in July 2009 and Managing Director in August 2009. Mr Alloway has held a number of management positions in the dairy and electricity sectors and was Chief Executive, and a major shareholder of NDA Group Limited until 2008. He also holds directorships with NZ Telemetry Limited, Alloway Farms Limited, Claymark Limited, Claymark International Limited and Clayton Holdings Limited. Mr Alloway is a member of the Institute of Directors.

Mr Ross J C Dunlop

Mr Dunlop was appointed a Director of Allied Farmers Limited in October 1999. He is a dairy, sheep and beef farmer and has interests in farm forestry. He is Mayor of the South Taranaki District Council and is a Justice of the Peace. Under the NZX listing rule 3.3.1B(a) Mr Dunlop is classified as an independent Director of Allied Farmers Limited. He has the following qualification: DipMgmt.

Mr Philip C Luscombe

Mr Luscombe was appointed a Director of Allied Farmers Limited and its finance company subsidiary in December 2005. He is an experienced farmer with interests in dairy farms in Taranaki and Otago, and in farm forestry. He is Chairman of NZAEL Limited, and Director of PKW Farms Limited, as well as a number of private companies. He is a trustee of The Massey-Lincoln and Agricultural Industry Trust and a former trustee of the Massey University Agricultural Research Foundation. He is a former director of Kiwi Cooperative Dairies Limited, Kiwi Milk Products Limited, Dairy Insight and industry research company Dexcel. Under NZX listing rule 3.3.1B(a) Mr Luscombe is classified as an independent director of Allied Farmers Limited. He has the following qualification: BAgSci(Hons).

Mr G Andrew McDouall

Mr McDouall was appointed a Director of Allied Farmers Limited in October 1999. He is Managing Director of the sharebroking and investment banking group McDouall Stuart Group Limited, and of a number of private companies. Mr McDouall is a NZX stockbroker and a member of the Institute of Directors. He has the following qualifications: BCA, DipNZSE.

Note: John J Loughlin resigned as Chairman and a Director of Allied Farmers Limited and its subsidiaries on 20 August 2010.

DISCLOSURES

The following particulars are taken from the Interests Register as at 30 June 2010 (excluding Allied Farmers group companies).

DISCLOSURE OF INTEREST

Name	Entity	Relationship
Robert M Alloway	Allied Capital Limited	Director
	Alloway Farms Limited	Director
	Claymark Limited	Director
	Claymark International Limited	Director
	Clayton Holdings Limited	Director
	NZ Telemetry Limited	Director
	RS Racing Limited	Director
	Alloway Family Trust	Trustee
	Alloway Rural Investment Trust	Trustee
	Allied Farmers Limited Superannuation Scheme	Trustee
Garry C Bluett	Arcos Investments Limited	Director
	Aylesbury Farms Limited	Director
	Bostonian Group Limited	Director
Ross J C Dunlop	South Taranaki District Council	Mayor
	Ararata Farm Limited	Director
	Farming Partnership	Partner
	Allied Farmers Limited Employee Share Purchase Scheme	Trustee
	Allied Farmers Limited Superannuation Scheme	Trustee
	Eynsford Trust	Trustee
	James Winks Trust	Trustee
	RJC and JM Dunlop Trust	Trustee
	South Seas Traders Charitable Trust	Trustee
John J Loughlin*	Askerne Estate Winery Limited	Chairman
	Loughlin Viticulture and Consulting Limited	Chairman
	Tru-Test Corporation Limited	Chairman
	Zespri Group Limited	Chairman
	Firstlight Foods NZ Ltd and subsidiary/associated companies	Chairman
	AgResearch Limited	Director
	Centralines Limited	Director
	Kermadec Property Fund Limited	Director
	Metlifecare Limited	Director
	Port of Napier Limited	Director
	Tainui Reserve Limited	Director
	Taupo Motorsport Park Limited	Director
	Allied Farmers Limited Employee Share Purchase Scheme	Trustee
Philip C Luscombe	Argyll Dairy Farm Limited	Chairman
	Hinemoa Downs (2005) Limited	Chairman
	New Zealand Animal Evaluation Limited	Chairman
	Te Rua O Te Moko Limited	Chairman
	Hendham Farm Company Limited	Director
	Kingfisher Escape Limited	Director
	Koki South Farms Limited	Director
	Mairangi Investments Limited	Director
	Ocean Ohope Limited	Director

	Par Farms Limited	Director
	PKW Farms Limited	Director
	Luscombe Partnership	Partner
	USlus Partnership	Partner
	Hendham Trust Limited	Trustee
	Massey-Lincoln and Agricultural Industry Trust	Trustee
	Pharm Trust Limited	Trustee
	Allied Farmers Limited Superannuation Scheme	Trustee
G Andrew McDouall	McDouall Stuart Group Limited and Subsidiaries	Managing Director & beneficiary shareholding interest
	Balgreggan Financial Investments Limited	Director
	Tartan Securities Limited	Director & beneficiary shareholding interest
	FAME Alumni Trust	Trustee

*John Loughlin resigned as a director on 20 August 2010

The following details included in the Interests Register as at 30 June 2009, or entered during the year ended 30 June 2010, have been removed during the year ended 30 June 2010.

Name	Entity	Relationship
John J Loughlin	Allied Farmers Limited Superannuation Scheme	Trustee

Directors' Holdings of Allied Farmers Securities as at 30 June 2010

Directors disclosed, pursuant to section 148 of the Companies Act 1993 and rule 10.5.5 of the NZX Listing Rules, the following acquisitions and disposals of relevant interests in Allied Farmers equity securities during the period to 30 June 2010, as set out below.

				Acquisition/Disposal during period		
Director	**Allied Farmers Shares**	**Allied Farmers Options**	**Bonus Securities**	**Date**	**Consideration NZ$**	**Number of equity securities acquired/(disposed)**
R M Alloway[(i)]	5,442,963					
		4,279,003		14/05/2010		(4,279,003) [1]
			544,296	4/12/2009	Nil	544,296
G C Bluett	25,000					
		12,426		14/05/2010		(12,426) [1]
			2,500	4/12/2009	Nil	2,500
R J C Dunlop*	327,425					
		145,512		14/05/2010		(145,512) [1]
			32,741	4/12/2009	Nil	32,741
J J Loughlin[(d)]	4,579					
		2,113		14/05/2010		(2,113) [1]
			457	4/12/2009	Nil	457
J J Loughlin[(i)]	89					
		41		14/05/2010		(41) [1]
			8	4/12/2009	Nil	8
P C Luscombe[(d)]	36,975					
		17,065		14/05/2010		(17,065) [1]
			3,697	4/12/2009	Nil	3,697
P C Luscombe[(i)]	1,646	0				
			164	4/12/2009	Nil	164
G A McDouall	504,553	0				
			50,455	4/12/2009	Nil	50,455

[(d)] denotes direct ownership
[(i)] denotes indirect ownership

[1] Share options lapsed 14 May 2010

*R Dunlop has two separate direct holdings

DIRECTORS' REMUNERATION

Director	2010	2009
R M Alloway*	14,000[1]	
	382,772[2]	
	396,772	
G C Bluett	28,000	28,000
P L Cook**		21,000
R J C Dunlop	28,000	28,000
J J Loughlin (Chairman)***	50,000	50,000
P C Luscombe	28,000	28,000
G A McDouall	28,000	28,000
TOTAL	**558,772**	**183,000**

* Robert Alloway remuneration includes [1] Director fees; [2] salary and benefits as Managing Director.
** Peter Cook resigned as a director effective 20 April 2009.
*** John Loughlin resigned as Chairman and as a Director effective 20 August 2010.

Shareholders approved a cap on directors' fees of $332,000pa at the AGM in 2007. This cap includes all directors fees paid in relation to group subsidiary companies as well as for the parent. Directors' fees paid in relation to group subsidiary companies total $108,000 pa for the year ended 30 June 2010.

PARTICULAR DISCLOSURES

McDouall Stuart Group Limited, a company in which Mr G A McDouall has a beneficial interest, carried out advisory and consultancy work for the Company on an arms-length commercial fee basis including in respect of Lead Manager and underwriter for the Allied Farmers share placement and proposed underwrite of a renounceable rights issue that was announced on 3 August 2010. The share placement was completed, but the renounceable rights issue was not completed.

Apart from the above, no Director has entered into any transaction with the Company or its subsidiaries other than in the normal course of business, on the Company's normal terms of trade, and on an arms-length basis.

No Director issued a notice requesting to use Group information received in their capacity as a Director which would not otherwise have been available to them.

During the year the Company paid premiums on contracts insuring directors and officers in respect of liability and costs permitted to be insured against in accordance with Section 162 of the Companies Act 1993 and the Company's constitution.

EMPLOYEE REMUNERATION

The number of employees whose remuneration and benefits were over $100,000 are within the specified bands as follows:

	Number of Employees	
Remuneration Range $	**2010**	**2009**
100,000 - 110,000	3	4
110,001 - 120,000	-	5
120,001 - 130,000	7	2
130,001 - 140,000	3	4
140,001 - 150,000	3	-
150,001 - 160,000	4	4
160,001 - 170,000	1	2
170,001 - 180,000	2	2
180,001 - 190,000	1	2
190,001 - 200,000	3	3
200,001 - 210,000	-	-
210,001 - 220,000	2	2
220,001 - 230,000	-	2
230,001 - 240,000	-	-

240,001 - 250,000	-	-
250,001 - 260,000	-	-
260,001 - 270,000	1	-
270,001 - 280,000	-	-
280,001 - 290,000	-	-
290,001 - 300,000	-	-
300,001 - 310,000	-	-
310,001 - 320,000	-	1
320,001 - 330,000	1	-
330,001 - 340,000	-	-
340,001 - 350,000	1	-
350,001 - 360,000	-	-
360,001 - 370,000	-	2
370,001 - 380,000	-	-
380,001 - 390,000	1	-
390,001 - 400,000	1	1

The remuneration figures shown in the above table include all monetary payments actually paid, plus the cost of all benefits provided, during the year.

The 2010 year includes 16 livestock and real estate staff who are remunerated on a commission basis (2009: 21). These remuneration levels fluctuate significantly from year to year.

SUBSTANTIAL SECURITY HOLDERS

According to notices given under the Securities Markets Act 1988, there were no substantial security holders in Allied Farmers Limited as at 14 September 2010.

The total number of issued voting securities of Allied Farmers Limited as at 14 September 2010 was 2,042,294,858 ordinary shares and 3,767,514 bonus securities.

SUBSIDIARY COMPANIES

Directors of subsidiary companies as at 30 June 2010 were as follows:

Subsidiaries of the Parent	**Principal Activity**	**Directors**
Allied Farmers Rural Limited	Rural Services	J J Loughlin[1], R M Alloway, G C Bluett, P C Luscombe, R J C Dunlop, G A McDouall, P A Macfie[4]
Allied Nationwide Finance Limited (In Receivership)	Financial Services	J J Loughlin[2], G C Bluett, P C Luscombe, P A Macfie, R N Speirs, S A Staley[3], J L Spencer[5]
The West Coast Mortgage and Deposit Company Limited	Holding company	J J Loughlin[1], P A Macfie
Allied Farmers Option Scheme Limited	Non-trading	J J Loughlin[1], P C Luscombe
ALF Nominees Limited	Nominee company	R M Alloway
Allied Farmers Investments Limited	Asset Management Services	R M Alloway, P A Macfie, J J Loughlin[1]
Subsidiaries of Allied Farmers Investments Limited		
Allied Farmers Property Investments Limited	Holding company	R M Alloway, P A Macfie, J J Loughlin[1]
QWF Holdings Limited	Property Investment	R M Alloway, P A Macfie, J J Loughlin[1], D R Bryan[6], G Scott[8]
HPL Rhode Island (2008) Limited	Finance company lending to North America	R M Alloway, P A Macfie, J J Loughlin[1], D R Bryan[6], G Scott[8]
Clearwater Avenue Holdings Limited	Holding company	R M Alloway, P A Macfie, J J Loughlin[1], D R Bryan[6], D R Hammond[6], G Scott[8]

Subsidiaries of Allied Farmers Investments Limited continued		
Clearwater Hotel 2004 Limited	Property development and investment	R M Alloway, P A Macfie, J J Loughlin[1], D R Bryan[6], D R Hammond[6], M S Hotchin[7], G Scott[8]
Clearwater Hotel Management 2004 Limited	Non-trading	R M Alloway, P A Macfie, J J Loughlin[1], D R Bryan[6], M S Hotchin[6], J G Darby[7], G Scott[8]
Lifestyles of New Zealand Queenstown Limited	Property investment	R M Alloway, P A Macfie, J J Loughlin[1], D R Bryan[6], M G Scott[8]
LONZ 2008 Limited	Property investment	R M Alloway, P A Macfie, J J Loughlin[1], D R Bryan[6], M G Scott[8]
LONZ 2008 Holdings Limited	Property investment	R M Alloway, P A Macfie, J J Loughlin[1], D R Bryan[6], M G Scott[8]
Matarangi Beach Estates Limited	Property development and investment	R M Alloway, P A Macfie, J J Loughlin[1], D R Bryan[6], M G Scott[8]
Matarangi Farm Lot 1 Limited	Non-trading	R M Alloway, P A Macfie, J J Loughlin[1], D R Bryan[6], M G Scott[8]
Matarangi Farm Lot 2 Limited	Non-trading	R M Alloway, P A Macfie, J J Loughlin[1], D R Bryan[6], M G Scott[8]
Matarangi Farm Lot 3 Limited	Non-trading	R M Alloway, P A Macfie, J J Loughlin[1], D R Bryan[6], M G Scott[8]
Matarangi Reserve Limited	Non-trading	R M Alloway, P A Macfie, J J Loughlin[1], D R Bryan[6], M G Scott[8]
Matarangi Villas Management Limited	Non-trading	R M Alloway, P A Macfie, J J Loughlin[1], D R Bryan[6], M G Scott[8]
Matarangi Farm Developments Limited	Non-trading	R M Alloway, P A Macfie, J J Loughlin[1], D R Bryan[6], M G Scott[8]
Allied Farmers Property Holdings Limited	Holding company	R M Alloway, P A Macfie, J J Loughlin[1]
UFL Lakeview Limited	Property investment	R M Alloway, P A Macfie, J J Loughlin[1], D R Bryan[6], M G Scott[8]
5M No 2 Limited	Property investment	R M Alloway, P A Macfie, J J Loughlin[1], D R Bryan[6], M G Scott[8]
Subsidiaries of The West Coast Mortgage and Deposit Company Limited		
Allied Farmers Finance Limited	Non-trading	J J Loughlin[1], P A Macfie
Allied Farmers Livestock Limited	Non-trading	J J Loughlin[1], P A Macfie
Allied Farmers (New Zealand) Limited	Non-trading	J J Loughlin[1], P A Macfie
Allied Finance Limited	Non-trading	J J Loughlin[1], P A Macfie
Allied Prime Finance Limited	Non-trading	J J Loughlin[1], P A Macfie
Allied Rural Limited	Non-trading	J J Loughlin[1], P A Macfie
Nationwide Finance Limited	Non-trading	J J Loughlin[1], P A Macfie
Prime Finance Limited	Non-trading	J J Loughlin[1], P A Macfie
Taranaki Farmers Limited	Non-trading	J J Loughlin[1], P A Macfie
Speirs Finance Limited	Non-trading	J J Loughlin[1], P A Macfie

1 *Resigned 20 August 2010*
2 *Resigned 23 August 2010*
3 *Resigned 24 August 2010*
4 *Resigned 26 August 2010*
5 *Resigned 29 June 2010*
6 *Resigned 18 December 2009*
7 *Resigned 8 October 2009*
8 *Resigned 1 July 2009*

POLITICAL DONATIONS

The Company made no donations to any political party during the year.

SHAREHOLDER INFORMATION

The ordinary shares of Allied Farmers Limited are listed on the NZX Market. The NZX share code is 'ALF'.

The shareholder information in the following disclosures has been taken from the Company's share register at 19 September 2010.

RIGHTS ATTACHING TO SECURITIES

The Company's ordinary shares carry a right to vote on any resolution on a poll at a meeting of shareholders. Holders of ordinary shares may vote at a meeting in person or by proxy, representative, or attorney. Voting may be conducted by voice, show of hands, or poll.

The bonus securities were issued (to then existing shareholders) in December 2009 as part of the Hanover transaction (the "Exchange Agreement"). The terms of the bonus securities provide that each such share has no voting rights (subject to section 117 of the Companies Act), no rights to distributions, no rights to surplus assets on liquidation but in terms of the value realised from the Hanover assets then if there is a "Shortfall", each bonus security will be restructured in the manner described below. If there is no "Shortfall", each bonus security shall be redeemed by notice from the Company to each holder for nil consideration.

The Exchange Agreement provides that a "Shortfall" will exist if in respect of the period up to 30 June 2011 the total amount achieved from the realisation of any finance assets and the total value of any such assets still held by Allied Farmers Investments Limited or any on-transferee of such assets (in each case, determined on a consistent basis with the price allocated under the Exchange Agreement) is less than the $396.2 million price attributed to those assets under the Exchange Agreement. This calculation will be made as part of the audit of the Company's financial results for the period ended 30 June 2011 and is expected to be announced at the time the audited financial statements are released.

The Company also has on issue $12.605 million of Capital Notes which will mature on 15 November 2011, at which time the Company will decide whether to redeem all or some of the Capital Notes for cash or offer to renew the Capital Notes on new terms and conditions. Any Capital Notes which the Company does not redeem for cash, or which are not renewed (at the election of the holder) will be automatically converted into ordinary shares in the Company at a 5% discount to the weighted average sale price of the ordinary shares over the 20 business day trading period prior to the maturity date.

TWENTY LARGEST REGISTERED SHAREHOLDERS

Holder Name	Holding	%
Accident Compensation Corporation	78,224,843	3.830
FNZ Custodians Limited	15,746,471	0.771
Michael Lookman & Marilyn Somerville (Lookman Family)	14,625,000	0.716
HSBC Nominees (New Zealand) Limited	10,374,951	0.508
ALF Nominees Limited	7,737,209	0.379
Edward Sydney Franklin	7,529,740	0.369
Tea Custodians Limited (TEAC40 A/C)	7,476,000	0.366
Investment Custodial Services Limited	6,088,934	0.298
Bencroft Corporation Limited	5,579,199	0.273
Allied Capital Limited	5,442,963	0.267
Karen Chia En Chow	5,342,099	0.262
John Revell Hynds	5,091,215	0.249
Investment Custodial Services Limited	4,438,229	0.217
Brian Keith Morris	3,835,370	0.188
Custodial Services Limited	3,604,877	0.177
Leh Soon Yong	3,400,000	0.166
George Uhe	3,081,785	0.151
Tomoko Uenaka & Rie Kato	3,073,462	0.150

	Holding	%
N A Wishart & D G Wishart & J G Trifunovich (Wishart Family)	3,021,617	0.148
Robert Joe Yee & Kim Ying Yee & Paul Neville Barnett (R J Yee Family A/C)	3,005,000	0.147

ANALYSIS OF SHAREHOLDING

Range	Holders	Quantity	%
1 – 1000	2,342	1,099,238	.05
1001 – 5000	2,209	5,523,921	.27
5001 – 10000	942	7,265,370	.36
10001 – 100000	10,038	461,218,713	22.58
100001 and over	5,288	1,567,187,616	76.74
TOTAL	**20,819**	**2,042,294,858**	**100.00**

SHAREHOLDER ENQUIRIES

Shareholders should send changes of address, dividend queries, and instructions and shareholding information requests to Link Market Services Limited, which acts as the Company's share registrar. These notifications and requests should be by signed letter.

ANNUAL MEETING OF SHAREHOLDERS

Allied Farmers Limited's annual meeting of shareholders will be held in the Hawera Community Hall, Albion Street, Hawera, on Tuesday 30 November 2010. A Notice of Annual Meeting and Proxy Form will be circulated to shareholders prior to the meeting.

Representatives from the external auditors PricewaterhouseCoopers will be available at the annual meeting to answer shareholder questions about the conduct of the audit and content of the external Auditors' Report.

REGISTERED OFFICE

The registered office of Allied Farmers Limited is:

74 Princes Street
PO Box 423
Hawera 4640
Ph: 06 278 0800

DIVIDENDS PAID

The following is a summary of all dividends paid by Allied Farmers Limited since listing on NZX on 9 May 2002. No dividends have been paid in the financial year ended 30 June 2010.

Payment date	NZ cents per share
16 May 2002	7.0
11 October 2002	9.0
28 March 2003	6.0
3 October 2003	5.0
26 March 2004	5.5
2 April 2004 (taxable bonus issue)	50.0
1 October 2004	5.0
24 March 2005	5.0
30 September 2005	10.0
24 March 2006	5.0
29 September 2006	2.0
23 March 2007	4.0
16 June 2008	2.5

ISSUE OF NEW ORDINARY SHARES

On 21 December 2009 Allied Farmers, pursuant to a simplified disclosure prospectus, issued 1,914,598,153 fully paid ordinary shares to investors in Hanover Finance Limited and United Finance Limited in consideration for the assignment to Allied Farmers of certain finance assets for $396.2 million.

ISSUE OF BONUS SECURITIES

Also on 21 December 2009, Allied Farmers issued 3,767,514 bonus securities to existing Allied Farmers shareholders. Details of the issue of bonus securities can be found on page 14 under the heading “Rights Attaching to Securities”.

SHARE PLACEMENT

On 4 August 2010 Allied Farmers raised $2.25 million of new equity by a placement of 90 million new ordinary shares at 2.5 cents per share to a number of institutional and professional investors.

SUMMARY

As a result of the issue of shares and securities since the previous Annual Report, Allied Farmers now has on issue 2,042,294,858 ordinary shares, and 3,767,514 bonus securities.

NZX WAIVERS

The Company was granted a waiver from Listing Rule 10.4.2 by the NZX on 30 August 2010 to enable the Company to delay the filing of its preliminary announcement for the year ended 30 June 2010. The delay was required to provide the Company sufficient time to understand the financial statements implications of the receivership of the Company’s wholly owned subsidiary, Allied Nationwide Finance Limited.

Listing Rule 10.4.2 requires that the preliminary announcement be announced not later than 60 days after the end of the financial year to which that report relates. NZX granted the Company a waiver from Rule 10.4.1(a), on the following conditions:

a) the Company provide to the market, within the time that the information required by Rule 10.4.1(a) would have otherwise been provided to the market, a statement regarding why it is that the Company cannot provide its preliminary announcement to the market in the timeframe required by the Rules; and
b) the Company provide to the market the information required by Rule 10.4.2 not later than 5.00pm on 10 September 2010.

The conditions of the waiver were all met and the preliminary announcement was made within the required timeframe.

GOVERNANCE

The Board and management are committed to ensuring that the Group maintains best practice governance structures and adheres to the highest ethical standards. The Board ensures that the Company's governance structures and processes are consistent with best practice, both in form and substance.

APPROACH TO CORPORATE GOVERNANCE

As a result of the Company's stock exchange listing, it is subject to the governance requirements of the New Zealand Exchange Limited's (NZX) listing rules and Corporate Governance Best Practice Code and the New Zealand Securities Commission's report 'Corporate Governance in New Zealand, Principles and Guidelines'.

To ensure the Company continues to maintain the most appropriate standards of governance, the Board will continue to monitor developments in the governance area and review and update its governance practices as and when required.

COMPLIANCE WITH NZX BEST PRACTICE CODE

The NZX listing rules require the Company to include in each annual report a statement disclosing the extent to which it has followed the NZX Corporate Governance Best Practice Code for the reporting period. The Company considers its governance practices have complied with the Code for the year to 30 June 2010.

THE BOARD OF DIRECTORS

Role of the Board and Responsibility

The Board of Directors is elected by shareholders to govern the Company in the interests of shareholders, and to protect and enhance the value of the assets of the Company in the interests of the Company and its shareholders. The Board is the overall and final body responsible for all decision making within the Company. The Board Charter describes the Board's role and responsibilities and regulates internal Board procedure. The Board has also delegated a number of its responsibilities to its committees. The role of the committees is described below.

To enhance efficiency, the Board has delegated to the Managing Director the day-to-day leadership and management of the Company. The Managing Director has, in some cases, formally delegated certain authorities to those who directly report to him and has established a formal delegated authority framework for those delegates to sub-delegate certain authorities.

Board Membership, Size and Composition

As at 30 June 2010 the Board comprised six Directors – a non-executive Chairman, one executive director and four non-executive Directors. The Board has a broad range of financial, banking, farming, and business skills as well as other relevant experience and expertise required to meet its objectives.

The Board reviews the criteria for the selection of Directors to ensure the Board comprises the right mix of skills and experience to meet the needs of the Company.

Selection and Role of Chairman

The Chairman is elected by the Board from the non-executive Directors. The Board supports the separation of the role of Chairman and Managing Director. The Chairman's role is to manage and provide leadership to the Board and to facilitate the Board's interface with the Managing Director.

Director Independence

The Board is committed to having a majority of Directors who are judged by the Board to be independent in terms of the NZX listing rules.

The Board considers all the Company's Director relationships on a case-by-case basis and, as a general policy, follows the NZX listing rules' definition.

The Board considers that the following two directors' could be precluded from being reasonably perceived as independent directors of the Company as follows:

- Andrew McDouall's relationship with the Company as provider of investment banking services to the Company from time to time; and
- Rob Alloway's role as Managing Director.

All other Directors of the Company are considered independent.

The Board will review any determination it makes on a Director's independence on a regular basis and on becoming aware of any information that indicates the Director may have a relevant material relationship with the Company. For this purpose, Directors are required to ensure that they immediately advise of any new or changed relationships so the Board can consider and determine how material the relationship is to a Director's independence.

Conflicts of Interest

The Board is conscious of its obligations to ensure that Directors avoid conflicts of interest (both real and apparent) between their duty to the Company and their own interests. Where conflicts of interest do exist at law then the Director must disclose their interest, excuse themselves from any Board discussions, not receive any Board papers in respect of those interests, and in accordance with the relevant stock exchange listing rules not exercise their right to vote in respect of such matters.

Nominations and Appointment of New Directors

Procedures for the appointment and removal of Directors are ultimately governed by the Company's constitution.

Recommendations for nominations of new Directors are made by the Directors individually and considered by the Board as a whole. External consultants may be used to access a wide base of potential candidates and to review the suitability of candidates for appointment based on pre-established criteria. When recommending candidates to act as Director, the Board takes into account such factors it deems appropriate. These factors include their background, experience, professional skills and personal qualities, whether their skills and experience will augment the existing Board, and their availability to commit themselves to the role.

If the Board appoints a new Director during the year, that person will stand for election by shareholders at the next annual meeting. Shareholders are provided with relevant information on the candidates for election.

Director Education

All Directors are encouraged and if requested supported to receive regular updates on relevant industry and Company issues, which include visits to the Company's operations. The Board expects all Directors to undertake continuous education so that they may appropriately and effectively perform their duties.

Board's Performance Review

The Board reviews its own performance as a whole against the Board Charter. This process includes meetings between the Chairman and each Director as required, as well as regular Board discussion on governance and performance issues.

In addition, a comprehensive Board-evaluation survey may be undertaken from time to time to seek Director feedback on a range of matters relating to Board performance including its role and composition, procedures, practices, and administration. The Chairman reports the collective results of this evaluation to the Board.

Managing Director's Performance Review

The Board annually reviews the performance of the Managing Director. The formal annual review process is conducted in respect of the immediately preceding income year. This evaluation is undertaken using criteria set by the Board that include the performance of the business, the accomplishment of strategic and operational objectives, and other non-quantitative objectives agreed at the beginning of each year. The Board is responsible for the evaluation of the Managing Director against key performance objectives, and periodically reviews these to ensure they are an appropriate measure of the Managing Director's performance.

Retirement and Re-election of Directors

NZX rule 3.3.11 requires at least one third of the Directors to retire from office at the annual meeting each year, but they are eligible for re-election at that meeting.

Garry Bluett and Ross Dunlop are required to retire and are eligible, if they choose to do so, to stand for re-election at this year's annual meeting.

Board Access to Information and Advice

The General Counsel and Company Secretary supports the effectiveness of the Board by ensuring that policies and procedures are followed. He is also responsible for coordinating the completion and dispatch of the Board agenda and papers.

All Directors have access to executives, including the Chief Financial Officer, to discuss issues or obtain information on specific areas or items to be considered at the Board meeting or other areas they consider appropriate. Further, Directors have unrestricted access to Company records and information.

The Board, the Board committees and each Director have the right, subject to the approval of the Chairman, to seek independent professional advice at the Company's expense to assist them in carrying out their responsibilities. Further, the Board and Board committees have the authority to secure the attendance at meetings of outsiders with relevant experience and expertise.

Directors' Share Ownership

As a matter of Board policy, Directors' disclosures of their shareholdings pursuant to section 148 of the Companies Act 1993 and NZX listing rule 10.5.5 are shown in the Disclosures section of this annual report.

Directors are required to comply with the Company's Securities Trading Policy and Guidelines in undertaking any trading in Allied Farmers Limited shares.

Indemnities and Insurance

As permitted by the Company's constitution, deeds of indemnity have been given to Directors for potential liabilities and costs they may incur for acts or omissions in their capacity as Directors. In addition, deeds of indemnity have been given to certain senior staff for potential liabilities and costs they may incur for acts or omissions in their capacities as employees of the Company or as Directors of Company subsidiaries.

During the year the Directors and Officers liability insurance was renewed to cover risks normally covered by such policies arising out of acts or omissions of Directors and Officers in their capacity as such. Insurance is not provided for dishonest, fraudulent, malicious, or wilful acts or omissions.

Meetings of the Board and Conduct of Meetings

The Board has a minimum of ten scheduled meetings each year. In addition, it meets whenever necessary between the scheduled meetings (such as to discuss key strategic issues or urgent business).

The Chairman and the Managing Director establish meeting agendas to ensure adequate coverage of key issues during the year.

Executives and other senior management regularly attend Board meetings and are also available to be contacted by Directors between meetings.

The Board meets regularly in executive session, without the Managing Director or other management present. Such sessions deal in particular with management performance and remuneration issues, Board performance evaluation issues, and discussions with the Group internal and external auditors to promote a robust independent audit process.

ATTENDANCE AT BOARD MEETINGS FOR THE YEAR JULY 2009 TO 30 JUNE 2010

Board Meetings

The full board held 56 formal meetings, including 43 via teleconference, during the year ended 30 June 2010. The table below shows Director attendance at these Board meetings.

John Loughlin	53
Rob Alloway	56
Ross Dunlop	45
Philip Luscombe	46
Garry Bluett	52
Andrew McDouall	54

Board Committees

Two Board committees assist in the execution of the Board's responsibilities: the Audit Committee and the Remuneration Committee. The committees have a number of scheduled meetings each year to coincide with the timing of the various responsibilities of each particular committee. Other committees may be established to consider matters of special importance or to exercise the delegated authority of the Board, as required.

Committee Terms of Reference

Each committee has terms of reference, which set out its authority, objectives and responsibilities.

Each committee undertakes an annual self-review of its performance against the terms of reference.

Committee Composition

The Board is responsible for appointing committee members according to the skills, experience and other qualities they bring to a committee. Committee sizes vary from three to four directors, with the Chairman being an ex-officio member of all committees.

COMMITTEE ROLES AND OPERATIONS

All Directors are entitled to receive all committee papers and can attend all committee meetings. As soon as possible after each committee meeting the Board is given a verbal report by the Chair of the committee on the outcomes of the meeting.

The structure, membership and responsibilities of the Board's committees are summarised below.

Audit Committee

The Audit Committee includes members who have appropriate financial experience and an understanding for the industry in which the Company operates. All Audit Committee members are independent and all are financially literate. The Chairman of the Audit Committee, Garry Bluett, is a chartered accountant (CA).

The industry knowledge and financial experience of other members of the Audit Committee are set out in the biographies of the Directors.

Responsibilities

- Provide an open avenue of communication between the internal auditor, the external auditors and the Board.
- Recommend to the Board the nomination, terms of engagement and remuneration of the external auditors.
- Review and participate in the process of appointment, replacement, reassignment, or dismissal of the internal auditor.
- Confirm and assure the independence of the internal and external auditors.
- Inquire of management, the internal auditor and the external auditor about significant risks or exposures to the Company.
- Review the audit scope and plan to assure completeness of coverage, reduction of redundant effort, and the effective use of audit resources.

- Consider and review with auditors the adequacy of the Company's internal controls and compliance with the Company's policies and delegated authorities.
- Review at the completion of the annual audit the Company's Financial Statements and Notes, the auditors' report, and any recommendations; and recommend to the full Board that these be accepted.

Members of the Audit Committee as at 30 June 2010 were: Garry Bluett (Chair), Ross Dunlop, and Philip Luscombe.

Remuneration Committee

Responsibilities

- Consider and recommend to the Board the remuneration arrangements for the Managing Director and any appropriate variations to his employment contract.
- Consider recommendations from the Managing Director on matters of policy in the areas of human resources and staff remuneration where there may be a conflict of interest.
- Consider recommendations from the Managing Director on the remuneration arrangements for executive management staff who report directly to him.
- Consider and recommend to the Board any share-option or incentive schemes.
- Consider and recommend to the Board any changes to the Company's superannuation scheme.
- Consider and recommend to the Board the remuneration arrangements and retirement allowances for non-executive Directors.

Members of the Remuneration Committee as at 30 June 2010 were: John Loughlin (Chair), and Andrew McDouall.

CONTROLLING AND MANAGING RISKS

Approach to Risk Management

The Company identifies, assesses and manages risks which affect its business.

Risk management is monitored through business processes such as business planning, investment analysis, project management, and operations management.

Incidents in respect to injury or accidents are reported monthly to the Board.

In managing financial risk around treasury transactions, the Board has approved principles and policies that specify who may authorise transactions under delegated authority and also the segregation of duties of those carrying out such transactions.

External and internal audit reports to the Audit Committee comment on the adequacy and effectiveness of the Company's internal controls. The Audit Committee in turn reports this information to the Board.

ASSURANCE FROM THE MANAGING DIRECTOR AND CHIEF FINANCIAL OFFICER

The Managing Director and Chief Financial Officer have stated to the Board in writing that, in respect of the year ended 30 June 2010 and to the best of their knowledge and belief, a sound system of risk management and internal compliance and control that implements the policies of the Board of Directors is in place to provide assurance that the Company financial statements give a true and fair view of the matters to which they relate and are in accordance with New Zealand generally accepted accounting practice.

EXTERNAL AUDIT INDEPENDENCE

The Audit Committee is responsible for making recommendations to the Board concerning the appointment of the Company's external and internal auditors and their terms of engagement. At the annual meeting in November 2009, directors confirmed the automatic reappointment of PricewaterhouseCoopers as the Company's external auditors pursuant to Section 200 of the Companies Act 1993, and shareholders approved the Board setting the remuneration of the auditors.

The Company is committed to auditor independence. The Audit Committee reviews the independence and objectivity of the external auditors. For this reason the work of PricewaterhouseCoopers is limited to audit, related assurance, and taxation; and the Audit Committee or its Chair is required to pre-approve all audit and related assurance services. The External Audit Independence Policy requires rotation of audit partners every five years.

The external auditors review all Board minutes and attend Audit Committee meetings. The Audit Committee also meets with the external auditors without management present and meets with management without the external auditors being present. Committee members may contact the external auditors directly at any time.

INTERNAL AUDIT

The Company has appointed Audit Link to carry out the internal audit function. Audit Link is the auditing unit of Naylor Laurence & Gray, a chartered accountancy firm based in Palmerston North, which carries out internal auditing assignments as approved by the Audit Committee.

PROMOTING ETHICAL AND RESPONSIBLE BEHAVIOUR

The Company expects all its employees and Directors to maintain the highest ethical standards. The Company's employees are expected to conduct their professional lives by facilitating behaviour and decision making that meets the Company's business goals and also is consistent with the values, policies, and legal obligations of the Company.

INTERNAL POLICIES AND PROCEDURES

All staff are responsible for ensuring that the Company carries out its business activities in a way that gives due consideration to all applicable legal requirements, minimises the cost of legal risk, and maximises business opportunities. Managers are responsible for making sure their staff understand what compliance means in their particular areas, by ensuring appropriate training and compliance information is available.

INSIDER TRADING AND TRADING IN COMPANY SHARES

Directors and employees are subject to 'insider trading' restrictions under the law relating to dealing in securities and other related derivatives if they are in possession of inside information. Inside information is information that is not generally available to the public and, if it were generally available, would be expected by a reasonable person to have a material effect on the price or value of those securities.

To ensure compliance with these legal requirements the Company specifies that certain "Restricted Persons" are prohibited from trading in any Restricted Securities during specific "black-out" periods, unless the Board provides a specific exemption. These include 30 days prior to Allied Farmers Limited half-year and year end balance dates until the first trading day after the results are released to NZX, or 30 days prior to release of a prospectus for a general public offer of the same class of Restricted Securities. In addition, if you hold material information you must not trade Restricted Securities at any time - regardless of these periods.

Within the framework of New Zealand's insider trading laws, the Board has resolved that prior consent of such transactions must be granted by the General Counsel and Company Secretary.

The completion of any such transaction must also be notified to the General Counsel and Company Secretary.

In addition, as required by the Securities Markets Act 1988 and the Securities Markets (Disclosure of Relevant Interests by Directors and Officers) Regulations 2003, all trading by Directors and senior management is reported to NZX.

MARKET DISCLOSURE AND SHAREHOLDER COMMUNICATIONS

The Company is committed to providing comprehensive continuous disclosure to shareholders and other stakeholders, and complying with the NZX listing rules.

The Company requires certain senior management (the Managing Director and Chief Financial Officer) and in some cases the Chairman, to discuss whether information is material prior to its release.

The General Counsel and Company Secretary is responsible for ensuring that all material information is lodged as soon as practicable with NZX.

The General Counsel and Company Secretary ensures that such information is published on the Company's website where appropriate, with further dissemination through broadcast emails to news agencies and other market commentators.

The Company has appointed the Chairman and the Managing Director as authorised spokespeople who are required to ensure that all proposed public comments either contain information already in the public domain or are not material.

The Company's website contains media releases, financial information since 1998, current and past annual reports, dividend histories, notices of meeting, and other information about the Company.

Full participation of shareholders at the annual meeting is encouraged.

Shareholders will have the opportunity to ask questions of the Chairman, the Managing Director, Directors and auditors at the Annual General Meeting.

REMUNERATION OF EMPLOYEES

The Remuneration Committee is responsible for reviewing remuneration and human resources strategy, structure, policy, and practices. When appropriate, it seeks external expert advice on best-practice remuneration structures and market trends, to ensure that the remuneration strategy of the Company contributes to effective performance and value creation.

EXECUTIVE SHARE OPTION SCHEME

The shareholder-approved Executive Share Option Scheme was introduced in 2007, allocating 1,300,000 Allied Farmers Limited share options to eligible senior executives. Only 455,341 share options were on issue and had not lapsed at balance date.

The exercise period for these options commences on 13 March 2010 and ceases on 13 March 2013.

The exercise price will be $2.16.

The eligible executive may exercise options only if the performance hurdle has been satisfied.

Performance Hurdle

An option cannot be exercised unless the average volume-weighted price of one Allied Farmers ordinary share on the NZX market in NZ$ is either:

- for the 90 days preceding the date that the exercise period commences, equal to or greater than $2.65; or
- for the 90 days following the date of an announcement of Allied Farmers annual or half-year results during the exercise period, equal to or greater than that sum calculated by taking the sum of $2.65 increased by 15% per annum for each whole year and for each part year on a proportionate basis, compounded annually from the date that the exercise period commences (less an adjustment for distributions and dividends) to the relevant date of calculation.

Consolidated Income Statement

Allied Farmers Limited and Subsidiaries
For the year ended 30 June 2010

	Note	Group Pro-forma* 2010 $000	Group 2010 $000	Group 2009 $000	Parent 2010 $000	Parent 2009 $000
Continuing operations						
Revenue						
Sale of goods		47,520	47,520	53,274	-	-
Interest and fee income	2	19,939	57,273	54,593	-	68
Operating lease income		-	459	983	-	-
		67,459	105,252	108,850	-	68
Profit on sale of businesses	3	-	-	-	-	19,351
Fair value gain (loss) on derivatives		(1,071)	399	532	97	(360)
Other income	4	158	1,081	631	819	414
		(913)	1,480	1,163	916	19,405
Total income		66,546	106,732	110,013	916	19,473
Expenses						
Cost of inventory sold		40,654	40,654	44,633	-	-
Interest and funding expense	5	9,796	32,290	33,462	4,134	4,133
Rental and operating leases		1,533	2,185	2,054	129	111
Employee benefit expense	6	11,870	16,086	16,399	1,454	1,297
Depreciation and amortisation	8	746	1,833	2,397	151	133
Business acquisition costs	28	5,984	5,984	-	5,984	-
Impairment of investment in and loans to subsidiaries	9	40,080	-	-	69,747	21,830
Impairment of goodwill and intangibles	10	116	21,511	19,504	-	-
Impairment of ex Hanover Finance and United Finance assets	11	20,203	20,203	-	-	-
Impairment of loans within Allied Nationwide Finance Limited	31	-	18,938	11,033	-	-
Other operating expenses	12	13,383	17,160	15,134	3,142	(729)
Total expenses		144,365	176,844	144,616	84,741	26,775
Share of profit (loss) from associates	32	37	37	(17)	-	-
Loss before income tax	1	(77,782)	(70,075)	(34,620)	(83,825)	(7,302)
Income tax expense on continuing operations	1, 14	1,361	7,512	427	1,356	3,108
Net loss for the year from continuing operations	1	(79,143)	(77,587)	(35,047)	(85,181)	(10,410)
Discontinued operations**						
Revenue	1	-	-	862	-	69,786
Expenses	1	-	-	3	-	67,639
Profit before income tax	1	-	-	859	-	2,147
Income tax expense on discontinued operations	1, 14	-	-	10	-	47
Net profit for the year from discontinued operations	1	-	-	849	-	2,100
Net loss for the year attributable to the equity holders of the Parent Company		(79,143)	(77,587)	(34,198)	(85,181)	(8,310)

* The Group Pro-forma column represents the consolidated Group without Allied Nationwide Finance Limited which was placed in receivership on 20 August 2010 (refer to note 45 for basis of preparation).

** The June 2009 rural operations have been treated as discontinued operations within the Parent June 2009 Income Statement due to the sale of these business activities to Allied Farmers Rural Limited on 30 June 2009. The rural operations are treated as continuing operations within the Group Income Statement.

Consolidated Income Statement continued

	Note	Group Pro-forma* 2010 $000	Group 2010 $000	Group 2009 $000	Parent 2010 $000	Parent 2009 $000
Total earnings per share attributable to the equity holders of the Parent Company:	13					
Basic (cents per share)		**(7.5)**	**(7.3)**	(150.0)		
Diluted (cents per share)		**(7.5)**	**(7.3)**	(150.0)		
Earnings per share from continuing operations attributable to the equity holders of the Parent Company:	13					
Basic (cents per share)		**(7.5)**	**(7.3)**	(153.7)		
Diluted (cents per share)		**(7.5)**	**(7.3)**	(153.7)		
Earnings per share from discontinued operations attributable to the equity holders of the Parent Company:**	13					
Basic (cents per share)		**-**	**-**	3.7		
Diluted (cents per share)		**-**	**-**	2.2		

* The Group Pro-forma column represents the consolidated Group without Allied Nationwide Finance Limited which was placed in receivership on 20 August 2010 (refer to note 45 for basis of preparation).

** The June 2009 rural operations have been treated as discontinued operations within the Parent June 2009 Income Statement due to the sale of these business activities to Allied Farmers Rural Limited on 30 June 2009. The rural operations are treated as continuing operations within the Group Income Statement.

Consolidated Statement of Comprehensive Income

Allied Farmers Limited and Subsidiaries
For the year ended 30 June 2010

	Note	**Group Pro-forma* 2010 $000**	**Group 2010 $000**	Group 2009 $000	**Parent 2010 $000**	Parent 2009 $000
Net loss for the year attributable to the equity holders of the Parent Company		**(79,143)**	**(77,587)**	(34,198)	**(85,181)**	**(8,310)**
Other comprehensive income						
Cash flow hedges (net of tax)	16	**591**	**2,880**	(3,924)	**591**	(465)
Other comprehensive income for the year		**591**	**2,880**	(3,924)	**591**	(465)
Total comprehensive income for the year attributable to the equity holders of the Parent Company		**(78,552)**	**(74,707)**	(38,122)	**(84,590)**	(8,775)

* The Group Pro-forma column represents the consolidated Group without Allied Nationwide Finance Limited which was placed in receivership on 20 August 2010 (refer to note 45 for basis of preparation).

Consolidated Statement of Changes in Equity

Allied Farmers Limited and Subsidiaries
For the year ended 30 June 2010

Group	Note	Share capital $000	Retained earnings $000	Cash flow hedge reserve $000	Minority interest** $000	Total equity $000	Group Pro-forma* Total equity $000
		Attributable to the equity holders of the Parent Company					
Opening balance as at 1 July 2008		13,010	14,422	(126)	-	27,306	
Comprehensive income							
Net loss for the year ended 30 June 2009		-	(34,198)	-	-	(34,198)	
Cash flow hedge reserve (net of tax)	16	-	-	(3,924)	-	(3,924)	
Total comprehensive income		-	(34,198)	(3,924)	-	(38,122)	
Transactions with owners							
Share capital issued	15	8,137	-	-	-	8,137	
Perpetual bonds acquired	17	-	-	-	13,539	13,539	
Share-based payments	6, 7	(34)	-	-	-	(34)	
Distribution to minority interests (net of tax)		-	(819)	-	-	(819)	
Total transactions with owners		8,103	(819)	-	13,539	20,823	
Opening balance as at 1 July 2009		21,113	(20,595)	(4,050)	13,539	10,007	10,007
Comprehensive income							
Net loss for the year ended 30 June 2010		-	(77,587)	-	-	(77,587)	(79,143)
Cash flow hedge reserve (net of tax)	16	-	-	2,880	-	2,880	591
Total comprehensive income		-	(77,587)	2,880	-	(74,707)	(78,552)
Transactions with owners							
Share capital issued at fair value	15	109,975	-	-	-	109,975	109,975
Share-based payments	6, 7	26	-	-	-	26	26
Unpresented dividend payments forfeited	16	-	131	-	-	131	131
Allied Nationwide Finance Limited adjustment	45	-	-	-	-	-	(10,552)
Distribution to minority interests (net of tax)		-	(967)	-	-	(967)	-
Total transactions with owners		110,001	(836)	-	-	109,165	99,580
Closing balance as at 30 June 2010		131,114	(99,018)	(1,170)	13,539	44,465	31,035

* The Group Pro-forma column represents the consolidated Group without Allied Nationwide Finance Limited which was placed in receivership on 20 August 2010 (refer to note 45 for basis of preparation).

** Minority interest relates to perpetual bonds issued by Allied Nationwide Finance Limited that are treated as equity instruments for accounting purposes.

Consolidated Statement of Changes in Equity continued

Parent	Note	**Share capital $000**	**Retained earnings $000**	**Cash flow hedge reserve $000**	**Total equity $000**
Opening balance as at 1 July 2008		13,010	5,906	(126)	18,790
Comprehensive income					
Net loss for the year ended 30 June 2009		-	(8,310)	-	(8,310)
Cash flow hedge reserve (net of tax)	16	-	-	(465)	(465)
Total comprehensive income		-	(8,310)	(465)	(8,775)
Transactions with owners					
Share capital issued	15	8,137	-	-	8,137
Share-based payments	6, 7	(34)	-	-	(34)
Total transactions with owners		8,103	-	-	8,103
Opening balance as at 1 July 2009		21,113	(2,404)	(591)	18,118
Comprehensive income					
Net loss for the year ended 30 June 2010		-	(85,181)	-	(85,181)
Cash flow hedge reserve (net of tax)	16	-	-	591	591
Total comprehensive income		-	(85,181)	591	(84,590)
Transactions with owners					
Share capital issued at fair value	15	109,975	-	-	109,975
Share-based payments	6, 7	26	-	-	26
Unpresented dividend payments forfeited	16	-	131	-	131
Total transactions with owners		110,001	131	-	110,132
Closing balance as at 30 June 2010		131,114	(87,454)	-	43,660

Consolidated Balance Sheet

Allied Farmers Limited and Subsidiaries
As at 30 June 2010

	Note	Group Pro-forma* 2010 $000	Group 2010 $000	Group 2009 $000	Parent 2010 $000	Parent 2009 $000
Equity						
Share capital	15	131,114	131,114	21,113	131,114	21,113
Reserves	16	(100,079)	(100,188)	(24,645)	(87,454)	(2,995)
		31,035	30,926	(3,532)	43,660	18,118
Minority interest	17	-	13,539	13,539	-	-
Total equity		31,035	44,465	10,007	43,660	18,118
Liabilities						
Bank overdraft (secured)	34	1,677	1,677	2,614	-	-
Trade and other payables	22	17,731	22,024	14,622	488	830
Borrowings - Senior debt (secured)	19	16,500	16,500	21,000	16,500	21,000
Borrowings - Capital notes and bonds	20	12,398	14,298	14,193	12,398	12,247
Borrowings - Property assets (secured)	21	44,266	44,266	106	-	45
Provisions	23	6,067	6,532	1,387	5,255	4,045
Derivative financial instruments	24	1,518	2,732	7,209	350	1,271
Deposits	18	-	225,893	321,217	-	-
Advances from subsidiaries	28	12,316	-	-	14,784	853
Total liabilities		112,473	333,922	382,348	49,775	40,291
Total liabilities and shareholders equity		143,508	378,387	392,355	93,435	58,409
Assets						
Cash and cash equivalents	34	646	10,565	48,294	-	-
Trade and other receivables	35	3,514	21,757	19,255	-	181
Loans, advances and finance leases	29, 30	43,677	245,084	271,624	-	-
Inventory - Merchandise	36	5,631	5,631	4,890	-	-
Inventory - Property	37	38,067	38,067	-	-	-
Derivative financial instruments	24	46	-	-	46	62
Assets held for resale	26	669	1,206	2,668	10	10
Investment property	33	41,907	43,792	1,940	-	-
Investments in and advances to subsidiaries	28	-	-	-	89,888	54,654
Current taxation	14	21	93	206	3	3
Investments accounted for using the equity	32	248	248	211	-	-
Property, plant and equipment	25	7,832	10,473	11,636	3,486	3,499
Intangible assets	27	1,250	1,471	23,845	2	-
Deferred taxation	14	-	-	7,786	-	-
Total assets		143,508	378,387	392,355	93,435	58,409

* The Group Pro-forma column represents the consolidated Group without Allied Nationwide Finance Limited which was placed in receivership on 20 August 2010 (refer to note 45 for basis of preparation).

The Board of Directors of Allied Farmers Limited authorised these financial statements for issue on 30 September 2010:
Signed on behalf of the Board of Directors

Director

Director

Consolidated Statement of Cash Flows

Allied Farmers Limited and Subsidiaries
For the year ended 30 June 2010

	Note	Group Pro-forma* 2010 $000	Group 2010 $000	Group 2009 $000	Parent 2010 $000	Parent 2009 $000
Cash Flows from Operating Activities						
Cash was provided from:						
Receipts from customers		59,073	59,589	68,567	-	67,370
Interest received		1,873	40,412	36,837	-	1,927
Net decrease in loans and advances**		7,681	60,481	65,943	-	-
Sale of tax losses		-	-	-	-	1,400
Income tax refunded		-	132	22	-	22
		68,627	160,614	171,369	-	70,719
Cash was applied to:						
Payments to suppliers and employees		(60,589)	(70,873)	(78,791)	(4,108)	(65,483)
Interest paid		(8,963)	(30,387)	(30,308)	(3,348)	(6,573)
Tax paid		-	-	(200)	-	-
		(69,552)	(101,260)	(109,299)	(7,456)	(72,056)
Net cash flows from (used in) operating activities		(925)	59,354	62,070	(7,456)	(1,337)
Cash Flows from Investing Activities						
Cash was provided from:						
Asset sales		2,725	4,106	2,809	1	137
Cash acquired from acquisition of subsidiary less acquisition expenses	28, 38	6,207	6,207	-	-	-
Dividends received		-	-	1	-	1
Sale of business activity	1, 38	-	-	1,500	-	850
Sale of net cash balance to subsidiary	28	-	-	-	-	2,593
Net decrease in accounts receivable acquired		-	-	4,000	-	-
Intercompany loans		308	-	-	13,454	-
		9,240	10,313	8,310	13,455	3,581
Cash was applied to:						
Investments in associates / other		(60)	(60)	(35)	-	(35)
Acquisition of subsidiary		-	-	-	(1,313)	-
Net advanced to (from) subsidiaries		-	-	-	-	4,622
Purchase of receivable		-	-	4,321	-	(7,921)
Purchase of property, plant and equipment and intangible assets		(441)	(457)	(2,748)	(141)	(891)
		(501)	(517)	1,538	(1,454)	(4,225)
Net cash flows from (used in) investing activities		8,739	9,796	9,848	12,001	(644)
Cash Flows from Financing Activities						
Cash was provided from:						
Issue of ordinary shares		-	-	5,915	-	5,915
Borrowings		-	-	2,000	-	-
		-	-	7,915	-	5,915
Cash was applied to:						
Borrowings		(6,251)	(6,251)	(1,961)	(4,545)	(1,961)
Distribution to perpetual bond holders		-	(1,428)	(1,170)	-	-
Net decrease in deposits**		-	(76,132)	(29,115)	-	-
Net decrease in commercial paper**		-	(22,132)	(24,302)	-	-
Net decrease in loan facility acquired		-	-	(3,000)	-	-
		(6,251)	(105,943)	(59,548)	(4,545)	(1,961)
Net cash flows from (used in) financing activities		(6,251)	(105,943)	(51,633)	(4,545)	3,954
Net increase (decrease) in cash and cash equivalents		1,563	(36,793)	20,285	-	1,973
Add opening cash and cash equivalents brought forward		(2,594)	45,681	25,395	-	(1,973)
Ending cash and cash equivalents carried forward		(1,031)	8,888	45,680	-	-
Cash consists of:						
Cash and cash equivalents (secured) in Consolidated Balance Sheet	34	(1,677)	(1,677)	(2,614)	-	-
Cash and cash equivalents in Consolidated Balance Sheet	34	646	10,565	48,294	-	-
		(1,031)	8,888	45,680	-	-

* The Group Pro-forma column represents the consolidated Group without Allied Nationwide Finance Limited which was placed in receivership on 20 August 2010 (refer to note 45 for basis of preparation).

** These items are respectively netted in the cash flow statement above. The reason for this is that they are significant cash flows that reflect the activities of the Group's customers rather than those of the Group itself.

Reconciliation of net loss after tax for the year with cash flow from operating activities

	Note	Group Pro-forma* 2010 $000	Group 2010 $000	Group 2009 $000	Parent 2010 $000	Parent 2009 $000
Net loss after tax for the year		**(79,143)**	**(77,587)**	(34,198)	**(85,181)**	(8,310)
Add (less) non cash items						
Dividends received		**-**	**-**	-	**(9)**	-
Fair value (gain) loss on derivatives		**1,071**	**(399)**	(629)	**(97)**	263
Depreciation	8	**601**	**1,312**	1,792	**150**	701
Amortisation of intangibles	8	**145**	**521**	605	**1**	242
Intercompany charges		**-**	**-**	-	**(810)**	(414)
Intercompany interest		**859**	**-**	-	**812**	-
Bad debt provision / impairment		**-**	**-**	-	**-**	(2,884)
Loss on revaluation of investment property / Impairment of assets		**20,203**	**20,258**	690	**-**	530
Impairment of goodwill	10, 27	**116**	**21,511**	19,504	**-**	-
Impairment of investment and loans to subsidiary	9	**40,080**	**-**	-	**69,747**	21,830
Gain on sale of subsidiary		**-**	**-**	-	**-**	(18,492)
Share based payments		**7**	**26**	(34)	**7**	(53)
Amortisation of capital notes expenses		**151**	**151**	150	**151**	150
Share of (profit) loss from associate		**(37)**	**(37)**	17	**-**	-
Onerous lease recognition		**88**	**88**	98	**89**	97
Residual value of impairment on operating lease assets		**-**	**142**	89	**-**	-
Deferred taxation		**1,363**	**7,544**	926	**1,358**	4,555
		64,647	**51,117**	23,208	**71,399**	6,525
Items classified as investing activities						
Dividends		**-**	**-**	(1)	**-**	(1)
Capitalisation of interest earned		**(4,249)**	**(4,249)**	-	**-**	-
(Profit) loss on asset sales		**30**	**25**	(591)	**-**	(720)
Investment in associates / other		**(41)**	**(41)**	(57)	**-**	(57)
Business acquisition costs		**5,984**	**5,984**	-	**5,984**	-
		1,724	**1,719**	(649)	**5,984**	(778)
Items classified as financing activities						
Deposit interest capitalised		**-**	**2,590**	2,627	**-**	-
Movement in working capital						
Decrease (increase) in loans, advances and finance leases		**7,681**	**23,596**	(134,716)	**-**	-
Decrease (increase) in deferred brokerage		**-**	**294**	(141)	**-**	
Decrease (increase) in trade and other receivables		**533**	**(7,221)**	(1,461)	**181**	(406)
Increase (decrease) in payables		**3,306**	**7,670**	3,301	**161**	1,301
Decrease (increase) in taxation		**-**	**113**	181	**-**	22
Decrease (increase) in inventory		**327**	**(43,148)**	309	**-**	309
Adjust for increase in working capital items arising from acquisition**		**-**	**100,211**	203,609	**-**	-
		11,847	**81,515**	71,082	**342**	1,226
Net cash inflows (outflows) from operating activities		**(925)**	**59,354**	62,070	**(7,456)**	(1,337)

* The Group Pro-forma column represents the consolidated Group without Allied Nationwide Finance Limited which was placed in receivership on 20 August 2010 (refer to note 45 for basis of preparation).

** Working capital assets were acquired by the Group on acquisition of the finance assets of Hanover Finance and United Finance and included as part of the assets and liabilities. These are adjusted out of movements in working capital above to reflect the non-cash nature of this acquisition and non-generation of profits from these working capital assets and liabilities acquired.

Statement of Accounting Policies

Allied Farmers Limited and Subsidiaries
For the year ended 30 June 2010

GENERAL INFORMATION

These financial statements have been approved for issue by the Board of Directors on 30 September 2010. The Board of Directors does not have the power to amend the financial statements after they have been issued.

Allied Farmers Limited and Subsidiaries is a diversified rural services company, with its predominant activities comprising the provision of asset management services, property, rural, commercial and business finance to borrowers throughout New Zealand, and the sale of livestock and rural merchandise.

Allied Farmers Limited ("the Parent Company") is a limited liability company, incorporated and domiciled in New Zealand. The Parent Company's registered address is:

Level 1, 74 Princes Street
Hawera
New Zealand

Allied Farmers Limited is a public company listed on the New Zealand Stock Exchange (NZX code: ALF).

Receivership of Allied Nationwide Finance Limited
On 20 August 2010 Allied Nationwide Finance Limited was placed in receivership by its Trustee (The New Zealand Guardian Trust Company Limited). Refer to note 44 for further detail.

Acquisition of Hanover Finance Limited and United Finance Limited Assets
On 18 December 2009 the Allied Farmers Group acquired the finance assets of Hanover Finance Limited and United Finance Limited as well as certain support package assets and liabilities from their subsidiary companies. Details of the transaction are outlined in note 28. The assets acquired are referred to as the 'Hanover Finance and United Finance assets' in the financial statements.

The consolidated financial statements of the Group for the year ended 30 June 2010 comprise Allied Farmers Limited (the "Parent Company") and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

Items included in the financial statements of each of the Group's entities are measured using New Zealand Dollars, being the functional currency of each entity. The consolidated financial statements are presented in New Zealand Dollars, which is the Group's presentational currency.

BASIS OF PREPARATION

The Group's financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. These financial statements comply with International Financial Reporting Standards (IFRS).

The consolidated financial statements of the Group have been prepared in accordance with the requirements of the Companies Act 1993 and the Financial Reporting Act 1993. The reporting entity is an issuer under the Financial Reporting Act 1993 and the Securities Act 1978.

The consolidated financial statements have been prepared on the basis of historical cost with the exception of certain items for which specific accounting policies are applied as identified below.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed at the end of the accounting policies set out below.

Where necessary, the amounts shown for the previous periods have been reclassified to facilitate comparison.

The following new standards or amendments became mandatory during the reporting period and were applied to the Parent and Group financial statements for the year ended 30 June 2010:

NZ IAS 1: Revised ‘Presentation of Financial Statements’. The revised standard prohibits the presentation of items of income and expense in the Statement of Changes in Equity that are not related to transactions with owners. The Group has elected to present these non-owner transactions in a separate Consolidated Statement of Comprehensive Income.

NZ IFRS 2: Revised ‘Share-based Payment’. The amendment relates to the definition of vesting conditions.

NZ IFRS 8: ‘Operating Segments’. NZ IFRS 8 replaces NZ IAS 14 ‘Segment Reporting’. The standard requires a management approach for segment information to be presented on the same basis as used in internal reporting and for operating segments to be reported in a manner consistent with the internal reporting to the chief operating decision maker. The Managing Director has been identified as the chief operating decision maker. The Group’s operating segments comprise asset management services, rural services and financial services. Disclosure under these reportable segments has been made in the financial statements, refer to note 1.

Group pro-forma 2010 accounts

Additional “Group Pro-forma” financial information has been included in the financial statements which represents the consolidated Group as it would stand without Allied Nationwide Finance Limited (in receivership). Refer to note 45 for further detail.

BASIS OF CONSOLIDATION

Subsidiaries

Subsidiaries are entities that are controlled, either directly or indirectly, by the Parent Company. Control exists when the Parent Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group and Parent. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group and Parent’s share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

While Allied Nationwide Finance Limited does not hold any shares in Speirs Securities Limited, the two companies are party to a securitisation arrangement that attributes significant risks and rewards from the business of Speirs Securities Limited to Allied Nationwide Finance Limited. For this reason Speirs Securities Limited is regarded as a subsidiary of Allied Nationwide Finance Limited and therefore forms part of the Group.

The Allied Nationwide Finance Limited Perpetual Bonds are equity instruments not attributable to equity holders of the Parent Company, and as such upon the consolidation of Allied Nationwide Finance Limited they are recognised as a minority interest in the Group balance sheet.

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains.

Associates

Associates are entities in which the Group, either directly or indirectly, has a significant but not controlling interest. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group’s share of the associates post acquisition results are included in the income statement from the date of acquisition up until the date of disposal.

BUSINESS COMBINATIONS

Common control transactions
Business combinations in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the combinations are recognised as common control transactions. In common control transactions the Group incorporates the assets and liabilities at the amounts recorded at the level of common control prior to acquisition.

OPERATING REVENUE AND EXPENSES

Sales of goods
Sales of goods are recognised as revenue when the Group and Parent sells a product to a customer in the ordinary course of business. Revenue is stated net of Goods and Services Tax (GST) collected from customers. Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

Interest income and expense
Interest income and expense for all interest bearing financial instruments, except for finance leases, are recognised within "interest and fee income" and "interest and funding expense" in the income statement using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group and Parent estimates future cash flows considering all the contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees received and brokerage paid that are an integral part of the effective interest rate.
Finance lease income is recognised within "interest and fee income" over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.

Fee and commission income
Fees that are received in relation to the provision of a loan or advance, and thus deemed to be yield-related, are recognised as an adjustment to the effective interest rate. Other fees and commission income which are non-yield related are recognised on an accrual basis once the underlying service has been provided. All fees and commission income are recognised within "interest and fee income".

The Group and Parent acts as an agent for livestock transactions, for which the commission income is recognised in the income statement on an accrual basis when the service has been provided and the commission earned.

Rental income
Rental income from investment property is recognised in the income statement on a straight line basis over the term of the leases. Lease incentives granted are recognised as an integral part of the total rental income.

Brokerage expense
Brokerage paid to acquire financial assets and financial liabilities is recognised within "interest and fee income" and "interest and funding expense" in the income statement as an adjustment to the effective interest rate.

Operating lease income
Operating lease income is recognised in the income statement on a straight-line basis over the lease term.

Management fees
Management fees are recognised in the income statement on an accrual basis.

INVENTORIES

Merchandise inventories
Merchandise inventories are recorded at cost determined on a weighted average basis. The cost of inventories comprise the direct costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Property inventories
Property inventory is held for sale in the ordinary course of business and comprises titled sections and completed buildings. The property inventories are valued at the lower of cost or net realisable value.

Any impairment in value is charged to the income statement. The cost of inventories includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. An independent valuer values the property at least annually.

TAXATION

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets or liabilities are determined using tax rates that have been enacted or substantially enacted by the balance date and are expected to apply when the related deferred tax asset is realised or deferred tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Any current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

FOREIGN CURRENCY TRANSLATION

Transactions in foreign currencies are translated into the functional currency at the exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the income statement. At balance date, foreign denominated monetary assets and liabilities are translated at the closing exchange rate, with exchange variations arising from these translations being recognised in the income statement.

FINANCIAL ASSETS

Purchases and sales of financial assets are recognised on the trade date, the date on which the Group and Parent commits to purchase or sell the asset.

The Group and Parent classify their financial assets into the following: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are financial assets held for trading, or designated as such on initial recognition on the basis that the financial asset is part of a group of financial assets and whose performance is evaluated on a fair value basis in accordance with the documented risk management or investment strategy of the Group and Parent and information about the group of financial assets is provided on a fair value basis to the Group and Parent's key management personnel.

Derivatives are categorised as held for trading unless they are designated as hedging instruments. Subsequent to initial measurement financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in the income statement.

The Group and Parent do not engage in any speculative transactions or hold derivative financial instruments for trading purposes.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables include loans and advances, finance leases, cash and cash equivalents, trade receivables and tax receivables.

Loans and advances are carried at amortised cost using the effective interest method, less provisions for impairment raised in accordance with the policy note set out for Impairment of financial and non-financial assets.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the asset within 12 months of the balance sheet date.

Purchases and sales of financial assets are recognised on trade-date – the date on which the Group and Parent commits or is obligated to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through the profit or loss.

Available-for-sale financial assets are subsequently carried at fair value. Changes in the fair value of available-for-sale financial assets are recognised in equity.

When available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains and losses from 'available-for-sale assets''. Dividends on available-for-sale financial assets are recognised in the income statement as part of other revenue when the Group and Parent's right to receive payment is established.

For available-for-sale financial assets that are unlisted securities (the market for a financial asset is not active), the Group and Parent establishes the fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs. If the fair value of an unlisted equity instrument can not be reliably determined the investment is held at cost.

Derecognition
Financial assets are derecognised when the rights to the cash flows of the assets have expired or the rights to receive the cash flows of the assets and substantially all the risks and rewards of the assets have been transferred.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

TRADE AND OTHER RECEIVABLES

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

ASSETS HELD FOR SALE

Assets held for sale are recognised at the lower of their carrying amounts and their fair value less costs to sell. Once assets become held for sale, depreciation is suspended. Assets held for sale include operating lease assets that have been returned by clients. Their value will more probably than not be realised through a sale transaction.

DERIVATIVE FINANCIAL INSTRUMENTS

The Group and Parent use derivative financial instruments to manage their exposure to interest rate risks arising from borrowings. In accordance with its treasury policy, the Group and Parent do not hold or issue derivative financial instruments for trading purposes. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models as appropriate. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair values are negative. The Group and Parent have designated their current derivatives as cash flow hedges (hedges of a particular risk associated with a recognised asset or liability or a highly probable outcome).

The Group and Parent document at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group and Parent also document their assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The fair values of derivative instruments used for hedging purposes are disclosed in note 24. Movements in the hedging reserve are disclosed in the statement of changes in equity. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The loss / gain relating to the ineffective portion is recognised immediately in the income statement within 'fair value loss / gain on derivatives'.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

The fair value of interest rate swaps is the estimated amount that the Group and Parent would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current credit worthiness of the swap counterparties.

LEASES

AS LESSOR
Finance leases
A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership to the lessee. Lease receivables are stated at the net investment in the lease less provisions for impairment raised in accordance with the Group and Parent's impairment policy. The net investment in the lease is calculated as the present value of the lease payments. The difference between the gross investment in the lease and the net investment in the lease is recognised as unearned interest income.

Operating lease assets
A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership to the lessee. Items of equipment leased to clients under operating leases are included as fixed assets in the balance sheet and are depreciated over their expected useful lives, allowing for any expected residual values. Rental income is recognised as operating lease income on a straight-line basis over the lease term.

AS LESSEE
Finance leases
The Group and Parent leases certain property, plant and equipment. Leases of property, plant and equipment where the Group and Parent have substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Operating leases
Operating lease payments, where the lessor effectively retains all the risks and benefits of ownership of the leased assets, are recognised as an expense on a straight-line basis over the lease term.

IMPAIRMENT OF FINANCIAL AND NON-FINANCIAL ASSETS

Financial assets
Loans, advances and finance lease receivables considered non-performing are classified and recognised as follows:

90-day past due assets
Loans, advances and finance lease receivables that have not been operated by the counterparty within their key terms for at least 90 days, and which are not individually impaired assets.

Individually impaired assets
Loans, advances and finance lease receivables where there is objective evidence of impairment as a result of one or more events that have occurred (a 'loss event') and that loss event has an impact on the estimated future cash flows of the loan, advance, or finance lease that can be reliably measured.

Restructured assets
Loans, advances and finance lease receivables where counterparties have had difficulty in complying with the original terms of the contract. Concessional terms have been granted and the loans, advances or finance leases are expected to be repaid in full, but on revised terms which are not comparable with the terms of new loans, advances or finance leases with comparable risks.

Financial assets acquired through the enforcement of security
Any financial asset which is legally owned as the result of enforcing security. It does not include "mortgagee in possession" assets.

Testing for impairment

Assets carried at amortised cost
The Group and Parent assess at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group and Parent use to determine that there is objective evidence of an impairment loss include:
- delinquency in contractual payments of principal or interest
- cash flow difficulties experienced by the borrower
- breach of loan covenants or conditions
- initiation of bankruptcy proceedings

The Group and Parent first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group and Parent determine that no objective evidence of impairment exists for an individually assessed financial asset, it is included in a collective assessment of impairment.

For individually impaired assets, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement within "other operating expenses".

All cash received is applied against costs, outstanding interest, and then the principal amount of the asset.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar risk characteristics such as industry, asset type, collateral type, past-due status and other relevant factors.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience with credit risk characteristics similar to those of the assets being assessed. Historical loss experience is adjusted to reflect current conditions that may be different to those experienced previously.

When a financial asset is uncollectible, it is written off against the related provision for impairment. Amounts required to bring provisions for impairment to their assessed levels are recognised in the income statement. Any future recoveries of amounts provided for are also recognised in the income statement.

Financial assets that were either subject to individual or collective assessment for impairment but are then restructured are no longer considered to be impaired, but are treated as new assets. In subsequent periods the new assets will be assessed for impairment.

Assets carried at fair value
The carrying amounts of the Group and Parent's assets are reviewed at each reporting date to determine whether there is any objective evidence of impairment. If such evidence exists the recoverable amount is estimated.

Non-financial assets
Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists, and then the impairment loss may be reversed.

INVESTMENT PROPERTY

Investment property is property held either to earn rental income or for capital appreciation or both. Investment property includes undeveloped commercial and undeveloped residential land. Investment property is measured at fair value with any change therein recognised in the income statement. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and willing seller in an arms length transaction. Valuations are performed annually by an independent valuer.

PROPERTY, PLANT AND EQUIPMENT

Items of property, plant and equipment are stated at historical or deemed cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and Parent and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated.

All other property, plant and equipment are depreciated on a straight line basis at rates that will write off the cost of the assets over their estimated useful lives, as follows:

Asset class	Estimated useful life
- Buildings	13 – 100 years
- Plant and equipment	3 – 55 years
- Motor vehicles	4 - 15 years
- Operating lease assets	1 - 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date.

Where it is estimated that the future residual value on an operating lease asset is likely to be less than previously expected, a residual value impairment provision is raised against the carrying value of the asset.
Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These gains and losses are included in the income statement.

INTANGIBLE ASSETS

Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

Software
Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives, which is estimated to be between one and six years.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products and websites controlled by the Group, and that will generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include the software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding three years).

TRADE AND OTHER PAYABLES

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

PROVISIONS

Provisions are recognised when the Group or Parent have a present obligation (legal or constructive) as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Provisions are measured at the present value of expenditure expected to be required to settle the obligation using a pre-tax interest rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an expense.

EMPLOYEE BENEFITS

Wages and salaries, annual leave and long service leave
Liabilities for wages and salaries, annual leave, long service leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Share-based compensation
The Group and Parent operate an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted as at the grant date, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the Group and Parent revise their estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital when the options are exercised.

BORROWINGS AND BORROWING COSTS

Borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

PERPETUAL ALLIED NATIONWIDE FINANCE LIMITED BONDS

Perpetual Allied Nationwide Finance Limited Bonds (refer note 17) are issued in perpetuity and are redeemable by Allied Nationwide Finance Limited, at its option, at a future date. Interest is payable at the discretion of the Directors of Allied Nationwide Finance Limited. Accordingly the bonds are classified as equity, with interest recognised as a distribution within the statement of changes in equity. As the bonds are equity instruments not attributable to equity holders of the Parent they are recognised as a minority interest in the Group balance sheet.

Perpetual Allied Nationwide Finance Limited Bonds issued to Speirs Group Limited as part of the acquisition of Speirs Finance Limited are subject to put and call options. These bonds have different terms and are classified as debt within the Group balance sheet.

GOODS AND SERVICES TAX (GST)

The operations of the Group and Parent comprise taxable, exempt and zero-rated supplies. All balances in the balance sheet are stated net of GST with the exception of trade receivables and payables which are shown inclusive of GST, and fixed assets which may be shown inclusive or exclusive of GST depending on whether or not the GST was recoverable at time of purchase.

Where goods and services are purchased that relate to exempt supplies, the amounts recognised are inclusive of non-recoverable GST.

DIVIDENDS

Dividends are recognised as a liability in the period in which they are approved by the Parent Company's Board. Dividends that are approved after balance date are noted as a subsequent event.

FAIR VALUE ESTIMATION

The fair value of financial instruments traded in active markets is based on quoted market prices at balance date.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group and Parent use a variety of methods and make assumptions that are based on market conditions existing at each balance sheet date. Techniques include estimated discounted cash flows and the Black-Scholes option valuation model.

Loans, advances and finance lease receivables are recognised at amortised cost using the effective interest rate, less provisions for impairment. The fair value of these financial assets held by:

- Allied Nationwide Finance Limited and its subsidiary cannot be determined as this will depend on the actions of the receiver and the response to those actions by market participants; and
- Allied Farmers Investments Limited is approximated by their carrying value.

Deposits are carried at amortised cost using the effective interest rate method. The fair value of the deposits at 30 June 2010 is $226,142,000 (Jun 2009: $326,241,000).

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group and Parent make estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Group and Parent make estimates and assumptions about the future in preparing their financial statements. The actual results in the future will often differ from the estimates made. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Fair value of assets acquired
A fair value assessment has been completed on the finance assets and liabilities acquired from Hanover Finance Limited and United Finance Limited. Details of this critical judgement are disclosed in note 28.

Impairment of Loans, advances and finance leases
The Group and Parent review their portfolio of loans, advances and finance leases monthly to assess it for impairment. In determining whether an impairment loss should be recorded in the income statement, the Group and Parent make judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows expected from individual assets. Where considered appropriate, for loans secured by property, a current valuation of the property is obtained from an independent valuer to provide the basis for determining the level of any impairment. The amount of prior charge holders and any associated country risk are also factors taken into this consideration. The Group and Parent also assess the assets collectively to ascertain whether there is any observable data indicating a change in the future estimated cash flows from them.

This evidence may include observable data concerning changes in the payment status of borrowers, individually or collectively, the net value of underlying collateral or economic indicators.

Management use estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Recoverability of Indefinite Life Intangible Assets

The recoverability of indefinite life intangible assets is a key source of estimation uncertainty. The recoverable amount of these intangible assets is assessed at least annually. An impairment loss is recognised if the carrying amount of the intangible assets, or their cash-generating unit, exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Refer to note 27 for details of the outcome of the Parent and Group's assessment of the recoverability of intangible assets.

Fair value of derivative financial instruments
The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. The fair value of interest rate swaps entered into for hedging purposes has been determined by discounting the cash flows arising by the quoted market yield curve at the period end.

The fair value of the options granted by the Group and Parent as disclosed in note 24 was determined by the Group's and Parent's professional advisers using the Black Scholes option pricing model. The major inputs to this model are discussed in note 24. Changes in the inputs used in the model could affect the fair value of the financial instrument. The increase in fair value indicated by increasing the volatility in market price of the investment property from 11% to 16% is $64,000.

Investment and inventory properties
The Group annually obtains valuation of its investment and inventory properties by an independent registered valuer. The primary assumptions underlying the valuations are summarised in note 33.

Going concern and liquidity
On 3 August 2010 the Parent announced a proposed capital raising underwritten to $9,000,000. Following the actions of the New Zealand Guardian Trust Company Limited regarding Allied Nationwide Finance Limited on 8 August 2010 the capital raising was suspended. This combined with the obligation to pay all proceeds from asset realisations to our senior lender, $12,700,000 since year end, has placed considerable pressure on the short term liquidity of the Group.

The financial statements have been presented on the going concern basis. The cash flow forecasts of the Parent and Group indicate that in order for there to be a reasonable expectation that the Parent and Group have adequate resources to continue operations for the foreseeable future there will need to be:

- completion of a successful capital raising, a mandate letter has been signed to recommence the capital raising suspended in August 2010;
- completion of an agreement with an alternate financier to provide replacement debt factoring facilities for Allied Farmers Rural Limited, the documentation and terms are in the process of being finalised;
- collection of $5,000,000 of Allied Farmers Rural Limited revolving credit debtors which became due for payment on 30 September 2010, it is expected a significant amount of this will be collected in the following month;
- continued realisation of financial and property assets of Allied Farmers Investments Limited; and
- finalisation with the receiver of Allied Nationwide Finance Limited as to the repayment terms on the obligations from the Group to Allied Nationwide Finance Limited.

In approving these financial statements for issue the Directors consider the adoption of the going concern assumption appropriate having taken account of the following:

- financial covenants on the Group's borrowings for the year to 30 June 2010 and up to the date of this report (refer to notes 19, 20, 21 and 39.5 for details of these covenants);
- obligations owed to Allied Nationwide Finance Limited (refer to notes 28, 35 and 38 for details);
- reasonableness of the key assumptions underpinning the 2011 financial performance and cash flow forecasts;
- the Group's progress with its funding initiatives up to the date of this report;
- the Group's ability to realise financial and property assets; and
- prevailing economic environment including relevant market indicators.

Notes to the Financial Statements

Allied Farmers Limited and Subsidiaries
For the year ended 30 June 2010

1. Financial information on segments of the business

At 30 June 2010, the Group is organised into three main business segments, Asset Management Services, Financial Services, and Rural Services.

The Asset Management Services segment comprises the assets acquired from Hanover Finance Limited, United Finance Limited and their subsidiary companies. The Asset Management Services activities are carried out by Allied Farmers Investments Limited and subsidiary companies, predominately in New Zealand.

The Group's Financial Services activities are carried out by Allied Nationwide Finance Limited in Auckland, Palmerston North, Wellington and Christchurch.

The Group's Rural Services activities are predominantly carried out in Taranaki, Waikato, King Country, Manawatu and the South Island.

Corporate and funding costs comprise the corporate activities of the Group.

The segment results for the year ended 30 June 2010 are as follows:

	Revenue (external)	Revenue (inter-segmental)	Depreciation and amortisation	Net impairment loss on financial assets	Interest and funding expense (external)	Interest expense (inter-segmental)	Impairment of Goodwill and intangibles financial services	Other expenses (external)	Share of profit (loss) from Associates	Profit (loss) before income tax	Income tax	Profit after income tax
Continuing operations	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Operating activities												
Asset Management Services	7,346	-	(91)	(20,203)	(2,999)	-	-	(5,747)	-	(21,694)	-	(21,694)
Rural Services	60,271	-	(505)	(221)	(285)	(2,378)	(116)	(57,560)	37	(757)	-	(757)
Financial Services	38,979	3,190	(1,401)	(18,938)	(25,499)	-	(910)	(8,605)	-	(13,184)	(6,151)	(19,335)
Total operating activities	106,596	3,190	(1,997)	(39,362)	(28,783)	(2,378)	(1,026)	(71,912)	37	(35,635)	(6,151)	(41,786)
Corporate and funding costs												
Corporate	136	780	(150)	-	(3,507)	(812)	(20,485)	(10,402)	-	(34,440)	(1,361)	(35,801)
Intragroup adjustments*	-	(3,970)	314	-	-	3,190	-	466	-	-	-	-
Total corporate and funding costs	136	(3,190)	164	-	(3,507)	2,378	(20,485)	(9,936)	-	(34,440)	(1,361)	(35,801)
Group continuing activities	106,732	-	(1,833)	(39,362)	(32,290)	-	(21,511)	(81,848)	37	(70,075)	(7,512)	(77,587)

* The intragroup adjustments relate to intercompany interest as disclosed in note 38, intercompany options, intercompany dividends, and amortisation of the AFL Card business sold by Allied Farmers Limited to Allied Nationwide Finance Limited.

The segment assets and liabilities at 30 June 2010 and capital expenditure for the year ended are as follows:

	Assets	Investment in Associates	Total assets	Liabilities	Capital expenditure
Continuing operations	$000	$000	$000	$000	$000
Operating activities					
Asset Management Services	129,342	-	129,342	(51,053)	49
Rural Services	13,856	248	14,104	(12,941)	365
Financial Services	234,926	-	234,926	(234,981)	25
Total operating activities	378,124	248	378,372	(298,976)	439
Corporate and funding					
Corporate	11,615	-	11,615	(34,947)	18
Intragroup adjustment	(11,600)	-	(11,600)	-	-
Total corporate and funding	15	-	15	(34,947)	18
Group continuing operations	378,139	248	378,387	(333,922)	457
Discontinued operations					
Rural Services**	-	-	-	-	-
Total Group	**378,139**	**248**	**378,387**	**(333,922)**	**457**

The segment results for the year ended 30 June 2009 are as follows:

Continuing operations	Revenue (external) $000	Revenue (inter-segmental) $000	Depreciation and amortisation $000	Net impairment loss on financial assets $000	Interest and funding expense (external) $000	Interest expense (inter-segmental) $000	Impairment of Goodwill and intangibles financial services $000	Other expenses (external) $000	Share of profit (loss) from Associates $000	Profit (loss) before income tax $000	Income tax $000	Profit after income tax $000
Operating activities												
Asset Management Services	-	-	-	-	-	-	-	-	-	-	-	-
Rural Services	69,786	-	(891)	(182)	(100)	(2,335)	-	(64,212)	(17)	2,049	-	2,049
Financial Services	40,159	2,814	(1,308)	(9,688)	(28,389)	-	-	(12,759)	-	(9,171)	-	(9,171)
Total operating activities	109,945	2,814	(2,199)	(9,870)	(28,489)	(2,335)	-	(76,971)	(17)	(7,122)	-	(7,122)
Corporate and funding costs												
Corporate	68	-	(262)	-	(3,801)	(479)	(19,504)	(3,520)	-	(27,498)	(427)	(27,925)
Intragroup adjustments*	-	(2,814)	64	-	-	2,814	-	(64)	-	-	-	-
Total corporate and funding costs	68	(2,814)	(198)	-	(3,801)	2,335	(19,504)	(3,584)	-	(27,498)	(427)	(27,925)
Group continuing activities	110,013	-	(2,397)	(9,870)	(32,290)	-	(19,504)	(80,555)	(17)	(34,620)	(427)	(35,047)

The Group's discontinued operations comprise the following:

Discontinued operations	Revenue $000	Revenue (inter-segmental) $000	Gain on sale of assets $000	Depreciation and amortisation $000	Interest expense (external) $000	Interest expense (inter-segmental) $000	Other expenses $000	Other expenses (inter-segmental) $000	Share of profit (loss) from Associates $000	Profit before income tax $000	Income tax $000	Profit after income tax $000
Rural Services**	73	-	789	-	-	-	(3)	-	-	859	(10)	849

Wool broking (a component of Rural Services) - on 2 July 2008 the Group announced that it had sold the wool broking business of Allied Farmers Wools Limited to The Wool Company Limited, effective 30 June 2008. The sale, which comprised inventory ($234,000), debtors ($40,000), creditors ($145,000), and the operational fixed assets of the business (net book value $134,000) was for $1,500,000 (cash), resulting in a gain of $1,202,000. The sale was settled on 18 July 2008. The residual property, plant and equipment comprised land and buildings with a net book value of $630,000. The sale of the land and buildings for $1,450,000 (cash), was settled on 28 November 2008, resulting in a net gain of $789,000.

* The intragroup adjustments relate to intercompany interest as disclosed in note 38.

** The Group's discontinued Wool Broking operations, a component of the Group's Rural Services segment, are detailed under discontinued operations.

The segment assets and liabilities at 30 June 2009 and capital expenditure for the year ended are as follows:

Continuing operations	Assets $000	Investment in Associates $000	Total assets $000	Liabilities $000	Capital expenditure $000
Operating activities					
Asset Management Services	-	-	-	-	-
Rural Services	15,704	211	15,915	11,746	870
Financial Services	360,131	-	360,131	333,465	1,858
Total operating activities	375,835	211	376,046	345,211	2,728
Corporate and funding					
Corporate	54,984	-	54,984	40,291	22
Intragroup adjustment	(38,675)	-	(38,675)	(3,154)	-
Total corporate and funding	16,309	-	16,309	37,137	22
Group continuing operations	392,144	211	392,355	382,348	2,750
Discontinued operations					
Rural Services	-	-	-	-	-
Total Group	**392,144**	**211**	**392,355**	**382,348**	**2,750**

The net cash flows attributable to the operating, investing and financing activities of discontinued operations are as follows:

	Group 2010 $000	Group 2009 $000
Cash flows from operating activities	**-**	(7)
Cash flows from investing activities	**-**	2,800
Cash flows from financing activities	**-**	-
Net cash flows from discontinued operations	**-**	2,793

2. Interest and fee income

	Note	Group Pro-forma 2010 $000	Group 2010 $000	Group 2009 $000	Parent 2010 $000	Parent 2009 $000
Interest income						
Loans, advances and finance leases		**2,177**	**35,802**	33,914	**-**	-
Individually impaired assets		**3,920**	**6,282**	1,345	**-**	-
Restructured assets		**-**	**1,546**	2,943	**-**	-
Cash and cash equivalents		**26**	**1,114**	2,722	**-**	68
Fee income						
Lending fee income recognised using the effective interest rate method		**-**	**1,086**	1,637	**-**	-
Other lending fee income		**-**	**428**	154	**-**	-
Commission income		**13,816**	**13,840**	14,630	**-**	-
Lending brokerage						
Lending brokerage recognised using the effective interest rate method		**-**	**(2,825)**	(2,752)	**-**	-
		19,939	**57,273**	54,593	**-**	68

3. Profit on sale of businesses

Profit on sale of businesses	**-**	**-**	-	**-**	19,351

During the year ended 30 June 2009 the Parent sold to Allied Nationwide Finance Limited the Allied Farmers fuel card customer relationship for $859,000 (gain on sale $859,000). Also during the year ended 30 June 2009, the Parent sold to Allied Farmers Rural Limited its rural business for $19,575,000 (gain on sale $18,492,000).

4. Other income

Dividend income	**1**	**1**	1	**9**	-
Rental income	**88**	**268**	133	**-**	-
Recharge to subsidiary	**-**	**-**	-	**810**	414
Other income	**69**	**812**	497	**-**	-
	158	**1,081**	631	**819**	414

5. Interest and funding expense

Deposits at amortised cost	**-**	**16,771**	21,019	**-**	-
Commercial paper	**-**	**8,308**	7,978	**-**	-
Investment brokerage recognised using the effective interest rate method	**-**	**417**	558	**-**	-
Capital notes interest	**1,208**	**1,208**	1,210	**1,208**	1,210
Borrowings - Senior debt interest	**2,203**	**2,203**	2,350	**1,932**	2,350
Borrowings - Property assets interest	**2,999**	**2,999**	-	**-**	-
Other	**340**	**384**	347	**182**	94
Related party interest	**3,046**	**-**	-	**812**	479
	9,796	**32,290**	33,462	**4,134**	4,133

6. Employee benefit expense

Wages and salaries		**11,862**	**16,060**	16,433	**1,446**	1,350
Equity-settled share-based payments	7	**8**	**26**	(34)	**8**	(53)
		11,870	**16,086**	16,399	**1,454**	1,297

7. Share-based payments

Executive share option scheme

The shareholder approved Executive Share Option Scheme was introduced in the 2006-07 financial year, allocating 1,300,000 Allied Farmers Limited share options to eligible senior executives. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Options issued by:	Allied Farmers Executive Share Option Trust
Issue date:	13 March 2007
Vesting period commences:	13 March 2007
Vesting period ends:	13 March 2010
Exercise period begins (subject to performance hurdle being met):	13 March 2010
Exercise period ends:	13 March 2013
Exercise price:	$2.25*
Performance hurdle:	$2.75*

An option cannot be exercised unless the average volume-weighted price of one Allied Farmers Limited ordinary share on the NZX market in NZD is *either*:
- for the 90 days preceding the date that the exercise period commences, equal to or greater than $2.75*; *or*
- for the 90 days following the date of an announcement of the Allied Farmers Limited annual or half-year results during the exercise period, equal to or greater than that sum calculated by taking the sum of $2.75* increased by 15% per annum for each whole year and for each part year on a proportionate basis, compounded annually from the date that the exercise period commences (less an adjustment for distributions and dividends) to the relevant date of calculation.

* Exercise price and performance hurdle were reduced to $2.16 and $2.65 respectively following a Rights Issue in May 2009.

Number and weighted average exercise price of share options

	Exercise price	Group 2010	Group 2009
Opening balance	$2.16	455,341	1,264,837
Granted during the period	-	-	-
Forfeited during the period**	-	-	809,496
Exercised during the period	-	-	-
Expired during the period	-	-	-
Closing balance	$2.16	455,341	455,341
Closing balance information			
Minimum exercise price		$2.16	$2.16
Maximum exercise price		$2.16	$2.16
Weighted average remaining contractual life until exercise date (months)		-	9
Weighted average remaining contractual life until end of exercise period (months)		33	45
Weighted average fair value at balance date		$0.19	$0.19
Exercisable at balance date		-	-

Fair market value

Options have been valued using a Black Scholes model with the following key assumptions:

Weighted average fair value at grant date:	$0.19
Market price of a share at grant date:	$2.00
Volatility assumed:	27.0%
Dividend yield assumed:	5.0%
Risk free rate:	6.4%
Fair value at grant date:	$234,889
Fair value forfeited:	$150,329
Fair value at 30 June 2010:	$84,560

The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the 12 months preceding grant date.

** Options forfeited due to the resignation of certain executives during the period.

The fair value of the options at 30 June 2010 of $84,560 has been recognised in the income statement over the vesting period. The total expense recognised in the Group income statement for share options granted to employees for the period ended 30 June 2010 is $25,831 (30 June 2009: ($34,449)).

8. Depreciation and amortisation

	Note	Group Pro-forma 2010 $000	Group 2010 $000	Group 2009 $000	Parent 2010 $000	Parent 2009 $000
Depreciation						
Buildings	25	**242**	**242**	185	**119**	81
Motor vehicles	25	**178**	**239**	329	**18**	25
Plant and equipment	25	**181**	**371**	516	**13**	27
Operating lease assets	25	**-**	**460**	762	**-**	-
		601	**1,312**	1,792	**150**	133
Amortisation of intangible assets						
Computer software	27	**145**	**521**	605	**1**	-
		746	**1,833**	2,397	**151**	133

9. Impairment of investment in and loans to subsidiaries

	Note	Group Pro-forma 2010 $000	Group 2010 $000	Group 2009 $000	Parent 2010 $000	Parent 2009 $000
Impairment of investments in subsidiaries	28	**40,080**	**-**	-	**48,054**	21,830
Impairment of loans to subsidiaries	31	**-**	**-**	-	**21,693**	-
		40,080	**-**	-	**69,747**	21,830

10. Impairment of goodwill and intangibles

	Note	Group Pro-forma 2010 $000	Group 2010 $000	Group 2009 $000	Parent 2010 $000	Parent 2009 $000
Impairment of goodwill	27	**116**	**20,601**	19,504	**-**	-
Impairment of intangibles	27	**-**	**910**	-	**-**	-
		116	**21,511**	19,504	**-**	-

11. Impairment of ex Hanover Finance and United Finance assets

	Note	Group Pro-forma 2010 $000	Group 2010 $000	Group 2009 $000	Parent 2010 $000	Parent 2009 $000
Impairment of loans and advances	31	**9,311**	**9,311**	-	**-**	-
Impairment of inventory property		**4,650**	**4,650**	-	**-**	-
Impairment of investment property	33	**6,242**	**6,242**	-	**-**	-
		20,203	**20,203**	-	**-**	-

12. Other operating expenses

	Note	Group Pro-forma 2010 $000	Group 2010 $000	Group 2009 $000	Parent 2010 $000	Parent 2009 $000
Included in other operating expenses are:						
PricewaterhouseCoopers audit fees		**244**	**525**	425	**244**	135
PricewaterhouseCoopers tax service fees		**18**	**81**	83	**18**	49
PricewaterhouseCoopers prospectus fees		**-**	**9**	12	**-**	-
PricewaterhouseCoopers other accounting and tax advisory fees		**225**	**242**	48	**85**	30
Commission paid to agents		**2,313**	**2,313**	2,438	**-**	-
Crown guarantee fees		**-**	**-**	590	**-**	-
Directors' fees	38	**170**	**318**	312	**170**	183
Increase (decrease) in provision for impaired trade receivables	31	**273**	**273**	182	**-**	(2,702)
Increase in provision for property, plant and equipment	26	**-**	**-**	530	**-**	530
Information systems		**385**	**647**	813	**40**	94
Loss (gain) on sale of fixed assets		**30**	**25**	198	**-**	72
Loss on revaluation of investment property - land and buildings tenanted		**-**	**55**	160	**-**	-
Marketing and advertising		**732**	**924**	1,245	**10**	-
Residual value impairment on operating lease assets		**-**	**142**	89	**-**	-
Operating lease expenses excluding depreciation (as lessor)		**-**	**72**	93	**-**	-

13. Earnings per share

Basic earnings per Share

The calculation of basic earnings per share at 30 June 2010 for total, continuing and discontinued operations was based on the following loss attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding, calculated as follows:

	Group Pro-forma 2010	Group 2010	Group 2009
Total operations			
Loss attributable to equity holders of the company from continuing operations ($000)	**(79,143)**	**(77,587)**	(35,047)
Profit attributable to equity holders of the company from discontinued operations ($000)	**-**	**-**	849
Loss attributable to equity holders of the company from total operations ($000)	**(79,143)**	**(77,587)**	(34,198)
Weighted average number of ordinary shares in issue (thousands)	**1,060,564**	**1,060,564**	22,803
Basic earnings per share (cents)	**(7.5)**	**(7.3)**	(150.0)
Continuing operations			
Loss attributable to equity holders of the company ($000)	**(79,143)**	**(77,587)**	(35,047)
Weighted average number of ordinary shares in issue (thousands)	**1,060,564**	**1,060,564**	22,803
Basic earnings per share (cents)	**(7.5)**	**(7.3)**	(153.7)
Discontinued operations			
Profit attributable to equity holders of the company ($000)	**-**	**-**	849
Weighted average number of ordinary shares in issue (thousands)	**1,060,564**	**1,060,564**	22,803
Basic earnings per share (cents)	**-**	**-**	3.7

Diluted earnings per Share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The company has three categories of dilutive potential ordinary shares: convertible debt, bonus securities and share options (share options comprise the share based payments (refer note 7):

- When, and only when the conversion of the convertible debt results in a decrease in earnings per share from continuing operations, the convertible debt is considered to be dilutive. The convertible debt is assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense less the tax effect.
- For the bonus securities, the conversion of these securities to ordinary share will occur within 3 months of the 30 June 2011 year end. The conversion basis is outlined in note 15.
- For the share options, if they are "in the money" a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

13. Earnings per share (continued)

The calculation of diluted earnings per share at 30 June 2010 for total, continuing and discontinued operations was based on the following loss attributable to ordinary shareholders adjusted for the interest expense on convertible debt and a weighted average number of ordinary shares, calculated as follows:

	Group Pro-forma 2010	**Group 2010**	Group 2009
Total operations			
Loss attributable to equity holders of the company from continuing operations ($000)	**(79,143)**	**(77,587)**	(35,047)
Profit attributable to equity holders of the company from discontinued operations ($000)	**-**	**-**	849
Loss attributable to equity holders of the company from total operations ($000)	**(79,143)**	**(77,587)**	(34,198)
Interest expense on convertible debt (net of tax) * ($000)	**-**	**-**	-
Loss used to determine diluted earnings per share ($000)	**(79,143)**	**(77,587)**	(34,198)
Weighted average number of ordinary shares in issue (thousands)	**1,060,564**	**1,060,564**	22,803
Adjusted for			
Assumed weighted conversion of convertible debt (thousands) *	**-**	**-**	-
Assumed weighted conversion of bonus securities (thousands) *	**-**	**-**	-
Assumed weighted conversion of share options	**-**	**-**	-
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**1,060,564**	**1,060,564**	22,803
Diluted earnings per share (cents)	**(7.5)**	**(7.3)**	(150.0)
Continuing operations			
Loss attributable to equity holders of the company ($000)	**(79,143)**	**(77,587)**	(35,047)
Interest expense on convertible debt (net of tax) * ($000)	**-**	**-**	-
Loss used to determine diluted earnings per share ($000)	**(79,143)**	**(77,587)**	(35,047)
Weighted average number of ordinary shares in issue (thousands)	**1,060,564**	**1,060,564**	22,803
Adjusted for			
Assumed weighted conversion of convertible debt (thousands) *	**-**	**-**	-
Assumed weighted conversion of bonus securities (thousands) *			
Assumed weighted conversion of share options	**-**	**-**	-
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**1,060,564**	**1,060,564**	22,803
Diluted earnings per share (cents)	**(7.5)**	**(7.3)**	(153.7)
Discontinued operations			
Profit attributable to equity holders of the company ($000)	**-**	**-**	849
Interest expense on convertible debt (net of tax) ($000)	**-**	**-**	-
Profit used to determine diluted earnings per share ($000)	**-**	**-**	849
Weighted average number of ordinary shares in issue (thousands)	**1,060,564**	**1,060,564**	22,803
Adjusted for			
Assumed weighted conversion of convertible debt (thousands)*	**-**	**-**	15,187
Assumed weighted conversion of bonus securities (thousands)*	**-**	**-**	-
Assumed weighted conversion of share options	**-**	**-**	-
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**1,060,564**	**1,060,564**	37,990
Diluted earnings per share (cents)	**-**	**-**	2.2

* The assumed conversion of convertible debt and bonus securities have been excluded from the calculation of diluted earnings per share (2010 total diluted earnings per share, and 2009 and 2010 diluted continuing operations per share) because inclusion does not result in a dilution of earnings per share.

14. Taxation

	Note	Group Pro-forma 2010 $000	Group 2010 $000	Group 2009 $000	Parent 2010 $000	Parent 2009 $000
Profit (loss) from continuing operations before income tax	1	**(77,782)**	**(70,075)**	(34,620)	**(83,825)**	(7,302)
Profit (loss) from discontinued operations before income tax	1	**-**	**-**	859	**-**	2,147
Profit (loss) before income tax		**(77,782)**	**(70,075)**	(33,761)	**(83,825)**	(5,155)
Prima facie income tax expense at 30%		**(23,335)**	**(21,023)**	(10,128)	**(25,148)**	(1,547)
Plus/(less) tax effect of permanent and temporary differences:						
Non-taxable income		**-**	**-**	(152)	**-**	(5,805)
Non-deductible expenditure		**13,519**	**8,007**	5,851	**22,414**	6,565
Timing differences not recognised		**2,425**	**3,593**	-	**-**	(865)
Loss offset not paid for		**-**	**-**	-	**-**	56
Deferred tax timing differences at 28% future income tax rate		**-**	**330**	-	**-**	-
Tax loss not available due to change in shareholding		**1,160**	**1,160**	-	**930**	-
Tax loss not recognised		**6,236**	**6,281**	1,615	**1,804**	1,615
Derecognition of deferred tax asset		**-**	**7,824**	3,121	**-**	3,121
Prior year and other adjustments		**1,356**	**1,340**	130	**1,356**	15
Income tax expense		**1,361**	**7,512**	437	**1,356**	3,155
Comprising						
Current taxation		**-**	**21**	348	**-**	-
Deferred taxation		**1,361**	**7,491**	89	**1,356**	3,155
		1,361	**7,512**	437	**1,356**	3,155
Income tax charge/(loss) to statement of changes in equity						
Current taxation						
- Distributions to perpetual bond holders		**-**	**(484)**	(351)	**-**	-
Deferred taxation						
- Revaluation of Derivative Financial Instruments		**253**	**1,234**	(1,683)	**253**	(200)
		253	**750**	(2,034)	**253**	(200)
Current tax receivable						
Balance at beginning of the year		**206**	**206**	25	**3**	25
Allied Nationwide Finance Limited adjustment		**(203)**	**-**	-	**-**	-
Current year provision for tax		**-**	**-**	(348)	**-**	-
Provisional tax paid		**18**	**22**	202	**-**	2
Tax refunds received		**-**	**(135)**	(24)	**-**	(24)
Current year charge to statement of changes in equity		**-**	**-**	351	**-**	-
Balance at end of the year		**21**	**93**	206	**3**	3
Deferred tax balances						
Opening balance		**7,786**	**7,786**	6,150	**-**	3,342
Allied Nationwide Finance Limited adjustment		**(7,786)**	**-**	-	**-**	-
Deferred tax charged to Income Statement		**(1,356)**	**(7,491)**	(89)	**(1,356)**	(3,155)
Fair value adjustments on assets acquired		**-**		(600)	**-**	-
Current year benefit to statement of changes in equity		**(253)**	**(1,234)**	1,683	**(253)**	200
Current year benefit to investment in subsidiary		**-**	**-**	-	**-**	1,027
Group loss offset		**-**	**-**	-	**-**	(1,400)
Deferred tax balance acquired during the year		**-**	**-**	566	**-**	-
Prior year adjustments		**-**	**-**	(33)	**-**	-
Other deferred tax movements		**1,609**	**939**	109	**1,609**	(14)
Closing balance		**-**	**-**	7,786	**-**	-
Deferred tax is made up of the following temporary differences:						
Deferred tax assets						
Employee benefits		**-**	**-**	66	**-**	-
Provision for impaired assets		**-**	**-**	4,288	**-**	-
Investment property		**-**	**-**	48	**-**	-
Property, plant and equipment		**-**	**-**	43	**-**	-
Finance lease assets treated as operating leases for tax		**-**	**-**	541	**-**	-
Derivative financial instruments		**-**	**-**	1,879	**-**	-
Other accruals		**-**	**-**	(114)	**-**	-
Tax losses		**-**	**-**	1,545	**-**	-
		-	**-**	8,296	**-**	-

14. Taxation (continued)

	Note	Group Pro-forma 2010 $000	Group 2010 $000	Group 2009 $000	Parent 2010 $000	Parent 2009 $000
Deferred tax liabilities						
Finance lease assets treated as operating leases for tax		-	-	-	-	-
Intangibles		-	-	(510)	-	-
		-	-	(510)	-	-
		-	-	7,786	-	-
Classified as:						
Current				3,644	-	-
Non-current		-	-	4,142	-	-
		-	-	7,786	-	-

The company tax rate will be reduced from 30% to 28% with effect from 1 July 2011, as announced in the 2010 Budget on 20 May 2010. For the 30 June 2010 year where the temporary differences are assessed to reverse after 1 July 2011, the tax rate of 28% has been applied.

Parent unrecognised deferred tax assets as at 30 June 2010 total $1,804,000 (June 2009: $5,909,000), comprising unused tax losses of $1,804,000 (June 2009: $5,463,000) and deductible temporary differences of $nil (June 2009: $446,000).

Group unrecognised deferred tax assets as at 30 June 2010 total $9,874,000 (June 2009: $4,948,000), comprising unused tax losses of $6,281,000 (June 2009: $3,918,000) and deductible temporary differences of $3,593,000 (June 2009: $1,030,000).

During the year ended 30 June 2009, $1,400,000 was paid to the Parent by Allied Nationwide Finance Limited for income tax loss offsets made available for Allied Nationwide Finance Limited to utilise against its tax liabilities. Allied Nationwide Finance Limited has not been able to utilise these income tax loss offsets, together with a portion of loss offsets previously purchased, totalling $1,575,000, and the Parent has agreed to repurchase them.

During the year ended 30 June 2009 the Parent derecognised the deferred tax asset from the balance sheet on the basis that it was not probable that future taxable amounts would be available to utilise the temporary differences and unused tax losses. This resulted in a charge of $3,121,000 to the Income Statement.

The tax losses are available to be offset against the future taxable profits of the Group, subject to the shareholder continuity requirements of the tax legislation being met.

During the year ended 30 June 2010 the Group has derecognised $7,824,000 of the deferred tax asset balance from the balance sheet on the basis that the Allied Nationwide Finance Limited deferred tax asset being non-recoverable.

Imputation Credit Account	Parent 2010 $000	Parent 2009 $000
Balance as at the beginning of the year	-	21
Imputation credits attached to dividends received during the year	-	1
Imputation credits attaching to dividends paid in the year	-	-
Income tax payments during the year	-	2
Income tax refunds received during the year	-	(24)
Balance as at the end of the year	-	-

At balance date the imputation credits available to the shareholders of the Parent Company were:

Through direct shareholding in the Parent Company	-	-
Through indirect interests in subsidiaries	-	325
	-	325

15. Share capital

	Note	Group Pro-forma 2010 $000	Group 2010 $000	Group 2009 $000	Parent 2010 $000	Parent 2009 $000
Ordinary shares						
Ordinary shares (fully paid)						
Balance at beginning of period		**21,113**	**21,113**	13,010	**21,113**	13,010
Issue of ordinary shares (at fair value of assets acquired)	16, 28	**109,975**	**109,975**	8,137	**109,975**	8,137
Share based payments	7	**26**	**26**	(34)	**26**	(34)
Balance at end of period		**131,114**	**131,114**	21,113	**131,114**	21,113
Number of shares issued and fully paid						
Balance at beginning of period					**37,696,705**	19,083,368
Issue of ordinary shares					**1,914,598,153**	18,613,337
Balance at end of period					**1,952,294,858**	37,696,705

Allied Farmers Limited issued 371,651 shares on 19 September 2008 (bonus issue (refer note 16)), 1,851,852 shares on 30 September 2008 (equity consideration for purchase of Speirs Finance Limited (refer note 28)), and 589,350 shares on 19 December 2008.

Allied Farmers Limited raised $6,320,193 of share capital following a rights issue on 20 May 2009 (15,800,484 shares issued at $0.40 each).

Allied Farmers Limited issued 1,914,598,153 shares on 18 December 2009 to the investors in Hanover Finance Limited, United Finance Limited and Hanover Capital Limited in exchange for their debt securities held in these companies. The total value of the shares issued was $109,975,000 ($0.0574 per share), being the fair value of the Hanover Finance and United Finance assets that were acquired in exchange for the redemption of the debt securities. Refer note 28.

The total number of shares on issue as at 30 June 2010 is 1,952,294,858.

Ordinary shares in the Company do not have a par value. All ordinary shares rank equally as to voting, dividends and distribution of capital on liquidation.

Bonus securities

As at 30 June 2010 there are 3,767,514 bonus securities on issue. The bonus securities were issued as part of the 18 December 2009 acquisition of the Hanover Finance and United Finance assets. Refer note 28.

The bonus securities were issued for nil consideration on 18 December 2009 in a ratio of 1:10 to holders of Allied Farmers Limited shares prior to the issue of the ordinary shares to the Hanover Finance Limited, United Finance Limited and Hanover Capital Limited debt security holders referred to above. The terms of the bonus securities provides that each bonus security has the following rights:

a) no voting rights;
b) no rights to distributions;
c) no rights to surplus assets on liquidation;
d) if there is a "shortfall" each bonus security will be restructured in the manner as described below;
e) if there is no shortfall, each bonus security may be redeemed by Allied Farmers at nil consideration.

If the audited financial results for the financial year to 30 June 2011 show that Allied Farmers Limited has made a "shortfall", whether realised or unrealised, on the $396,180,000 attributed value for the Hanover Finance and United Finance assets the bonus securities will convert to ordinary shares in Allied Farmers Limited. The conversion will be calculated such that Allied Farmers' shareholders aggregate shareholding in the parent is increased to what it would have been immediately after the proposal as if the assets had been transferred at the ascribed value as at 30 June 2011.

The bonus securities have been recorded at 30 June 2010 in accordance with the formula recorded within the Exchange Agreement between Hanover Finance Limited, United Finance Limited, Hanover Capital Limited, Allied Farmers Limited and Allied Farmers Investments Limited. The bonus securities have been recognised within the Group financial statements as follows:

	$000
Estimated fair value	4,634
Discount at acquisition	(513)
	4,121
Discount unwind for year	179
Present value of bonus securities recorded in Provisions (refer note 23)	4,300

16. Reserves

	Note	Group Pro-forma 2010 $000	Group 2010 $000	Group 2009 $000	Parent 2010 $000	Parent 2009 $000
Retained earnings						
Balance at beginning of year		**(20,595)**	**(20,595)**	14,422	**(2,404)**	5,906
Allied Nationwide Finance adjustment	45	**(472)**	**-**	-	**-**	-
Net loss for the year		**(79,143)**	**(77,587)**	(34,198)	**(85,181)**	(8,310)
Unpresented dividend payments forfeited		**131**	**131**	-	**131**	-
Distribution to minority interests (net of tax)		**-**	**(967)**	(819)	**-**	-
Balance at end of year		**(100,079)**	**(99,018)**	(20,595)	**(87,454)**	(2,404)
Cash flow hedge reserve						
Balance at beginning of year		**(4,050)**	**(4,050)**	(126)	**(591)**	(126)
Allied Nationwide Finance adjustment	45	**3,459**	**-**	-	**-**	-
Movements in fair value recognised directly in equity	24	**844**	**4,114**	(5,606)	**844**	(664)
Less deferred income taxes		**(253)**	**(1,234)**	1,682	**(253)**	199
Balance at end of year		**-**	**(1,170)**	(4,050)	**-**	(591)
		(100,079)	**(100,188)**	(24,645)	**(87,454)**	(2,995)

During the year ended 30 June 2009 Allied Farmers Limited declared bonus issues (19 September 2008 - 1 new share for every 51 shares held, and 19 December 2008 - 1 new share for every 36 shares held) totalling $1,009,756 - there was no impact upon equity.

The cash flow hedge reserve relates to the cash flow hedges described in note 24.

17. Minority interest

	Note	Group Pro-forma 2010 $000	Group 2010 $000	Group 2009 $000	Parent 2010 $000	Parent 2009 $000
Allied Nationwide Finance Limited Perpetual Bonds						
Balance at beginning of year		**13,539**	**13,539**	-	-	-
Allied Nationwide Finance adjustment	45	**(13,539)**	**-**	-	-	-
Additions due to acquisition	28	**-**	**-**	13,539	-	-
Balance at end of year		**-**	**13,539**	13,539	-	-

These Perpetual Bonds have a par value of $1.00 per bond. These instruments have no set maturity date, are redeemable only at the option of Allied Nationwide Finance Limited and interest is payable on them at the discretion of Allied Nationwide Finance Limited. They are treated as equity instruments for accounting purposes. The bonds rank equally with other subordinated debt on issue and rank behind all other liabilities of the Group.

During the year to 30 June 2009 2,000,000 perpetual bonds were issued at $1.00 each as part of the transaction to acquire Speirs Finance Limited. These have been classified as borrowings as they have different terms to the other perpetual bonds issued by Allied Nationwide Finance Limited (refer note 20).

The interest rate applicable on the bonds is reset annually on 30 September at the greater of 10.00% or the one year swap rate plus 4.50%. For the period 1 October 2009 to 30 September 2010 the rate has been set at 10.00%. For the previous period, 1 October 2008 to 30 September 2009, the rate had been set at 11.52%.

18. Deposits

	Group Pro-forma 2010 $000	Group 2010 $000	Group 2009 $000	Parent 2010 $000	Parent 2009 $000
Secured deposits					
Call deposits	**-**	**4,312**	7,133	**-**	-
Term deposits	**-**	**140,429**	210,970	**-**	-
Less deferred brokerage	**-**	**(102)**	(396)	**-**	-
Total secured deposits	**-**	**144,639**	217,707	**-**	-
Commercial paper	**-**	**81,254**	103,386	**-**	-
Subordinated deposits	**-**	**-**	124	**-**	-
	-	**225,893**	321,217	**-**	-
Classified as:					
Current	**-**	**149,386**	203,840	**-**	-
Non-current	**-**	**76,507**	117,377	**-**	-
	-	**225,893**	321,217	**-**	-

In the event of liquidation of the Group, unless statutorily required otherwise, secured deposit holders have first-ranking debentures secured over the assets of Allied Nationwide Finance Limited, and thus will rank in priority ahead of all other creditors (unless a prior charge has been registered). Subordinated deposit holders will rank in priority behind all creditors but ahead of shareholders.

Secured deposits constitute secured first ranking debenture stock (subject to prior charges, if any) issued by Allied Nationwide Finance Limited pursuant to the terms of the Trust Deed dated 18 November 1994 between Allied Nationwide Finance Limited and The New Zealand Guardian Trust Company Limited as amended by Deeds of Amendment dated 29 November 2002 and 18 June 2003 respectively.

Allied Nationwide Finance Limited has a guarantee under the New Zealand deposit guarantee scheme. The guarantee is for a period of two years ending on 12 October 2010. Under the deposit guarantee, the principal amount of, and interest owed on deposits issued by Allied Nationwide Finance Limited are guaranteed by the Crown with a maximum amount guaranteed per deposit holder of $1,000,000. To have the benefit of this guarantee, the deposit holder must be a New Zealand resident or New Zealand citizen. Subsequent to balance date the guarantee has been called upon with Allied Nationwide Finance Limited having been placed in receivership (refer note 45).

The Group's commercial paper is secured by way of a Security Trust Deed dated 6 March 1998 between Allied Nationwide Finance Limited, Speirs Securities Limited, Perpetual Trust Limited and a Registered Bank. This represents a fixed and floating charge over all the assets of Speirs Securities Limited (refer note 30).

19. Borrowings - Senior debt (secured)

	Note	**Group Pro-forma 2010 $000**	**Group 2010 $000**	Group 2009 $000	**Parent 2010 $000**	Parent 2009 $000
Borrowings - Bank senior debt		**16,500**	**16,500**	21,000	**16,500**	21,000
Classified as:						
Current		**16,500**	**16,500**	2,000	**16,500**	2,000
Non-current		**-**	**-**	19,000	**-**	19,000
		16,500	**16,500**	21,000	**16,500**	21,000

Bank senior debt comprises a Westpac New Zealand Limited term loan of $16,500,000 (June 2009: $21,000,000). Allied Farmers Rural Limited also has an overdraft facility of $2,500,000 (June 2009: $2,500,000) with Westpac New Zealand Limited.

Net interest on the term loan is paid monthly at 6.25% (June 2009: 11.82%) per annum. Quarterly principal repayments of $500,000 commenced on 28 November 2008, with the loan maturity date being 31 March 2011. This term loan has been classified as current.

All of the facilities from Westpac New Zealand Limited are secured by way of a floating charge over all of the assets and undertakings of the Allied Farmers Limited Charging Group. This floating charge takes priority over all other borrowings of the Allied Farmers Limited Charging Group, but is limited to the facilities from Westpac New Zealand Limited totalling $19,000,000 at 30 June 2010 (June 2009: $23,500,000). The Allied Farmers Limited Charging Group comprises Allied Farmers Limited, Allied Farmers Investments Limited and its subsidiaries, Allied Farmers Rural Limited, The West Coast Mortgage and Deposit Company Limited, Allied Farmers (New Zealand) Limited, and Taranaki Farmers Limited.

The term loan agreement requires that the Allied Farmers Limited Charging Group meet specified financial covenants. The financial covenants cover:
- minimum equity of Allied Farmers Limited and the Allied Farmers Limited Charging Group;
- minimum bank funding cost cover of the Allied Farmers Limited Charging Group;
- maximum total leverage ratio of the Allied Farmers Limited Charging Group; and
- minimum earnings before interest, tax, depreciation and amortisation of the Allied Farmers Limited Charging Group.

On 28 August 2009 Allied Farmers Limited agreed with Westpac New Zealand Limited new covenant levels for the minimum equity and minimum earnings before interest, tax, depreciation and amortisation covenants, which applied through to and including 30 June 2010. The minimum bank funding cost cover, minimum debt funding cost cover, and maximum total leverage ratio covenants were suspended until 30 September 2010.

The minimum level of equity required by the Allied Farmers Limited Charging Group for the minimum equity covenant is $10,000,000, increasing to $20,000,000 at 30 September 2010. This covenant was not met at 30 September 2009, to which the Allied Farmers Charging Group received a waiver to the breach from Westpac New Zealand Limited New Zealand Limited. The covenant was met as at 30 June 2010.

The minimum earnings before interest, tax, depreciation and amortisation required by the Allied Farmers Charging Group is based upon an earnings forecast for the Charging Group. This covenant was not met during the year to which the Allied Farmers Charging Group received waivers to the breach from Westpac New Zealand Limited New Zealand Limited.

On the 20 July 2010 Westpac New Zealand Limited extended the term loan facility to 31 March 2011. This was conditional on a number of conditions being fulfilled including various initiatives to raise new funding for the Group. A number of these conditions have not been fulfilled. However, since the extension the amount owing under the term loan facility has reduced from $16.5 million as at 30 June 2010 to $1.6 million as at 30 September 2010 and accordingly Allied Farmers Limited has been in constructive dialogue with Westpac New Zealand Limited regarding the completion of initiatives to allow Westpac New Zealand Limited to be repaid in full. As at 30 June 2010 all senior debt borrowings have been classified as current.

20. Borrowings - Capital notes and bonds

	Note	Group Pro-forma 2010 $000	Group 2010 $000	Group 2009 $000	Parent 2010 $000	Parent 2009 $000
Capital notes		**12,398**	**12,398**	12,247	**12,398**	12,247
Bonds		**-**	**1,900**	1,946	**-**	-
Borrowings - Capital notes and bonds		**12,398**	**14,298**	14,193	**12,398**	12,247
Classified as:						
Current		**-**	**-**	-	**-**	-
Non-current		**12,398**	**14,298**	14,193	**12,398**	12,247
		12,398	**14,298**	14,193	**12,398**	12,247

Capital notes

The capital notes on issue total $12,605,000 (June 2009: $12,605,000). The capital notes have a maturity date of 15 November 2011, and bear interest at a rate of 9.60% per annum (June 2009: 9.60%). Upon maturity the Parent may elect to renew the capital notes for a further period of five years, redeem or purchase for cash all or a portion of the capital notes, or convert the capital notes to ordinary shares in the Parent Company. Refer note 39.5 for details of the financial covenants.

Bonds

Allied Nationwide Finance Limited issued perpetual bonds to Speirs Group Limited as part of the transaction when Allied Farmers Limited purchased Speirs Finance Limited. The bonds have a book value of $1,900,000 (June 2009: $1,946,000). The bonds have a face value of $2,000,000, as at 30 June 2010 they incur interest at 10.00% per annum (June 2009: 11.52%), and mature 30 September 2013. These bonds have different terms including put and call options (refer note 24) to the other perpetual bonds issued by Allied Nationwide Finance Limited, and have therefore been treated as borrowings rather than equity.

21. Borrowings - Property assets (secured)

	Note	Group Pro-forma 2010 $000	Group 2010 $000	Group 2009 $000	Parent 2010 $000	Parent 2009 $000
Borrowings - Bank		**29,742**	**29,742**	-	**-**	-
Borrowings - Other financial institutions		**14,524**	**14,524**	-	**-**	-
Finance leases	25	**-**	**-**	106	**-**	45
Borrowings - Property assets		**44,266**	**44,266**	106	**-**	45
Classified as:						
Current		**44,266**	**44,266**	106	**-**	45
Non-current		**-**	**-**	-	**-**	-
		44,266	**44,266**	106	**-**	45

Borrowings - Bank

The Group's Asset Management Services business has borrowings from three banks which total $29,742,000 as at 30 June 2010. The average interest rate on these bank borrowings is 6.9% per annum. These borrowings are attached to the property assets acquired as part of the Hanover Finance and United Finance asset transaction (refer note 28). The property assets are held within wholly owned subsidiaries of the Asset Management Services business. There are separate loan facility agreements between the relevant subsidiary property holding company and the bank. The borrowings are secured by registered first mortgage over the property assets and general security agreement from the property holding subsidiary. The loan facility agreements with the banks require certain financial covenants to be met, which include:

a) Loan to value ratios; and
b) Periodic loan amortisation.

Allied Farmers Limited has yet to receive formal consent to the transfer of the property assets from two of the bank lenders. There are breaches and events of default under the facility agreements in relation to these ex Hanover Finance borrowings. Should these breaches not be remedied, the banks can take enforcement action, including appointment of a receiver to the property holding company. To date the bank lenders have not taken any specific action. The Group is in discussions with the banks regarding the remedying of these breaches. These breaches relate to:

a) Withholding the provision of replacement guarantee to a bank lender.
b) Loan to asset value ratio with a bank lender.
c) Non payment of facility fees and other current due amounts with a bank lender.
d) Non payment of loan amortisation with a bank lender due after balance date, an extension was obtained.
e) Loan facility term with a bank lender expired at time of Hanover Finance Limited and United Finance Limited acquisition and was not extended.

Borrowings - Other financial institutions

The Group's Asset Management Services business has borrowings from two other financial institutions which total $14,524,000 as at 30 June 2010. The average interest rate on these borrowings is 15.8% per annum and they are due to mature within the next 12 months. These borrowings are attached to the property assets acquired as part of the Hanover Finance and United Finance asset transaction (refer note 28). The property assets are held within wholly owned subsidiaries of the Asset Management Services business. The borrowings are secured by registered first mortgage over the property assets and general security agreement from the property holding subsidiary. The financial covenants on these borrowing relate to interest payments and application of proceeds from asset sales. The Group has complied with all the financial covenants related to these borrowings and made the interest payments on the due dates.

22. Trade and other payables

	Note	Group Pro-forma 2010 $000	Group 2010 $000	Group 2009 $000	Parent 2010 $000	Parent 2009 $000
Trade creditors		**10,698**	**11,074**	7,261	**-**	-
Accrued interest payable on borrowings		**159**	**2,894**	4,313	**149**	358
Employee entitlements		**573**	**573**	622	**-**	-
Hanover Finance Limited payable	28	**5,000**	**5,000**	-	**-**	-
Other creditors and payables		**1,301**	**2,483**	2,426	**339**	472
		17,731	**22,024**	14,622	**488**	830
Classified as:						
Current		**17,731**	**22,024**	14,622	**488**	830
Non-current		**-**	**-**	-	**-**	-
		17,731	**22,024**	14,622	**488**	830

The Hanover Finance Limited payable of $5,000,000 was due for payment on 30 June 2010 as part of the acquisition of the Hanover Finance and United Finance assets (refer note 28). Allied Farmers Limited believes that this amount is not owed to Hanover Finance

On 29 June 2010 Allied Famers Limited informed Hanover Finance Limited that in Allied Farmers Limited's view, Hanover Finance Limited's conduct in relation to transactions that Hanover Finance Limited executed in the period prior to the completion of Allied Farmers Limited's purchase of the Hanover Finance Limited and United Finance Limited assets pursuant to the 'Agreement for assignment of finance assets in exchange for debenture obligations' (Agreement) constituted serious breaches of Hanover Finance Limited's obligations pursuant to the Agreement and gave notice to Hanover Finance Limited that:
• Allied Farmers Limited has substantial claims (Claims) against Hanover resulting from Hanover Finance Limited's breaches of the Agreement.
• The value of the Claims exceeds $5,000,000 and accordingly Allied Farmers Limited considers that it is entitled to and will set off the Claims against the obligation that it would otherwise have had under the Agreement to pay Hanover Finance Limited $5,000,000 on 30 June 2010. That payment will not therefore be made.
• Allied Farmers Limited considers that it is entitled, as a result of Hanover Finance Limited's breaches of the Agreement, to cancel the Agreement under the Contractual Remedies Act, and has notified Hanover Finance Limited that it has cancelled the Agreement. The effect of this cancellation is, in summary, to bring to an end any future obligations under the Agreement that have not yet arisen unconditionally. The cancellation of the Agreement does not cancel or unwind those parts of the Agreement that have already been performed.

The liability to Hanover Finance Limited continues to be recognised by the Group in the accounts.

In the event of liquidation of the Parent, unless statutorily required otherwise, all creditors within this class will rank in priority ahead of subordinated deposits, capital notes and shareholders. In the event of the liquidation of Allied Nationwide Finance Limited creditors will also rank behind secured deposits.

23. Provisions

	Note	Group Pro-forma 2010 $000	Group 2010 $000	Group 2009 $000	Parent 2010 $000	Parent 2009 $000
Bonus security						
Opening balance		**-**	**-**	-	**-**	**-**
Additional provisions during the year		**4,634**	**4,634**	-	**4,634**	**-**
Discount at acquisition date		**(513)**	**(513)**		**(513)**	
Discount unwind for the year		**179**	**179**	-	**179**	**-**
Closing balance		**4,300**	**4,300**	-	**4,300**	-
Credit enhancement facility						
Opening balance		**3,922**	**-**	-	**3,922**	**-**
Additional provisions during the year		**5,312**	**-**	-	**5,312**	3,922
Effective interest paid		**352**	**-**	-	**352**	-
Present value of payment notices received		**(8,836)**	**-**	-	**(8,836)**	**-**
Payment notices paid		**(750)**	**-**	-	**(750)**	**-**
Closing balance		**-**	**-**	-	**-**	3,922
Employee benefits						
Opening balance		**1,169**	**1,169**	1,375	**26**	926
Allied Nationwide Finance adjustment	45	**(339)**	**-**	-	**-**	-
Additional provisions charged to the income statement		**777**	**1,092**	1,152	**116**	931
Amounts charged against the provision during the year		**(722)**	**(1,061)**	(1,476)	**(70)**	(1,026)
Additions due to acquisition		**-**	**-**	118	**-**	-
Reduction due to sale		**-**	**-**	-	**-**	(805)
Closing balance		**885**	**1,200**	1,169	**72**	26

23. Provisions (continued)

		Group Pro-forma 2010 $000	Group 2010 $000	Group 2009 $000	Parent 2010 $000	Parent 2009 $000
Other items						
Opening balance		**218**	**218**	125	**97**	**-**
Allied Nationwide Finance adjustment	45	**(150)**	**-**	-	**-**	**-**
Additional provisions during the year		**961**	**961**	205	**813**	97
Amounts charged against the provision during the year		**(147)**	**(147)**	(112)	**(27)**	**-**
Closing balance		**882**	**1,032**	218	**883**	97
		6,067	**6,532**	1,387	**5,255**	4,045
Classified as:						
Current		**1,767**	**2,232**	1,387	**955**	4,045
Non-current		**4,300**	**4,300**	-	**4,300**	-
		6,067	**6,532**	1,387	**5,255**	4,045

Bonus security

As outlined in Note 15, 3,767,514 bonus securities were issued as part of the acquisition of the Hanover Finance and United Finance assets. The bonus securities have been recorded at 30 June 2010 in accordance with the formula recorded within the Exchange Agreement between Hanover Finance Limited, United Finance Limited, Hanover Capital Limited, Allied Farmers Limited and Allied Farmers Investments Limited. This provision will convert to equity following finalisation of the 30 June 2011 audited financial statements which is to occur within three months after the year end.

Credit enhancement facility

The Parent has entered into a facility with its subsidiary, Allied Nationwide Finance Limited, for a maximum of $10,000,000, for the period to 30 June 2011. For loans assigned to the facility by Allied Nationwide Finance Limited any losses up to the assignment amount incurred through unrecovered debts will be reimbursed by the Parent. Allied Nationwide Finance Limited provided consideration of $750,000 for the facility. Payment notices totalling $9,895,000 have been presented under the facility to 30 June 2010 of which $750,000 have been paid and the balance is due for payment after balance date and included in the amounts owing under advances from subsidiaries, refer Note 28.

Employee benefits

Employee benefit entitlements consist of holiday pay provisions, long service leave provisions, and provisions for staff bonus payments. Holiday pay is provided for at contractual pay rates and is paid to staff in accordance with statutory terms as and when annual leave is taken during the financial period. Bonus payments are based on staff performance against key indicators and are paid within three months following the end of the Group's financial year.

Other items

Parent other items comprises an onerous lease obligation of $188,296 (June 2009: $97,000) for premises in Palmerston North which was previously occupied by the Parent's discontinued Manawatu real estate operation and premises in New Plymouth which was previously occupied by the Rural Services segment, directors retirement allowance ($148,000) and settlement costs ($550,000) associated with the Hanover acquisition.

Group other items includes a provision at 30 June 2010 of $149,000 that consists of the estimated liability for non-recoverable GST calculated under the terms of The Taxation (GST, Trans-Tasman Imputation and Miscellaneous Provisions) Act 2003 (June 09: $121,000). The level of GST recovery is based on the proportion of zero-rated supplies of financial services relative to total supplies. The adjustment for non-recoverable GST is made annually at the end of the relevant tax year and the payment of GST due is made at the time that the income tax return for that year is filed.

In the event of liquidation of the Group and Parent, unless statutorily required otherwise, all creditors within this class will rank in priority ahead of subordinated deposits, capital notes and shareholders, but will rank behind secured deposits. They will rank pari passu with those creditors classified within "trade and other payables".

24. Derivative Financial Instruments

	Note	Group Pro-forma 2010 $000	Group 2010 $000	Group 2009 $000	Parent 2010 $000	Parent 2009 $000
Granted call / put options (assets)						
Balance at beginning of year		**-**	**-**	-	**62**	-
Allied Nationwide Finance adjustment	45	**62**	**-**	-	**-**	-
Additions in year		**-**	**-**	-	**-**	65
Change in fair value		**(16)**	**-**	-	**(16)**	(3)
Balance at end of year		**46**	**-**	-	**46**	62
Interest rate swaps (liabilities)						
Balance at beginning of year		**(7,125)**	**(7,125)**	(177)	**(924)**	(177)
Allied Nationwide Finance adjustment	45	**6,201**	**-**	-	**-**	-
Additions due to acquisition		**-**	**-**	(1,887)	**-**	-
Change in fair value to income statement		**116**	**379**	545	**116**	(83)
Change in fair value to hedging reserve	16	**808**	**4,078**	(5,606)	**808**	(664)
Balance at end of year		**-**	**(2,668)**	(7,125)	**-**	(924)
Granted call / put options (liabilities)						
Balance at beginning of year		**-**	**(84)**	-	**(347)**	-
Allied Nationwide Finance adjustment	45	**(347)**	**-**	-	**-**	-
Additions in year		**-**	**-**	(98)	**-**	(361)
Change in fair value		**(1,171)**	**20**	14	**(3)**	14
Balance at end of year		**(1,518)**	**(64)**	(84)	**(350)**	(347)
Total derivative financial instruments - liabilities		**(1,518)**	**(2,732)**	(7,209)	**(350)**	(1,271)
Total derivative financial instruments		**(1,472)**	**(2,732)**	(7,209)	**(304)**	(1,209)
Derivative financial instruments - assets (current)		**46**	**-**	-	**46**	62
Derivative financial instruments - liabilities (current)		**(64)**	**(2,732)**	(7,125)	**(64)**	(986)
Derivative financial instruments - liabilities (non current)		**(1,454)**	**-**	(84)	**(286)**	(285)
		(1,472)	**(2,732)**	(7,209)	**(304)**	(1,209)

Interest rate swaps
As outlined in note 19 the Parent had entered into an interest rate swap transaction to mitigate the interest rate risk of the Westpac term loan facility, the swap matured during the year. The interest rate swap was hedge accounted.

As outlined in note 30 Allied Nationwide Finance Limited enters into interest rate swap transactions to match the nature of interest costs on commercial paper funding with the fixed rate interest income arising on cash flows purchased by Speirs Securities Limited which the commercial paper is funding.

These interest rate swaps were designated as cash flow hedges from 1 October 2008 which was the date that Speirs Securities Limited became part of the Group. At this date the brought forward mark to market revaluation loss on these swaps was $1,887,000. In the year ended 30 June 2010 $629,000 (1 October 2008 to 30 June 2009: $629,000) of these brought forward losses reversed. Also in the year ended 30 June 2010 the net loss on the ineffective portion of a cash flow hedge of $365,000 has been recognised to the income statement. As at 30 June 2010 revaluation losses of $1,673,000 have been experienced and recorded in the cash flow hedge reserve.

The purpose and effect of the swaps is to produce an effective hedge turning floating rate 90 day funding into fixed rate funding cash flows which match the amounts and tenure of the inward cash flows received by Speirs Securities Limited.

The securitisation structure has been established to operate such that both the interest earning assets and funding liabilities, including the interest rate swaps, run to maturity. On this basis, the reported revaluation gain or loss does not crystallise and is zero on maturity.

The face value of interest rate swaps as at 30 June 2010 was $82,253,000 (June 2009: $104,492,000) and the fair value was assessed as being $2,668,000 (June 2009: $7,125,000). The valuation was performed by discounting the expected cash flows using the market yield curve at that date which ranged from 2.02% to 6.29% (June 2009:2.02% to 6.29%).

The cash flows relating to these instruments will occur between 1 July 2009 and 7 May 2014. The cash flows being hedged are monthly in nature and the impact of the hedging on the interest expense on the underlying funding being hedged will occur monthly.

Granted call / put options
The Parent has entered into a put and call option contract with Speirs Group Limited which enables the following:

Option 1: A Put option enables Speirs Group Limited to sell its unlisted Allied Nationwide Finance Limited Perpetual Bonds to the Parent for either $2,000,000 or the investment properties disclosed in note 33. Speirs Group Limited may only exercise this option at least 30 business days, and no more than 60 business days prior to the exercise date (30 September 2013).

Option 2: A Call option which enables the Parent to buy back from Speirs Group Limited the unlisted Allied Nationwide Finance Limited Perpetual Bonds currently held by Speirs Group Limited, for either $2,000,000 or the investment properties disclosed in note 33. The Parent may exercise this option at any time prior to the exercise date (30 September 2013), the payment method is at the discretion of Speirs Group Limited.

Option 3: A Call option held by Speirs Group Limited which enables Speirs Group Limited to buy back the investment properties disclosed in note 30 for $2,000,000 at any time prior to the exercise date (30 September 2013).

The Parent has also entered into a put and call option contract with Allied Nationwide Finance Limited which enables the following:

Option 1: A call option which enables the Parent to buy back the investment properties disclosed in note 30 for $2,100,000 at any time until 2 February 2014.

Option 2: A put option which enables Allied Nationwide Finance Limited to require the Parent to buy back the investment properties disclosed in note 30 for $2,100,000 in the period one calendar month from and including 3 February 2014.

These options have been valued by the Group's professional advisers using the Black Scholes option pricing model. The primary inputs to this model were the term of the contract, the strike prices of $2,000,000 or $2,100,000, the current market valuation of the properties of $1,885,000 shown in note 33, and the estimated volatility in the property price using as a proxy the volatility in price of property companies and trusts listed on NZX. The assessed range of volatility was 11% - 16%.

In the Group Pro-forma financial information, the Option 1 Put option entered into between the Parent and Speirs Group Limited has been revalued to take account of the Allied Nationwide Finance Limited receivership. The revised valuation assumes the Parent company has a $2,000,000 obligation and a discount rate of 15% has been applied to allow for market interest rate and credit rate risks.

25. Fixed assets

	Note	**Group Pro-forma 2010 $000**	**Group 2010 $000**	Group 2009 $000	**Parent 2010 $000**	Parent 2009 $000
Freehold land						
Cost at beginning of year		**3,029**	**3,029**	3,029	**2,175**	3,029
Disposals		**(221)**	**(221)**	-	**-**	(854)
Cost at end of year		**2,808**	**2,808**	3,029	**2,175**	2,175
Buildings						
Cost at beginning of year		**4,264**	**4,264**	4,288	**1,409**	4,288
Additions		**647**	**647**	11	**647**	11
Additions due to acquisition		**716**	**716**	-	**-**	-
Disposals		**(230)**	**(230)**	-	**-**	(2,855)
Transfer from (to) plant and equipment		**-**	**-**	(35)	**-**	(35)
Cost at end of year		**5,397**	**5,397**	4,264	**2,056**	1,409
Accumulated depreciation at beginning of year		**(1,434)**	**(1,434)**	(1,270)	**(683)**	(1,270)
Depreciation charged to income statement		**(242)**	**(242)**	(185)	**(119)**	(185)
Disposals		**-**	**-**	-	**-**	751
Transfer to (from) plant and equipment		**-**	**-**	21	**-**	21
Accumulated depreciation at end of year		**(1,676)**	**(1,676)**	(1,434)	**(802)**	(683)
Buildings net book value		**3,721**	**3,721**	2,830	**1,254**	726
Motor vehicles						
Cost at beginning of year		**1,589**	**1,589**	2,300	**84**	1,990
Allied Nationwide Finance Limited adjustment	45	**(407)**	**-**	-	**-**	-
Additions		**106**	**131**	17	**-**	17
Additions due to acquisition		**72**	**72**	196	**-**	-
Disposals		**(276)**	**(490)**	(812)	**-**	(1,923)
Transfer from operating lease		**-**	**33**	11	**-**	-
Transfer from (to) assets held for resale	26	**123**	**123**	(123)	**-**	-
Cost at end of year		**1,207**	**1,458**	1,589	**84**	84
Accumulated depreciation at beginning of year		**(1,089)**	**(1,089)**	(1,418)	**(43)**	(1,246)
Allied Nationwide Finance Limited adjustment	45	**212**	**-**	-	**-**	-
Depreciation charged to income statement		**(178)**	**(239)**	(329)	**(18)**	(248)
Disposals		**209**	**321**	605	**-**	1,451
Transfer from operating lease		**-**	**(8)**	(1)	**-**	-
Transfer to (from) assets held for resale	26	**(54)**	**(54)**	54	**-**	-
Accumulated depreciation at end of year		**(900)**	**(1,069)**	(1,089)	**(61)**	(43)
Motor vehicles net book value		**307**	**389**	500	**23**	41

25. Fixed assets continued

	Note	Group Pro-forma 2010 $000	Group 2010 $000	Group 2009 $000	Parent 2010 $000	Parent 2009 $000
Plant and equipment						
Cost at beginning of year		**4,695**	**4,695**	5,751	**91**	4,292
Allied Nationwide Finance Limited adjustment	45	**(1,738)**	**-**	-	**-**	-
Additions		**36**	**36**	80	**15**	76
Additions due to acquisition		**220**	**220**	275	**-**	-
Disposals		**(68)**	**(169)**	(133)	**(2)**	(4,312)
Transfer from (to) assets held for resale	26	**1,313**	**1,313**	(1,313)	**-**	-
Transfer from (to) buildings		**-**	**-**	35	**-**	35
Cost at end of year		**4,458**	**6,095**	4,695	**104**	91
Accumulated depreciation at beginning of year		**(3,359)**	**(3,359)**	(3,344)	**(57)**	(2,570)
Allied Nationwide Finance Limited adjustment	45	**1,023**	**-**	-	**-**	-
Depreciation charged to income statement		**(181)**	**(371)**	(516)	**(13)**	(268)
Disposals		**31**	**68**	76	**-**	2,802
Transfer to (from) assets held for resale	26	**(446)**	**(446)**	446	**-**	-
Transfer to (from) buildings		**-**	**-**	(21)	**-**	(21)
Accumulated depreciation at end of year		**(2,932)**	**(4,108)**	(3,359)	**(70)**	(57)
Residual value impairment provision at beginning of year		**-**	**-**	-	-	-
Transfer from assets held for resale	26	**(530)**	**(530)**	-	-	-
Residual value impairment provision at end of year		**(530)**	**(530)**	-	-	-
Plant and equipment net book value		**996**	**1,457**	1,336	**34**	34
Operating lease assets						
Cost at beginning of year		**4,111**	**4,111**	2,686	-	-
Allied Nationwide Finance Limited adjustment	45	**(4,111)**	**-**	-	**-**	-
Additions		**-**	**-**	1,748	-	-
Additions due to acquisition		**-**	**-**	2,615	-	-
Disposals		**-**	**(1,185)**	(1,293)	-	-
Transfer to motor vehicles		**-**	**(33)**	(11)	-	-
Transfer to assets held for resale	26	**-**	**(100)**	(1,634)	-	-
Cost at end of year		**-**	**2,793**	4,111	-	-
Accumulated depreciation at beginning of year		**(686)**	**(686)**	(1,214)	-	-
Allied Nationwide Finance Limited adjustment	45	**686**	**-**	-	**-**	-
Depreciation charged to income statement		**-**	**(460)**	(762)	-	-
Disposals		**-**	**447**	353	-	-
Transfer to motor vehicles		**-**	**8**	1	-	
Transfer to assets held for resale	26	**-**	**93**	936	-	-
Accumulated depreciation at end of year		**-**	**(598)**	(686)	-	-
Residual value impairment provision at beginning of year		**(7)**	**(7)**	(157)	-	-
Allied Nationwide Finance Limited adjustment	45	**7**	**-**	-	**-**	-
Residual value impairment charged to income statement		**-**	**(90)**	-	-	-
Disposal		**-**	**-**	44	-	-
Transfer to assets held for resale	26	**-**	**-**	106	-	-
Residual value impairment provision at end of year		**-**	**(97)**	(7)	-	-
Operating lease assets net book value		**-**	**2,098**	3,418	-	-
Capital work in progress						
Cost at beginning of year		**523**	**523**	-	**523**	-
Additions		**-**	**-**	523	**-**	523
Transfer to fixed asset register		**(523)**	**(523)**	-	**(523)**	-
Cost at end of year		**-**	**-**	523	**-**	523
Property, plant and equipment cost at end of year		**13,870**	**18,551**	17,688	**4,419**	3,759
Property, plant and equipment accumulated depreciation at end of year		**(5,508)**	**(7,451)**	(6,568)	**(933)**	(783)
Residual value impairment provision at end of the year		**(530)**	**(627)**	(7)	**-**	-
Capital work in progress		**-**	**-**	523	**-**	523
Total property, plant and equipment net book value		**7,832**	**10,473**	11,636	**3,486**	3,499

The depreciation noted above as being charged to the income statement includes depreciation on discontinued operations (refer note 1).

25. Fixed assets continued

	Note	Group Pro-forma 2010 $000	Group 2010 $000	Group 2009 $000	Parent 2010 $000	Parent 2009 $000
Motor vehicles includes the following amounts where the Group is a lessee under a finance lease:						
Cost - capitalised finance leases		-	-	197	-	85
Accumulated depreciation		-	-	(105)	-	(44)
		-	-	92	-	41
Gross finance lease liabilities - minimum lease payments:						
No later than 1 year				114	-	48
Later than 1 year and no later than 5 years		-	-	-	-	
Later than 5 years		-	-	-	-	-
		-	-	114	-	48
Future finance charges on finance leases		-	-	8	-	3
The present value of finance lease liabilities is as follows:						
No later than 1 year		-	-	106	-	45
Later than 1 year and no later than 5 years		-	-	-	-	-
Later than 5 years		-	-	-	-	-
	21	-	-	106	-	45

26. Assets held for resale

	Note	Group Pro-forma 2010 $000	Group 2010 $000	Group 2009 $000	Parent 2010 $000	Parent 2009 $000
Net book value at the beginning of the year		**2,480**	**2,480**	933	**-**	-
Allied Nationwide Finance Limited adjustment	45	**(1,006)**	**-**	-	**-**	-
Cost reclassified from (to) motor vehicles		**(123)**	**(123)**	123	**-**	-
Accumulated depreciation reclassified to (from) motor vehicles		**54**	**54**	(54)	**-**	-
Cost reclassified from (to) plant and equipment		**(1,313)**	**(1,313)**	1,313	**-**	-
Accumulated depreciation reclassified from plant and equipment		**446**	**446**	(446)	**-**	-
Cost reclassified from operating lease assets		**-**	**100**	1,634	**-**	-
Accumulated depreciation reclassified from operating lease assets		**-**	**(93)**	(936)	**-**	-
Residual value impairment provision reclassified from operating lease assets		**-**	**-**	(106)	**-**	-
Cost reclassified from (to) inventory -merchandise	36	**(1,068)**	**(1,068)**	1,068	**-**	-
Additions due to acquisition of Speirs Finance Limited		**-**	**-**	525	**-**	-
Disposals		**-**	**(424)**	(1,044)	**-**	530
Residual value impairment charged to income statement		**-**	**(52)**	-	**-**	-
Fixed assets impairment provision	25	**-**	**-**	(530)	**-**	(530)
Impairment provision transferred to fixed assets	25	**530**	**530**	-	**-**	-
Net book value at the end of the year		**-**	**537**	2,480	**-**	**-**
Shares in other companies		**669**	**669**	188	**10**	10
Assets held for resale		**669**	**1,206**	2,668	**10**	10

Assets held for resale consist of operating lease assets that have been returned by clients and the assets of the Mitre 10 business (June 2009 only). Their value will more probably than not be realised through a sale transaction.

Shares in other companies are shares in unlisted companies held to support the Parent and Group's normal trading activities. They are valued at cost.

27. Intangible assets

	Note	Group Pro-forma 2010 $000	Group 2010 $000	Group 2009 $000	Parent 2010 $000	Parent 2009 $000
Goodwill						
Goodwill at beginning of year		**21,478**	**21,478**	25,562	**-**	993
Allied Nationwide Finance adjustment	45	**(20,485)**	**-**	-	**-**	-
Goodwill arising on acquisitions of subsidiaries	28	**-**	**-**	15,420	**-**	-
Goodwill arising on other acquisitions		**60**	**60**	-	**-**	-
Goodwill impairment charge	10	**(116)**	**(20,601)**	(19,504)	**-**	-
Goodwill disposals	28	**-**	**-**	-	**-**	(993)
Goodwill at end of year		**937**	**937**	21,478	**-**	-
Computer software						
Cost at beginning of year		**4,555**	**4,555**	2,297	**-**	1,012
Allied Nationwide Finance adjustment	45	**(3,576)**	**-**	-	**-**	-
Additions		**313**	**313**	207	**3**	100
Additions due to acquisition		**2**	**2**	187	**-**	-
Fair value adjustment upon consolidation		**-**	**-**	2,000	**-**	-
Disposals		**(703)**	**(716)**	(136)	**-**	(1,112)
Cost at end of year		**591**	**4,154**	4,555	**3**	-
Accumulated amortisation at beginning of year		**(2,352)**	**(2,352)**	(1,719)	**-**	(614)
Allied Nationwide Finance adjustment	45	**2,067**	**-**	-	**-**	-
Amortisation charged to income statement		**(145)**	**(521)**	(605)	**(1)**	(242)
Impairment adjustment		**-**	**(910)**	-	**-**	-
Deferred tax on amortisation of fair value adjustment		**(120)**	**(120)**	(90)	**-**	-
Disposals		**272**	**283**	62	**-**	856
Accumulated amortisation at end of year		**(278)**	**(3,620)**	(2,352)	**(1)**	-
Software work in progress		**-**	**-**	164	**-**	-
Computer software net book value		**313**	**534**	2,367	**2**	-
Total intangibles		**1,250**	**1,471**	23,845	**2**	-

Impairment testing for Goodwill

Goodwill acquired through business combinations has been allocated to individual cash generating units for impairment testing, as follows:

	Note	Carrying amount $000	Cash generating unit
Total Livestock operations goodwill			
Pre-impairment		1,053	Individual livestock operations
Impairment		(116)	Individual livestock operations
Post-impairment		937	Individual livestock operations
Total Allied Nationwide Finance Limited goodwill			
Pre-impairment		20,485	Allied Nationwide Finance Limited
Impairment		(20,485)	Allied Nationwide Finance Limited
Post-impairment		-	Allied Nationwide Finance Limited
Total Post-impairment		937	

Goodwill relating to livestock operations

The Group has goodwill amounting to $937,000 (30 June 2009: $993,000) related to acquired livestock operations. The estimated recoverable amounts are determined based on value-in-use calculations as at 30 June 2010 using discounted cash flow projections based on managements forecasts covering a five year period. The discount rate used is the before tax equivalent of the Group's cost of capital, and management have assumed a zero growth rate. Management does not consider any reasonably possible change in key assumptions applied would materially reduce recoverable amounts below their carrying values.

Goodwill relating to Allied Nationwide Finance Limited

Goodwill for Allied Nationwide Finance Limited has been acquired through business combinations as follows:

	Note	Carrying amount $000	
Business combination			
Prime Finance Limited and Nationwide Finance Limited			
Goodwill on acquisition		24,569	Allied Nationwide Finance Limited
Speirs Finance Limited			
Goodwill on acquisition	28	15,420	Allied Nationwide Finance Limited
Total Allied Nationwide Finance Limited goodwill		39,989	
Impairment recognised 30 June 2009		(19,504)	
		20,485	Allied Nationwide Finance Limited
Impairment recognised 30 June 2010		(20,485)	Allied Nationwide Finance Limited
Total Allied Nationwide Finance Limited goodwill as at 30 June 2010		-	

Impairment testing

The estimated recoverable amount of Allied Nationwide Finance Limited as at 30 June 2009 was based on a value in use calculation as at 30 June 2009. The valuation was assessed by Deloitte Corporate Finance, a division of Deloitte, as Allied Farmers Limited's independent professional advisors.

The appointment of a receiver to Allied Nationwide Finance Limited on 20 August 2010 has resulted in the Directors of Allied Farmers Limited reassessing the valuation methodology and carrying value of Allied Nationwide Finance Limited in the Parent and Group accounts. The Directors have deemed it appropriate to write off all the goodwill related to Allied Nationwide Finance Limited in the Group accounts and to write off the carrying value of the investment in the Parent for the year ended 30 June 2010.

Summary of the effect of impairment - Allied Nationwide Finance Limited

	Note	Parent 2010 $000	Parent 2009 $000
Carrying value of investment by Allied Farmers Limited (pre impairment testing)		40,080	56,328
Valuation of Allied Nationwide Finance Limited 30 June		-	35,000
Impairment charged to Parent income statement	9	40,080	21,328
		Group $000	Group $000
Carrying value of Allied Nationwide Finance Limited at Group level		13,539	28,054
less value attributable to Perpetual bond holders		(13,539)	(13,539)
Goodwill upon consolidation (pre impairment testing)		20,485	39,989
Total carrying value impairment testing applied to		20,485	54,504
Valuation of Allied Nationwide Finance Limited 30 June		-	35,000
Impairment of goodwill charged to Group income statement	10	20,485	19,504

The Parent impairment charge of $40,080,000 (30 June 2009: $21,328,000) is recorded in the Parent income statement. The Parent impairment is eliminated upon consolidation, with an impairment of goodwill of $20,485,000 (30 June 2009: $19,504,000) recorded in the Group income statement.

28. Investment in and advances to and from subsidiaries

	Note	Group Pro-forma 2010 $000	Group 2010 $000	Group 2009 $000	Parent 2010 $000	Parent 2009 $000
Investment in subsidiaries						
Opening balance		**35,000**	**-**	**-**	**54,654**	43,987
Additions		**5,080**	**-**	**-**	**5,080**	32,497
Repayment		**-**	**-**	**-**	**(80)**	-
Impairment of investment	9	**(40,080)**	**-**	-	**(48,054)**	(21,830)
		-	-	**-**	**11,600**	54,654
Advances to subsidiaries						
Advances to subsidiaries		**-**	**-**	-	**99,981**	-
Provision for impaired loans	9	**-**	**-**	**-**	**(21,693)**	**-**
Net advances to subsidiaries		**-**	**-**	**-**	**78,288**	**-**
		-	**-**	-	**89,888**	54,654
Advances from subsidiaries	38	**12,316**	**-**	**-**	**14,784**	**853**

The Parent investment in subsidiaries comprises shares at cost.

	Principal activity	Interest held by Group 2010	Interest held by Group 2009
Subsidiaries of the Parent			
Allied Farmers Investments Limited	Asset Management Services	**100%**	-
Allied Farmers Rural Limited	Rural Services	**100%**	-
Allied Nationwide Finance Limited	Financial Services	**100%**	100%
The West Coast Mortgage and Deposit Company Limited	Holding company	**100%**	100%
Allied Farmers Option Scheme Limited	Non-trading	-	100%
Subsidiaries of Allied Farmers Investments Limited			
Allied Farmers Property Investments Limited	Holding company	**100%**	-
Allied Farmers Property Holdings Limited	Holding company	**100%**	-
Subsidiaries of Allied Farmers Property Investments Limited			
QWF Holdings Limited	Property investment	**100%**	-
HPL Rhode Island (2008) Limited	Finance company lending to North America	**100%**	-
Clearwater Avenue Holdings Limited	Holding company	**100%**	-
Clearwater Hotel 2004 Limited	Property development and investment	**100%**	-
Lifestyles of New Zealand Queenstown Limited	Property investment	**100%**	-
LONZ 2008 Limited	Property investment	**100%**	-
LONZ 2008 Holdings Limited	Property investment	**100%**	-
Matarangi Beach Estates Limited	Property	**100%**	-
Subsidiaries of Allied Farmers Property Holdings Limited			
UFL Lakeview Limited	Property investment	**100%**	-
5M No. 2 Limited	Property investment	**100%**	-
Subsidiary of Clearwater Hotel 2004 Limited			
Clearwater Hotel Management 2004 Limited	Non-trading	**100%**	-
Subsidiaries of Matarangi Beach Estates Limited			
Matarangi Farm Lot 1 Limited	Non-trading	**100%**	-
Matarangi Farm Lot 2 Limited	Non-trading	**100%**	-
Matarangi Farm Lot 3 Limited	Non-trading	**100%**	-
Matarangi Farm Developments Limited	Non-trading	**100%**	-
Matarangi Reserve Limited	Non-trading	**100%**	-
Matarangi Villas Management Limited	Non-trading	**100%**	-
Subsidiaries of The West Coast Mortgage and Deposit Company Limited			
Allied Farmers Finance Limited	Non-trading	**100%**	100%
Allied Farmers Livestock Limited	Non-trading	**100%**	100%
Allied Farmers (New Zealand) Limited	Non-trading	**100%**	100%
Allied Finance Limited	Non-trading	**100%**	100%
Allied Prime Finance Limited	Non-trading	**100%**	100%
Allied Rural Limited	Non-trading	**100%**	100%
Nationwide Finance Limited	Non-trading	**100%**	100%
Prime Finance Limited	Non-trading	**100%**	100%
Speirs Finance Limited	Non-trading	**100%**	100%
Taranaki Farmers Limited	Non-trading	**100%**	100%

All companies within the Group were incorporated in New Zealand, and have a balance date of 30 June.

Acquisition of subsidiaries and businesses

Acquisition of finance assets of Hanover Finance Limited, United Finance Limited and support package assets and liabilities from their subsidiary companies

On 18 December 2009 Allied Farmers Limited acquired the Hanover Finance and United Finance assets and liabilities. The transaction involved the following:
a) The investors in Hanover Finance Limited, United Finance Limited and Hanover Capital Limited assigning the $396,177,000 value of their Secured Deposits, Secured Stock, Subordinated Notes and Capital Bonds to Allied Famers Limited in exchange for shares in Allied Farmers Limited of an equivalent subscribed value;
b) Allied Farmers acquiring the finance assets and support package assets from Hanover Finance Limited, United Finance Limited and their related companies in exchange for the redemption of the Secured Deposits, Secured Stock, Subordinated Notes and Capital Bonds held in Hanover Finance Limited, United Finance Limited and Hanover Capital Limited; and
c) The issue by Allied Farmers Limited of bonus shares to the existing shareholders prior to the allotment of shares to the investors in Hanover Finance Limited, United Finance Limited and Hanover Capital Limited. For every 10 Allied Farmers Limited shares held by existing shareholders 1 bonus share was issued. Refer note 15 for details of their rights.

Summary of the effect of acquisition of Hanover Finance and United Finance assets

A preliminary fair value assessment was undertaken on the acquired assets and liabilities for the purposes of the 31 December 2009 Interim Financial Statements. Subsequent to these reported values further assessment work has been performed, which included obtaining updated independent valuations on certain assets. The fair value assessment work has been completed. The preliminary and final assessments of the fair value for the acquired assets and liabilities as at acquisition date are summarised below:

	Final Assessment Group $000	**Preliminary Assessment Group $000**
Cash and cash equivalents	7,520	7,520
Loans, advances and finance leases	58,510	106,637
Inventory property	43,479	47,207
Investment property	48,149	61,839
Other assets	3,816	3,816
Total assets	161,474	227,019
Borrowings	45,910	45,910
Payable - owing to Hanover Finance Limited	5,000	5,000
Other liabilities	589	589
Total liabilities	51,499	51,499
Net assets	109,975	175,520
Fair value of net assets acquired	109,975	175,520
Cost of acquisition settled in shares ((1,914,598,153 shares) refer note 15)	109,975	175,520
Goodwill arising on acquisition	-	-

The attributed value for this transaction was $396,177,000. The movements between this value and the fair value assessment of the assets and liabilities acquired can be summarised as follows:

	Group $000
Attributed Value	396,177
Net movement in assets up to settlement date	(20,708)
Discount of expected cash flows	(55,953)
Fair value adjustments	
Property assets	(47,869)
Loans	(147,771)
Other assets	(13,901)
Fair value of net assets acquired	109,975

For the period 18 December 2009 to 30 June 2010 the Hanover Finance Limited and United Finance Limited asset acquisition contributed revenue of $7,346,000 and a net loss before tax of $21,693,000 to the Group. It is impractical to determine the profit or loss of the combined entity as if it was acquired at the beginning of the year because of uncertaintly of the opening fair value position.

Business acquisition costs

The following business acquisition costs were incurred and have been expensed:

Professional fees and other direct transaction costs	1,863
Fair value of bonus securities (refer note 15)	4,121
Total cost	5,984

30 June 2009
On 30 September 2008, Allied Farmers Limited purchased 100% of the share capital of Speirs Finance Limited for consideration of $5,244,000. Speirs Finance Limited was a finance company operating in the Manawatu and Wellington areas.

On 30 September 2008, Allied Nationwide Finance Limited, and Speirs Finance Limited were amalgamated, with Allied Nationwide Finance Limited being the continuing entity.

On 30 June 2009 Allied Farmers Limited sold its rural business operations to Allied Farmers Rural Limited for $19,575,000. Allied Farmers Rural Limited is a wholly owned subsidiary of Allied Farmers Limited, and was incorporated on 12 May 2009 (see additional commentary below).

Summary of the effect of acquisition of subsidiary - Speirs Finance Limited

	Note	Group $000
Cash and cash equivalents		8,342
Loans, advances and finance leases		203,001
Other assets		11,753
Total assets		223,096
Deposits		211,136
Other liabilities		8,981
Total liabilities		220,117
Net assets acquired		2,979
Less Perpetual bonds (minority interest)		(13,539)
Plus Other acquisition costs		630
		(12,909)
Fair value of net assets acquired in Speirs Finance Limited and Speirs Securities Limited		(9,930)
Cost of acquisition settled in cash		3,000
Cost of acquisition settled in shares (1,851,852 shares at market price of $1.20)	15	2,222
Cost of options issued		22
Total consideration		5,244
Acquisition costs		246
Total cost		5,490
Goodwill arising on acquisition	27	15,420

The goodwill arising on acquisition of Speirs Finance Limited is attributable to the securitisation arrangement discussed in note 27, the access to the long standing and loyal investor base of Speirs Group Limited, increased economies of scale, and the increased diversification of the loan book from combining the operations of Allied Nationwide Finance Limited and Speirs Finance Limited.

The revenue added by the acquisition of Speirs Finance Limited in the nine months from 1 October 2008 to 30 June 2009 is $20,435,000 to the Group. It is impractical to attribute the profit attributable to the acquisition of Speirs Finance Limited as it was amalgamated with Allied Nationwide Finance Limited upon acquisition. It is also impractical to determine the profit or loss of the combined entity as if it was acquired at the beginning of the year as prior to acquisition the operation was fully integrated within Speirs Group Limited.

Amalgamation of subsidiaries

On 22 December 2008, the following wholly owned subsidiaries of Allied Farmers Limited were amalgamated: The West Coast Mortgage and Deposit Company Limited, Allied Farmers Wools Limited, Allied Pine Limited and Brixton Solutions Limited, with The West Coast Mortgage and Deposit Company Limited being the continuing entity.

Prior to the amalgamation additional capital was introduced into The West Coast Mortgage and Deposit Company Limited to ensure that it was adequately capitalised throughout the amalgamation process.

Summary of the effect of amalgamation of subsidiaries

	Note	$000
Release of provision for intercompany loan		2,884
Impairment of investment in The West Coast Mortgage and Deposit Company Limited	9	(472)
Net impact upon Parent profit		2,412
Consolidation eliminations		(2,412)
Net impact upon Group profit		-

Summary of the effect of sale of rural businesses by Parent company

On 30 June 2009, Allied Farmers Limited sold its rural businesses to the newly created wholly owned subsidiary Allied Farmers Rural Limited.

The rural business is comprised of the merchandise, livestock, real estate, and bobby calves operations. It also includes the short term seasonal facilities provided to approved customers.

The rural business was independently valued by Deloitte, using a capitalisation of earnings before interest and tax approach. The capitalisation of earnings before interest and tax approach requires an assessment of the maintainable earnings of the rural businesses, at an EBIT multiplier in the range of 6 to 7. Deloitte's valuation analysis determined a value range of $19,000,000 to $24,000,000.

The rural business of Allied Farmers Limited was sold to Allied Farmers Rural Limited for $19,575,000.

		$000
Sale price		19,575
Cash and cash equivalents		20
Inventory		4,890
Fixed assets		3,809
Other assets		3,771
Total assets		12,490
Bank		2,614
Other liabilities		8,959
Total liabilities		11,573
Net assets disposed of		917
Disposal costs		166
Net gain on disposal by Parent	3	18,492
Consolidation eliminations		(18,658)
Net impact upon Group profit		(166)

For the 30 June 2010 year the Directors of Allied Famers Limited reviewed the Deloitte valuation methodology and reassessed the maintainable earnings for the rural business taking into consideration historical profit levels and market conditions. The EBIT multiplier applied in the Deloitte valuation was deemed appropriate for 30 June 2010. The result of this review was a decrease in the Parent carrying value of the investment in the rural business by $7,975,000 to $11,600,000. This impairment eliminates on consolidation.

Restrictions on dividends

As detailed in note 18, Allied Nationwide Finance Limited has a guarantee under the New Zealand deposit guarantee scheme. Under the deposit guarantee, Allied Nationwide Finance Limited may not without the prior written consent of the Crown make aggregate dividend payments to the Parent in any financial year in excess of the profit of Allied Nationwide Finance Limited as shown in that company’s annual financial statements for the previous financial year.

29. Loans, advances and finance leases

	Note	Group Pro-forma 2010 $000	Group 2010 $000	Group 2009 $000	Parent 2010 $000	Parent 2009 $000
Loans and advances						
Loans and advances at amortised cost		**52,988**	**176,002**	148,438	-	-
Less deferred fee income		**-**	**(336)**	(437)	-	-
Deferred lending brokerage		**-**	**521**	629	-	-
		52,988	**176,187**	148,630	**-**	-
Provision for impaired assets	31	**(9,311)**	**(21,583)**	(6,222)	-	-
Net loans and advances		**43,677**	**154,604**	142,408	-	-
Finance leases						
Gross lease receivable		**-**	**108,610**	152,255	**-**	-
Less unearned interest income		**-**	**(16,070)**	(24,326)	**-**	-
Less deferred fee income		**-**	**(364)**	(492)	**-**	-
Deferred lending brokerage		**-**	**2,256**	3,262	**-**	-
		-	**94,432**	130,699	**-**	-
Provision for impaired assets	31	**-**	**(3,952)**	(1,483)	**-**	-
Net finance leases		**-**	**90,480**	129,216	**-**	-
Net loans, advances and finance leases*		**43,677**	**245,084**	271,624	-	-
Classified as:						
Current		**40,546**	**165,545**	160,633	**-**	-
Non-current		**3,131**	**79,539**	110,991	**-**	-
		43,677	**245,084**	271,624	**-**	-

* Within net loans, advances and finance leases is an amount of $87,095,000 (June 2009: $109,344,000) which represents eligible cash flows sold by Allied Nationwide Finance Limited to Speirs Securities Limited under the securitisation arrangement discussed in note 30. Allied Nationwide Finance Limited has an equivalent liability arising on securitisation of $87,095,000 (June 2009: $109,344,000) which represents the obligation to deliver those cash flows to Speirs Securities Limited.

Finance leases principally relate to the leasing of road registered vehicles and technology assets where the lessee receives substantially all the risks and rewards incidental to ownership.

On 30 September 2009 Allied Nationwide Finance Limited advanced a loan of $1,000,000 which is included within loans and advances above as at 30 June 2010. The terms of the advance include the right for Allied Nationwide Finance Limited to convert the loan into a 50% shareholding in the borrower. This right may be exercised at any time up to the maturity date of the arrangement. This maturity date is initially set to 30 September 2014, but may be extended at the election of Allied Nationwide Finance Limited.

	Group Pro-forma 2010	Group 2010	Group 2009	Parent 2010	Parent 2009
Loans, advances and finance leases net of provisions for impaired assets with repayment arrears in excess of three months:	**63.4%**	**23.3%**	11.4%	**-**	**-**

30. Securitisation

Following the acquisition of Speirs Finance Limited and its amalgamation with Allied Nationwide Finance Limited, Allied Nationwide Finance Limited is party to a securitisation arrangement with the Bank of New Zealand and Speirs Securities Limited. Under the terms of this arrangement, Speirs Securities Limited purchases the rights to future cash flows from eligible finance receivables originated by Allied Nationwide Finance Limited. The purchase of these rights by Speirs Securities Limited is funded by the issue of ninety-day commercial paper in the wholesale money market. The interest rate risk to Speirs Securities Limited arising from the funding of fixed rate receivables with ninety-day commercial paper is managed through the use of interest rate swaps.

This arrangement has the effect of providing Allied Nationwide Finance Limited with access to competitively priced and limited but certain funding from money markets within New Zealand. The future repayment commitments associated with this funding are matched with the forward receipts due to the Group from client counter-parties. Allied Nationwide Finance Limited charges fees to Speirs Securities Limited for the administration of the general affairs of Speirs Securities Limited, including the collection and payment of the acquired cash flows.

The Shareholders of Speirs Securities Limited are unrelated to the Group.

As Allied Nationwide Finance Limited has not substantially transferred the risks and rewards of the securitised assets, it continues to recognise the securitised assets and associated liability arising on securitisation on its balance sheet. Despite this presentation, the loans sold to Speirs Securities Limited are set aside for the investors in Speirs Securities Limited and no longer legally form part of Allied Nationwide Finance Limited's assets.

The principal components of the securitisation arrangement are:

Speirs Securities Limited is constituted for the purpose of purchasing the rights to future cash flows of eligible finance receivable agreements held by Allied Nationwide Finance Limited in the form of tranches of “Eligible Receivables” from time to time. Speirs Securities Limited purchases the rights to receive the future cash flows at the present value of the future cash flows discounted using the interest rate of the underlying finance receivables.

To be eligible for securitisation, the Eligible Receivables must arise from agreements that, amongst other things:

- are either Finance Leases or Security Agreements;
- provide funding to a client counter-party that is secured by a charge over a registered motor vehicle or other approved asset used by and in the possession of the client counter-party;
- are for a maximum term of sixty months; and
- require repayment by a regular and even (usually monthly) cash flow payable from the client counter-party to Allied Nationwide Finance Limited over the life of the agreement. The final payment may include a Residual Value or Balloon payment.

As Allied Nationwide Finance Limited retains significant risks and rewards of ownership associated with the eligible receivables it continues to recognise the assets and associated interest income in its financial statements. Speirs Securities Limited recognises an asset on securitisation equivalent to the present value of the future cash flows on each tranche of eligible receivables, representing its right to receive the future cash flows. Allied Nationwide Finance Limited simultaneously recognises a liability to deliver those future cash flows to Speirs Securities Limited.

Income is generated in Speirs Securities Limited and an expense arises in Allied Nationwide Finance Limited, through the unwinding of the discount on the respective assets and liabilities. The expense recognised by Allied Nationwide Finance Limited in respect of the obligation to pay the future cash flows to Speirs Securities Limited exactly matches the interest income generated by the underlying securitised assets.

Allied Nationwide Finance Limited administers the securitisation program on behalf of Speirs Securities Limited in exchange for various fees. The fees earned for that administration in the year ended 30 June 2010 were $1,944,754 (1 October 2008 - 30 June 2009: $1,242,282).

Speirs Securities Limited primarily funds the purchase of each tranche of rights to future cash flows of Eligible Receivables by issuing ninety-day commercial paper to the wholesale money market.

Speirs Securities Limited enters into interest rate swap agreements with the Bank of New Zealand concurrently with the issuing of commercial paper required to fund the acquisition of rights to future cash flows of each tranche of eligible receivables. These issues are supported by standby facilities provided by the Bank of New Zealand which guarantees funding should it not be possible to roll over ninety-day commercial paper on maturity. Under these agreements, and subject to subordinated debt arrangements referred to below:

- the quantum and tenor of the money borrowed from the wholesale money market is matched in both value and timing to the aggregate outward cash flows due to Speirs Securities Limited from the acquired rights to future cash flows of eligible receivables agreements. Accordingly, liquidity risk associated with funding by way of ninety-day commercial paper is eliminated; and

- the interest rate cost of borrowing is fixed for the effective life of each tranche and is therefore fixed for the acquired cash flows that constitute the tranche. At 30 June 2010 Speirs Securities Limited had entered into interest rate swaps with a face value of $82,252,994 (June 2009: $104,491,778). The carrying value of the interest rate swaps in the Speirs Securities Limited's financial statements is the fair value of the swaps which was $2,667,764 (June 2009: $6,201,485) payable. Speirs Securities Limited intends to hold these swaps through to their respective maturities and they are classified as cash flow hedges against the borrowings that they are hedging.

The Bank of New Zealand provides a standby facility to meet any shortfall in availability of funds from the wholesale money market, if and when such shortfalls should arise. The standby arrangement provides facilities for Speirs Securities Limited to borrow up to an agreed limit on the wholesale money market that was set at $120 million on balance date, and reduced to $90 million on 30 July 2010.

During the year ended 30 June 2010, Allied Nationwide Finance Limited sold $51,061,955 (1 October 2008 to 30 June 2009: $19,256,936) of rights to future cash flows of eligible receivables to Speirs Securities Limited. As Allied Nationwide Finance Limited retains risks and rewards associated with ownership of the eligible receivables it does not derecognise the finance receivables from the financial statements on securitisation. No surplus or deficit was recognised as a result of these sales. At 30 June 2010 the net value of rights to future cash flows of eligible receivables sold to and owned by Speirs Securities Limited was $87,094,948 (June 2009: $109,343,987).

Allied Nationwide Finance Limited is required to arrange for the provision of funds on a continuing basis to Speirs Securities Limited by way of subordinated debt. The minimum quantum of that funding is calculated monthly on an agreed formula that discounts the aggregate future cash flows of the Speirs Securities Limited portfolio of eligible receivables by the aggregate of the weighted fixed swap interest borrowing rate that applies to them plus three percent. The quantum of subordinated debt required varies from month to month and normally ranges between 11% and 13% of the accounting value of the eligible receivables at any time. The amount of the subordinated debt at 30 June 2010 was $9,202,580 (June 09: $14,013,872). The subordinated debt is eliminated within the Allied Nationwide Finance Limited Group.

The subordinated debt provided to Speirs Securities Limited is subordinated to all other borrowings of Speirs Securities Limited. The rate of interest payable by Speirs Securities Limited to the holder of the subordinated debt is governed by market rates and assessed risks and is set by Allied Nationwide Finance Limited and agreed by Speirs Securities Limited from time to time.

In the event that an eligible receivable should no longer meet the criteria for securitisation, the rights to future cash flows must be repurchased by Allied Nationwide Finance Limited. In practice, this occurs through reducing the liability arising on securitisation of assets and the subordinated debt invested in Speirs Securities Limited by the present value of the expected future cash flows that would have been payable to Speirs Securities Limited by Allied Nationwide Finance Limited. No surplus or deficit is recognised as a result of these repurchases.

Many rights to future cash flows of eligible receivables agreements sold to Speirs Securities Limited contain contractual undertakings by the client counter-party to make a final residual value or balloon payment on the termination of the finance receivable agreement. This final payment amount (if any) is set at the time of the origination of the finance receivable and will not exceed an amount established by Allied Nationwide Finance Limited and agreed by the Bank of New Zealand as being an estimate of the value of the underlying supporting asset that could be obtained by selling the asset into the open market place at the date the residual value or balloon payment is due.

Allied Nationwide Finance Limited is required to place amounts related to interest rate swap responsibilities on deposit with a nominated Registered Bank. At 30 June 2010 the amount of Bank of New Zealand deposits pledged in this manner was $330,777 (30 June 09: $364,049), detailed in note 34.

Allied Nationwide Finance Limited is also required to have a minimum amount of cash on deposit with a nominated Registered Bank of 2% of eligible receivables. At 30 June 2010 the amount of money market placements pledged to cover this requirement was $2,078,781 (June 09: $3,287,055), also detailed in note 34.

The receivership of Allied Nationwide Finance Limited is considered both an Administrator Termination Event and Purchaser Termination Event under the terms of the securitisation arrangement. As a result, the Bank of New Zealand has the right to terminate Allied Nationwide Finance Limited as the administrator of Speirs Securities Limited. As at the date of authorisation of these financial statements, the Bank of New Zealand has not exercised this right.

However, the Bank of New Zealand has frozen the level of subordinated debt contributed by Allied Nationwide Finance Limited and it continues to be repaid its stand-by facility based on the contractually expected loan repayments inherent in the portfolio. There are no further recourse arrangements against Allied Nationwide Finance Limited or the Group.

Effective 2 September 2010, Speirs Securities Limited's A1+ (sf) credit rating from Standard & Poor's was withdrawn as a result of there being no commercial paper on issue at that date.

31. Provision for impaired assets

	Note	Group Pro-forma 2010 $000	Group 2010 $000	Group 2009 $000	Parent 2010 $000	Parent 2009 $000
Provision for individually impaired assets						
Loans and advances						
Opening balance		**3,404**	**3,404**	1,830	**-**	2,884
Allied Nationwide Finance Limited adjustment	45	**(3,404)**	**-**	-	**-**	-
Movement in impairment provisions charged / recovered in income statement		**9,311**	**21,325**	8,831	**21,693**	(2,884)
Bad debts written off against impairment provisions		**-**	**(6,361)**	(7,453)	**-**	-
Bad debt recoveries		**-**	**229**	176	**-**	-
Discount unwind		**-**	**(1,448)**	(392)	**-**	-
Additions due to acquisition		**-**	**-**	412	**-**	-
Closing balance		**9,311**	**17,149**	3,404	**21,693**	-
Finance leases						
Opening balance		**1,483**	**1,483**	497	**-**	**-**
Allied Nationwide Finance Limited adjustment	45	**(1,483)**	**-**	-	**-**	-
Additions to impairment provisions charged to income statement		**-**	**4,502**	933	**-**	**-**
Bad debts written off against impairment provisions		**-**	**(1,979)**	(918)	**-**	**-**
Bad debt recoveries		**-**	**59**	106	**-**	**-**
Discount unwind		**-**	**(113)**	(57)		
Additions due to acquisition		**-**	**-**	922	**-**	**-**
Closing balance		**-**	**3,952**	1,483	**-**	-
Trade receivables						
Opening balance		**295**	**295**	210	**-**	210
Movement in provisions		**273**	**273**	182	**-**	(113)
Bad debts written off against impairment provisions		**(28)**	**(28)**	(81)	**-**	(81)
Bad debt recoveries		**28**	**28**	(16)	**-**	(16)
Closing balance		**568**	**568**	295	**-**	-
		9,879	**21,669**	5,182	**21,693**	-
Provision for collectively impaired assets						
Loans and advances						
Opening balance		**2,818**	**2,818**	2,642	**-**	**-**
Allied Nationwide Finance Limited adjustment	45	**(2,818)**	**-**	-	**-**	-
Movement in impairment provisions charged / recovered in income statement		**-**	**2,422**	1,359	**-**	**-**
Bad debts written off against impairment provisions		**-**	**(184)**	(339)	**-**	**-**
Bad debt recoveries		**-**	**179**	-	**-**	**-**
Discount unwind		**-**	**(801)**	(896)	**-**	**-**
Additions due to acquisition		**-**	**-**	52	**-**	**-**
Closing balance		**-**	**4,434**	2,818	**-**	**-**
Finance leases						
Opening balance		**-**	**-**	-	**-**	**-**
Movement in impairment provisions (recovered) / charged in income statement		**-**	**-**	(90)	**-**	**-**
Additions due to acquisition		**-**	**-**	90	**-**	**-**
Closing balance		**-**	**-**	-	**-**	**-**
		-	**4,434**	2,818	**-**	-
		9,879	**26,103**	8,000	**21,693**	-
Provision for impaired assets						
Loans and advances	28, 29	**9,311**	**21,583**	6,222	**21,693**	-
Finance leases	29	**-**	**3,952**	1,483	**-**	-
Trade receivables	35	**568**	**568**	295	**-**	-
		9,879	**26,103**	8,000	**21,693**	-

Where restricted assets and assets acquired through the enforcement of security (note 39.1.4) become individually impaired assets, they are no longer classified as either restructured assets or assets acquired through the enforcement of security. They become individually impaired assets, with provisions made accordingly.

The 2010 year Parent provision for individually impaired loans and advances relates to the inter company loan receivable from Allied Farmers Investments Limited.

32. Investments accounted for using the equity method

	Note	Group Pro-forma 2010 $000	Group 2010 $000	Group 2009 $000	Parent 2010 $000	Parent 2009 $000
Investments in associates		**248**	**248**	211	**-**	-
Total investments accounted for using the equity method		**248**	**248**	211	**-**	-
Balance at beginning of the year		**211**	**211**	193	**-**	193
Capital contributions		**-**	**-**	35	**-**	35
Share of net profit (loss) of associates		**37**	**37**	(17)	**-**	-
Disposal	28	**-**	**-**	-	**-**	(228)
Balance at end of the year		**248**	**248**	211	**-**	-

Investments in associates comprise the following:

	Principal Activity	Interest held by Group 2010	Interest held by Group 2009
Associated Auctioneers - Frankton	Saleyard operators	**50%**	50%
Associated Auctioneers - Morrinsville	Saleyard operators	**25%**	25%
Associated Auctioneers - Stratford	Saleyard operators	**50%**	50%
Associated Auctioneers - Taumarunui	Saleyard operators	**50%**	50%
Associated Auctioneers - Te Kuiti	Saleyard operators	**33%**	33%

All companies within the Group were incorporated in New Zealand, and have a balance date of 30 June.

A subsidiary of the Group, Allied Nationwide Finance Limited, has provided a facility to Rural Livestock Finance Limited which includes a convertible note. The note can be converted at the option of the Group into 50% of the ordinary shares of Rural Livestock Finance Limited. As a result, the Group has the potential ability to exercise significant influence over Rural Livestock Finance Limited and therefore classifies it as an associate. No investment in, or equity-accounted earnings of, Rural Livestock Finance Limited are included in the financial statements of the Group (2009: nil).

33. Investment properties

	Note	Group Pro-forma 2010 $000	Group 2010 $000	Group 2009 $000	Parent 2010 $000	Parent 2009 $000
Balance at beginning of year		**1,940**	**1,940**	-	**-**	-
Allied Nationwide Finance Limited adjustment	45	**(1,940)**	**-**	-	**-**	-
Additions due to acquisition	28	**48,149**	**48,149**	2,100	**-**	-
Change in fair value	11, 12	**(6,242)**	**(6,297)**	(160)	**-**	-
Balance at end of year		**41,907**	**43,792**	1,940	**-**	-
Analysed as:						
Land and buildings - tenanted		**-**	**1,885**	1,940	-	-
Land undeveloped		**41,907**	**41,907**	-	-	-
		41,907	**43,792**	1,940	**-**	-

The land and buildings tenanted is leased to others by way of operating leases. The fair value of land and building's as at 30 June 2010 was assessed at $1,885,000 by an independent registered valuer based on the property as a long term investment and the existing lease terms and conditions. The valuation was performed using the summation method, the summation of the land value, site improvements and assessed replacement cost of the structure less an allowance for depreciation and the investment method which is capitalisation of the actual market rental having regard for yields as derived from sales of comparable property. The date of the valuation report was 14 July 2010, effective 30 June 2010.

The Group's investment properties comprising of undeveloped land are revalued annually by independent registered valuers. The valuations of the investment properties for the year ended 30 June 2010 have been completed between April 2010 and June 2010. The fair values for this property type are determined by a hypothetical subdivision valuation approach taking account of development, direct costs, including marketing and legal, holding costs on account of the expected realisation period and profit risk. The profit and risk factor ranges from 20.0% to 22.5% and holding costs range from 8.0% to 10.0% across the properties.

As at 30 June 2010 investment property - land undeveloped of $41,907,000 is provided as first mortgage security for the borrowings referred to in note 21.

34. Cash and cash equivalents

	Note	Group Pro-forma 2010 $000	Group 2010 $000	Group 2009 $000	Parent 2010 $000	Parent 2009 $000
Bank overdraft (secured)		**1,677**	**1,677**	2,614	**-**	-
Cash and cash equivalents		**646**	**646**	20	**-**	-
Overnight cash deposits		**-**	**7,509**	10,496	**-**	-
Other money market placements		**-**	**-**	34,127	**-**	-
Cash and cash equivalents available		**646**	**8,155**	44,643	**-**	-
Overnight cash deposits pledged to others*		**-**	**331**	364	**-**	-
Other money market placements pledged to others*		**-**	**2,079**	3,287	**-**	-
		646	**10,565**	48,294	**-**	-
Current		**646**	**10,565**	48,294	**-**	-
Non-current		**-**	**-**	-	**-**	-
		646	**10,565**	48,294	**-**	-

* Pursuant to the securitisation arrangements detailed in note 30, Allied Nationwide Finance Limited is required to maintain an amount of cash on deposit and in money market placements pledged to ensure that interest rate swap responsibilities, and liquidity requirements are fulfilled.

35. Trade and other receivables

	Note	Group Pro-forma 2010 $000	Group 2010 $000	Group 2009 $000	Parent 2010 $000	Parent 2009 $000
Trade receivables (gross)		**21,520**	**22,115**	18,973	**-**	-
Provision for impaired assets	31	**(568)**	**(568)**	(295)	**-**	-
Trade receivables (net of provision)		**20,952**	**21,547**	18,678	**-**	-
Debts factored to Allied Nationwide Finance Limited	38	**(17,459)**	**-**	-	**-**	-
Net trade receivables		**3,493**	**21,547**	18,678	**-**	-
Prepayments		**21**	**210**	577	**-**	181
		3,514	**21,757**	19,255	**-**	181

36. Inventory - Merchandise

	Note	Group Pro-forma 2010 $000	Group 2010 $000	Group 2009 $000	Parent 2010 $000	Parent 2009 $000
Finished goods		**4,563**	**4,563**	5,958	**-**	-
Transfer from (to) assets held for resale	26	**1,068**	**1,068**	(1,068)	**-**	-
		5,631	**5,631**	4,890	**-**	-
Inventories stated at net realisable value		**5,631**	**5,631**	4,890	**-**	-
Carrying amount of inventories subject to retention of title clause		**-**	**-**	-	**-**	**-**
Current		**5,631**	**5,631**	4,890	**-**	-
Non-current		**-**	**-**	-	**-**	-
		5,631	**5,631**	4,890	**-**	-

37. Inventory - Property

	Group Pro-forma 2010 $000	Group 2010 $000	Group 2009 $000	Parent 2010 $000	Parent 2009 $000
Property assets	**38,067**	**38,067**	-	**-**	-
	38,067	**38,067**	**-**	**-**	**-**
Inventories stated at net realisable value	**38,067**	**38,067**	-	**-**	-
Current	**38,067**	**38,067**	-	**-**	-
Non-current	**-**	**-**	-	**-**	-
	38,067	**38,067**	-	**-**	-

As at 30 June 2010 inventory property totalling $31,852,000 is provided as first mortgage security for the borrowings referred to in note 21. It is expected that $20,581,000 will be realised after 30 June 2011.

38. Related party transactions

Overview of related party transactions
All transactions with related parties are entered into in the ordinary course of business. No related party debts have been written off or forgiven during the year.

Categories of related party relationships
Related party transactions are detailed by reference to the following categories:
(a) Group companies: all wholly owned subsidiaries of Allied Farmers Limited. For subsidiary company's of the Parent refer to note 28.
(b) Key management personnel: those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including all directors.
(c) Other related parties: Other entities that may have directors who are also directors of the Company.

Related party revenue (expense)	**2010 $000**	2009 $000
(a) Group companies - with the Parent		
Allied Farmers Rural Limited		
Gain on sale of businesses	**-**	18,492
Rental income (expense)	**258**	-
Recharge of costs	**552**	-
Interest income (expense)	**(144)**	-
Allied Nationwide Finance Limited		
Gain on sale of business	**-**	859
Interest and finance lease income (expense)	**(668)**	(2,814)
Tax loss offsets sold by Parent	**-**	1,400
Recharge of costs	**(17)**	414
Allied Pine Limited		
Movement in provision for intercompany loan	**-**	2,884
The West Coast Mortgage and Deposit Company Limited		
Impairment of investment	**-**	(502)
Other Group companies - with Allied Nationwide Finance Limited		
Allied Farmers Rural Limited		
Interest income	**2,522**	-
Allied Farmers Investments Limited		
Recharge of costs	**51**	-

There were transactions between Group companies which have been eliminated upon consolidation.

	Group Pro-forma 2010 $000	**Group 2010 $000**	Group 2009 $000	**Parent 2010 $000**	Parent 2009 $000
(b) Key management personnel					
Salaries and other short term benefits	**1,385**	**2,790**	3,020	**1,264**	1,574
Share based payment	**8**	**26**	(34)	**8**	(53)
Directors fees	**170**	**318**	312	**170**	183
Total key management personnel compensation	**1,563**	**3,134**	3,298	**1,442**	1,704
(c) Other related parties					
Rights Issue - lead management fee, underwrite fee, brokerage	**-**	**-**	224	**-**	224
Professional fees	**32**	**32**	-	**32**	-
	32	**32**	224	**32**	224

These fees were paid to McDouall Stuart Group Limited, of which Andrew McDouall is also a Director.

38. Related party transactions (continued)

	Note	Group Pro-forma 2010 $000	Group 2010 $000	Group 2009 $000	Parent 2010 $000	Parent 2009 $000
Related party receivables / (payables)						
(a) Group companies - with the Parent						
Allied Nationwide Finance Limited						
Subsidiary company advance		**(12,124)**	**-**	-	**(12,124)**	(591)
Allied Farmers Rural Limited						
Subsidiary company advance		**-**	**-**	-	**(2,660)**	(174)
Allied Farmers (New Zealand) Limited						
Subsidiary company advance		**-**	**-**	-	**-**	(44)
Taranaki Farmers Limited						
Subsidiary company advance		**-**	**-**	-	**-**	(26)
West Coast Mortgage and Deposit Company Limited						
Subsidiary company advance		**-**	**-**	-	**-**	(18)
		(12,124)	**-**	-	**(14,784)**	(853)
Allied Farmers Investments Limited						
Advance to subsidiary company (net)	28	**-**	**-**	-	**78,288**	-
Other Group companies - with Allied Nationwide Finance Limited						
Allied Farmers Rural Limited						
Advance to Group company		**192**	**-**	-	**192**	-
(b) Key management personnel						
Directors long service leave entitlement		**(148)**	**(148)**	(106)	**(148)**	(106)
(c) Other related parties		**-**	**-**	-	**-**	-

The subsidiary company advance from Allied Nationwide Finance Limited is on a range of terms detailed below. All other loans are interest free and repayable upon demand.

Related party transactions
(a) Group companies

During the year the Parent advanced $109,975,000 to Allied Farmers Investments Limited to acquire the Hanover Finance and United Finance assets (refer note 28). During the year Allied Farmers Investments Limited repaid $9,992,000, leaving a gross loan receivable of $99,982,000. During the year the Parent recorded an impairment against the loan of $21,693,000, leaving a net loan receivable of $78,289,000. The loan is interest free and repayable upon demand.

The arrangement by which the Parent sold debts owed to it by external debtors and borrowers under ongoing factoring arrangements to Allied Nationwide Finance Limited was assigned to Allied Farmers Rural Limited as part of the sale of the rural businesses on 30 June 2009. The arrangement continues between Allied Farmers Rural Limited and Allied Nationwide Finance Limited. As at 30 June 2010 the value of debtors factored was $17,150,000 (June 2009: $17,177,000). The primary obligation for repayment of these advances rests with the external debtors. However, as additional security, should it be required, Allied Nationwide Finance Limited has full recourse against Allied Farmers Rural Limited. The rate of interest attaching to these advances is set on normal commercial terms and for the current reporting period was 12.06% - 12.62% (June 2009: 13.00% - 13.35%). At 30 June 2009 these advances include an amount of $750,000 owed to Allied Farmers Limited from Speirs Group Limited which was repaid during the year ended 30 June 2010.

Income tax obligations of subsidiaries are managed at a Group level. During the year ended 30 June 2009, Allied Nationwide Finance Limited paid $1,400,000 to Allied Farmers Limited for income tax loss offsets. Allied Nationwide Finance Limited has not been able to utilise these income tax loss offsets, together with loss offsets previously received of $175,000. The Parent has repurchased the total unused balance of $1,575,000. Interest paid by the Parent on the unused tax losses in the year ended 30 June 2010 was $140,000 (June 2009: $91,000).

During the year ended 30 June 2009 the Parent sold to Allied Nationwide Finance Limited the Allied Farmers fuel card customer relationship for $859,000 plus receivables of $390,046. This transaction was settled by cash consideration.

During the year ended 30 June 2009 the Parent sold to Allied Farmers Rural Limited its rural business for $19,575,000 (gain on sale $18,492,000).

During the year ended 30 June 2009 Allied Nationwide Finance Limited issued 3,900,000 shares to the Parent for cash consideration of $1 each share.

During the year ended 30 June 2009 The West Coast Mortgage and Deposit Company Limited issued 412,527 shares to the Parent for cash consideration of $1 each share.

During the year ended 30 June 2009 the Parent purchased from Allied Nationwide Finance Limited debts owed by Speirs Group Limited of $750,000 for cash consideration. The debt was subsequently factored back to Allied Nationwide Finance Limited by the Parent. The debt was settled by Speirs Group Limited for cash consideration in the current year.

During the year ended 30 June 2009 the Parent has entered into the credit enhancement facility with Allied Nationwide Finance Limited, for a maximum of $5,000,000, extended to $10,000,000 in the year to 30 June 2010, as further described in note 23. Allied Nationwide Finance Limited provided consideration of $500,000 for the facility, and a further $250,000 for the extension. At 30 June 2010 the facility had nil value (June 2009: $3,922,000). Payment of $750,000 was made during the year (June 2009: $nil). Payment notices with a present value of $8,836,000 have been raised on the facility in the year and at balance date are recognised within subsidiary company advances. Interest of $353,000 has been incurred by the Parent for the year (June 2009: $nil) on the facility as it unwinds.

During the year ended 30 June 2010 Allied Nationwide Finance Limited recharged the Parent operating costs of $17,000 (June 2009: the Parent recharged Allied Nationwide Finance Limited $414,000).

During the year ended 30 June 2010 Allied Farmers Limited recharged management expenses totalling $552,000 (June 2009: nil) to Allied Farmers Rural Limited and property rental expenses totalling $258,000 (June 2009: nil).

At 30 June 2010 $1,300,000 remains outstanding on an advance of $1,500,000 from Allied Nationwide Finance Limited to the Parent (June 2009: $1,500,000). The loan was is unsecured, and interest of $175,000 has been incurred by the Parent for the year (June 2009: $nil). The loan is repayable on demand.

In the year ended 30 June 2009 the Parent has entered into two option contracts with Allied Nationwide Finance Limited, which enables:

- the Parent to purchase from Allied Nationwide Finance Limited the investment property disclosed in note 33 for $2,100,000 at any time until 2 February 2014, as further described in note 24; and
- Allied Nationwide Finance Limited to sell to the Parent the investment property disclosed in note 33 for $2,100,000 in the period one calendar month from and including 3 February 2014, as further described in note 24.

During the year ended 30 June 2010 the Parent made net revaluation losses of $39,000 (June 2009: $263,000).

(b) Key management personnel

Certain directors of Allied Farmers Limited have trading transactions with the Group. These transactions take place on normal trading terms and are on an arms length basis.

(c) Other related parties

The Group conducts transactions with Associates (refer note 32) in the course of its rural activities, which take place on normal trading terms and are on an arms length basis. The value of these transactions is not material.

39. FINANCIAL RISK MANAGEMENT

39.1 CREDIT RISK

Credit risk is the risk that a counterparty to a transaction with the Group will fail to discharge its obligations, causing the Group to incur a financial loss. Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of cash and cash equivalents, trade and other receivables, loans, advances and finance leases.

Credit risk is actively managed by the Group to ensure individual counterparty as well as industry exposures are monitored. Before loans are advanced to customers, the credit risk of individual counterparties is assessed against well-defined credit criteria, and charges are registered against customer assets or third-party guarantees obtained in order to secure the loan in the event of default by the customer. Risk is measured by continual evaluation of counterparty exposures with regard to changes in the economic circumstances of the counterparty, the counterparty's industry, and wider macro-economic influences.

On acquisition of the finance assets and support package assets of Hanover Finance Limited and United Finance Limited the Group's portfolio of loans, advances and finance leases increased in size by $58,510,000. This increase consisted primarily loans secured over property. The sector in which the Group had a materially increased exposure following the acquisition was commercial and residential property development.

On acquisition of Speirs Finance Limited, Allied Nationwide Finance Limited's portfolio of loans, advances and finance leases increased in size by $203,000,000, of which $142,150,000 were securitised as described in note 27. This increase consisted primarily loans secured over a diverse range of business assets similar in nature to those written by Allied Nationwide Finance Limited previously. The sectors in which Allied Nationwide Finance Limited had a materially increased exposure following the amalgamation was transport. There have been no other significant changes in exposure to credit risk in the years covered by these financial statements.

39.1.1 CONCENTRATIONS OF EXPOSURE TO INDIVIDUAL COUNTERPARTIES

The Group and Parent has exposure to the following number of counterparties or groups of closely related counterparties. These exposures include those arising from cash and cash equivalents deposited with New Zealand registered banks.

Percentage of shareholders' equity	**Group Pro-forma 2010**	**Group 2010**	Group 2009	**Parent 2010**	Parent 2009
10% to 19%	**3**	**7 ***	19	**-**	-
20% to 29%	**1**	**2**	6	**-**	-
30% to 39%	**1**	**-**	4	**-**	-
40% to 49%	**-**	**-**	2	**-**	-
50% to 59%	**-**	**-**	2	**-**	-
60% to 69%	**-**	**-**	-	**-**	-
70% to 79%	**-**	**-**	2	**-**	-
80% to 89%	**-**	**-**	-	**-**	-
90% to 99%	**-**	**-**	-	**-**	-
100% to 109%	**-**	**-**	-	**-**	-
110% to 119%	**-**	**-**	-	**-**	-
120% to 129%	**-**	**-**	-	**-**	-
130% to 139%	**-**	**-**	-	**-**	-
140% to 149%	**-**	**-**	-	**-**	-
150% to 159%	**-**	**-**	1 *	**-**	-
160% to 169%	**-**	**-**	-	**-**	-
170% to 179%	**-**	**-**	-	**1**	-
180% to 189%	**-**	**-**	-	**-**	-
190% to 199%	**-**	**-**	1 *	**-**	-

* Includes cash and cash equivalents deposited with New Zealand registered banks.

39.1 CREDIT RISK (continued)

39.1.2 CONCENTRATIONS OF EXPOSURE TO SPECIFIC INDUSTRIES

	Group Pro-forma 2010 $000	Group 2010 $000	Group 2009 $000	Parent 2010 $000	Parent 2009 $000
Accommodation and tourism	-	4,060	4,018	-	-
Agriculture, forestry and fishing	76	46,484	48,533	-	-
Commercial and residential property development	38,313	53,194	20,343	-	-
Commercial and residential property investment	5,362	16,605	24,094	-	-
Construction	-	23,378	34,842	-	-
Education and recreational services	-	2,527	3,355	-	-
Finance and insurance	1,511	5,501	6,985	-	-
Health and community services	-	1,533	2,099	-	-
Manufacturing and services	-	8,845	15,199	-	-
Other services	2,417	16,566	18,850	-	-
Professional business services	46	13,022	9,774	78,334	62
Retail and consumer	150	21,306	29,342	-	-
Transport, storage and aviation	10	50,914	67,308	10	10
Wholesale services	-	3,365	5,748	-	-
	47,885	267,300	290,490	78,344	72
Cash and cash equivalents	646	10,565	48,294	-	-
Total financial assets	48,531	277,865	338,784	78,344	72

Industry sectors are identified using Australian and New Zealand Standard Industrial Classification (ANZSIC).

Concentration of credit exposure by the debtors who owe the six largest amounts:	74.2%	17.3%	9.7%	100.0%	-

39.1.3 CONCENTRATIONS OF EXPOSURE TO GEOGRAPHICAL REGIONS

	Group Pro-forma 2010 $000	Group 2010 $000	Group 2009 $000	Parent 2010 $000	Parent 2009 $000
Auckland and Northland	14,824	56,375	89,877	78,299	-
Waikato	-	21,622	27,997	-	-
Bay of Plenty	1,585	12,421	14,410	-	-
Taranaki	76	26,022	10,730	-	-
Wellington	3,890	31,184	36,439	-	-
Rest of North Island	112	43,897	52,337	46	72
Canterbury and West Coast	-	30,102	42,858	-	-
Otago and Southland	3,965	20,038	12,981	-	-
Rest of South Island	-	2,160	2,791	-	-
Overseas	23,433	23,479	70	-	-
	47,885	267,300	290,490	78,344	72
Cash and cash equivalents	646	10,565	48,294	-	-
Total financial assets	48,531	277,865	338,784	78,344	72

The location of the security is used to determine the concentrations of exposure to geographical regions.

39.1 CREDIT RISK (continued)

39.1.4 RISK EXPOSURES BY CLASS OF FINANCIAL INSTRUMENT

The Group and Parent's financial instruments are classified into cash and cash equivalents, trade and other receivables, derivative financial instruments, and loans, advances and finance leases.

CASH AND CASH EQUIVALENTS
The Group and Parent are exposed to the risk of default by placing cash deposits with banks. The maximum credit risk is the face value of its cash deposits, which is disclosed in note 34. The Group's exposure to banks is unsecured. To manage this risk, the Group only deposits cash with New Zealand registered banks, and has policies governing the maximum counterparty exposure of any individual bank.

TRADE AND OTHER RECEIVABLES
For all trade and other receivables, there is the risk that the counterparty to the receivables may not settle its obligations when they fall due. The maximum credit risk is the face value of the trade and other receivables, which is disclosed in note 35. The exposures are largely unsecured. Risk exposures in trade and other receivables are managed on a case-by-case basis depending on the materiality of the exposure.

DERIVATIVE FINANCIAL INSTRUMENTS
At any one time the amount of the derivative assets that is subject to credit risk is limited to the current fair value of the instruments that are favourable to the Group (i.e. assets where the fair value is positive). This value is disclosed in note 24 relating to the granted call / put options. Collateral is not obtained for this credit risk.

LOANS, ADVANCES AND FINANCE LEASES
Loans, advances and finance leases are secured at inception with securities including first and second mortgages, livestock securities, hire purchase agreements (over specific assets), general and specific securities, and guarantees. The Group has a credit policy, which is used to manage its exposure to credit risk. As part of this policy, limits on exposures have been set, lending is subject to defined criteria, and loans are monitored on a regular basis. The maximum credit risk is the face value of the loans, advances and finance leases net of any recognised impairment losses.

Mortgages over land are supplemented by general and specific securities, and guarantees as required.

Specific securities consist of first ranking securities over plant, equipment, livestock, motor vehicles, investment securities and other assets supplemented by guarantees as required.

Loans, advances and finance leases that are neither individually impaired nor past due are categorised into two credit quality classifications: Standard performing loans, advances and finance leases and monitored loans, advances and finance leases. These categories are assessed before reporting adjustments for deferred fee income, deferred brokerage and provisions for impaired assets.

	Group Pro-forma 2010 $000	**Group 2010 $000**	Group 2009 $000	**Parent 2010 $000**	Parent 2009 $000
Standard performing loans, advances and finance leases	**6,808**	**176,432**	215,155	**-**	-
Monitored loans, advances and finance leases	**-**	**4,160**	20,660	**-**	-
Total performing loans, advances and finance leases	**6,808**	**180,592**	235,815	**-**	-

39.1 **CREDIT RISK (continued)**

39.1.4 RISK EXPOSURES BY CLASS OF FINANCIAL INSTRUMENT (continued)

	Note	**Group Pro-forma 2010 $000**	**Group 2010 $000**	Group 2009 $000	**Parent 2010 $000**	Parent 2009 $000
90-DAY PAST DUE ASSETS						
Opening balance		**21,434**	**21,434**	12,204	**-**	-
Allied Nationwide Finance Limited adjustment	45	**(21,434)**	**-**	-	**-**	-
Additions to 90-day past due assets		**-**	**6,917**	15,112	**-**	-
Deletions from 90-day past due assets		**-**	**(15,962)**	(8,839)	**-**	-
Additions due to acquisition		**48**	**48**	2,957	**-**	-
Closing balance		**48**	**12,437**	21,434	**-**	-

The balance of 90-day past due assets above excludes assets that have been individually impaired, but includes those which are subject to collective impairment.

	Note	**Group Pro-forma 2010 $000**	**Group 2010 $000**	Group 2009 $000	**Parent 2010 $000**	Parent 2009 $000
Provision for collectively impaired assets recognised in the balance sheet:		-	**4,434**	2,818	**-**	-
IMPAIRED TRADE RECEIVABLES, LOANS, ADVANCES AND FINANCE LEASES						
Individually impaired trade receivables, loans, advances and finance leases						
Opening balance		**9,627**	**9,627**	5,219	**-**	3,094
Allied Nationwide Finance Limited adjustment	45	**(9,332)**	**-**	-	**-**	-
Additions to individually impaired loans		**501**	**35,253**	11,470	**99,981**	182
Amounts written off during the year		**-**	**(8,340)**	(8,452)	**-**	(81)
Deletions from individually impaired loans		**-**	**(2,580)**	(1,453)	**-**	(2,900)
Additions due to acquisition		**46,133**	**46,133**	2,843	**-**	-
Deletions due to disposal		**-**	**-**	-	**-**	(295)
Closing balance		**46,929**	**80,093**	9,627	**99,981**	-
Analysed as follows:						
Trade receivables		**796**	**796**	295	**-**	-
Subsidiary advances		-	**-**	-	**99,981**	-
Finance leases		-	**6,989**	2,214	**-**	-
Loans and advances - business		-	**6,987**	1,617	**-**	-
Loans and advances - property		**46,133**	**65,144**	4,839	**-**	-
Loans and advances - other		**-**	**177**	662	**-**	-
		46,929	**80,093**	9,627	**99,981**	-
Provision for individually impaired assets recognised in the balance sheet:		**9,879**	**21,669**	5,182	**21,693**	-

Individually impaired trade receivables, loans, advances and finance leases are secured at inception by mortgages, specific securities, general securities and guarantees as described above. Provisions are made with regard to the sum of securities held, the value of any securities realised and other factors that may affect final recovery of amounts owed. Due to the wide and varied nature of the collateral held against these assets it is not practical to provide an accurate estimate of their fair value.

	Note	**Group Pro-forma 2010 $000**	**Group 2010 $000**	Group 2009 $000	**Parent 2010 $000**	Parent 2009 $000
Restructured loans, advances and finance leases						
Opening balance		**22,768**	**22,768**	1,035	**-**	-
Allied Nationwide Finance Limited adjustment	45	**(22,768)**	**-**	-	**-**	-
Additions to restructured loans		**-**	**1,472**	22,399	**-**	-
Transfers to impaired loans		**-**	**(21,515)**	(14)	**-**	-
Deletions from restructured loans		**-**	**(439)**	(758)	**-**	-
Additions due to acquisition		**-**	**-**	106	**-**	-
Closing balance		**-**	**2,286**	22,768	**-**	-

39.1 CREDIT RISK (continued)

39.1.4 RISK EXPOSURES BY CLASS OF FINANCIAL INSTRUMENT (continued)

Enforcement of security assets
Enforcement of security assets are those assets which are legally owned outright as the result of enforcing a security and do not include mortgagee in possession assets.

For the periods covered by these financial statements there have been no assets held under the enforcement of a security.

	Group Pro-forma 2010	Group 2010 $000	Group 2009 $000	Parent 2010 $000	Parent 2009 $000
AGEING OF PAST DUE ASSETS THAT ARE NOT IMPAIRED					
1 - 30 days	-	**6,702**	13,465	-	-
31 - 60 days	-	**5,787**	6,211	-	-
61 - 90 days	-	**1,187**	7,546	-	-
91 - 120 days	-	**1,351**	2,845	-	-
121 - 150 days	-	**806**	1,797	-	-
151 - 180 days	-	**280**	2,926	-	-
180 + days	**48**	**10,000**	13,866	-	-
Total past due assets	**48**	**26,113**	48,656	-	-

Past due loans, advances and finance leases are secured by mortgages, specific securities, general securities and guarantees as described above. Due to the wide and varied nature of the collateral held against these assets it is not practical to provide an accurate estimate of their fair value.

39.1.5 OTHER MAXIMUM CREDIT RISKS

Loans and advances committed but undrawn	-	**3,964**	1,253	-	-
Seasonal finance facilities undrawn	-	-	2,475	-	-

Loans and advances committed but undrawn are amounts whereby the Group has irrevocably agreed to provide credit, which is yet to be drawn down.

39. FINANCIAL RISK MANAGEMENT (continued)

39.2 MATURITY ANALYSIS

The amounts disclosed in the tables below show the contractual undiscounted cash flows due on financial assets and liabilities, together with the expected undiscounted cash flows due on financial assets for the current year as it is the expected flows which the Group uses to manage its liquidity. Expected flows are based on estimates made by management of when repayments will be received, including those on a proportion of the loan and advances portfolio that is either overdue or likely to be extended. The amounts below also reflect the contractual repricing timing on financial assets and liabilities, if applicable.

Group Pro-forma

30 June 2010	**Total**	**Under 6 Months**	**6-12 Months**	**1-2 Years**	**2-5 Years**	**Over 5 Years**
Financial assets						
Cash and cash equivalents	646	646	-	-	-	-
Trade and other receivables	3,493	3,493	-	-	-	-
Loans and advances - gross receivable	58,881	37,898	15,375	1,953	3,655	-
Derivative financial instrument	46	-	-	-	46	-
Shares in other companies	669	669	-	-	-	-
Contractual receivables from financial assets	63,735	42,706	15,375	1,953	3,701	-
Expected maturity profile	63,735	28,756	18,012	13,266	3,701	-
Financial liabilities						
Cash and cash equivalents	1,677	1,677	-	-	-	-
Trade and other payables	17,624	17,624	-	-	-	-
Borrowings - Senior debt (secured) - gross payable	16,715	16,715	-	-	-	-
Borrowings - Capital notes and bonds - gross payable	14,273	605	605	13,063	-	-
Borrowings - Property assets (secured) - gross payable	45,953	33,678	12,275	-	-	-
Derivative financial instrument	1,518	-	-	-	1,518	-
Subsidiary company advances	12,316	6,158	6,158	-	-	-
Gross payable on financial liabilities	110,076	76,457	19,038	13,063	1,518	-
Expected maturity profile	110,076	76,457	19,038	13,063	1,518	-
Net position (expected maturity)	(46,341)	(47,701)	(1,026)	203	2,183	-
Cumulative net position	(46,341)	(47,701)	(48,727)	(48,524)	(46,341)	(46,341)
Reconciliation of loans and advances to Balance Sheet						
Loans and advances - gross receivable	58,881	37,898	15,375	1,953	3,655	-
Loans and advances - future effective interest	(5,892)	(2,320)	(1,094)	(1,953)	(525)	-
Loans and advances - provision for impaired assets	(9,312)	(9,312)	-	-	-	-
Loans and advances - amortised cost	43,677	26,266	14,281	-	3,130	-
Reconciliation of Borrowings - Senior debt (secured) to Balance Sheet						
Borrowings - Senior debt (secured) - gross payable	16,715	16,715	-	-	-	-
Borrowings - Senior debt (secured) - future effective interest	(215)	(215)	-	-	-	-
Borrowings - Senior debt (secured) - amortised cost	16,500	16,500	-	-	-	-
Reconciliation of Borrowings - Capital notes and bonds to Balance Sheet						
Borrowings - Capital notes and bonds - gross payable	14,273	605	605	13,063	-	-
Borrowings - Capital notes and bonds - future effective interest	(1,668)	(605)	(605)	(458)	-	-
Borrowings - Capital notes and bonds - unamortised transaction costs	(207)	(75)	(75)	(57)	-	-
Borrowings - Capital notes and bonds - amortised cost	12,398	(75)	(75)	12,548	-	-
Reconciliation of Borrowings - Property assets (secured) to Balance Sheet						
Borrowings - Property assets (secured) - gross payable	45,953	33,678	12,275	-	-	-
Borrowings - Property assets (secured) - future effective interest	(1,687)	(1,070)	(617)	-	-	-
Borrowings - Property assets (secured) - amortised cost	44,266	32,608	11,658	-	-	-

39.2 MATURITY ANALYSIS (continued)

Group

30 June 2010	Total	Under 6 Months	6-12 Months	1-2 Years	2-5 Years	Over 5 Years
Financial assets						
Cash and cash equivalents	10,565	10,565	-	-	-	-
Trade and other receivables	21,547	21,547	-	-	-	-
Loans and advances - gross receivable	194,668	116,886	34,940	23,624	19,218	-
Finance leases - gross receivable	108,610	31,323	22,505	31,904	22,878	-
Shares in other companies	669	669	-	-	-	-
Contractual receivables from financial assets	336,059	180,990	57,445	55,528	42,096	-
Expected maturity profile	336,059	155,808	62,014	76,095	42,142	-
Financial liabilities						
Cash and cash equivalents	1,677	1,677	-	-	-	-
Trade and other payables	20,745	20,745	-	-	-	-
Borrowings - Senior debt (secured) - gross payable	16,715	16,715	-	-	-	-
Borrowings - Capital notes and bonds - gross payable	16,921	714	713	13,280	2,214	-
Borrowings - Property assets (secured) - gross payable	45,953	33,678	12,275	-	-	-
Derivative financial instrument	2,732	-	-	-	2,732	-
Deposits - gross payable	244,716	117,997	43,817	58,808	24,094	-
Gross payable on financial liabilities	349,459	191,526	56,805	72,088	29,040	-
Expected maturity profile	349,459	318,245	12,988	13,280	4,946	-
Net position (expected maturity)	(13,400)	(162,437)	49,026	62,815	37,196	-
Cumulative net position	(13,400)	(162,437)	(113,411)	(50,596)	(13,400)	(13,400)
Reconciliation of loans, advances and finance leases to Balance Sheet						
Loans and advances - gross receivable	194,668	116,886	34,940	23,624	19,218	-
Loans and advances - future effective interest	(18,480)	(7,350)	(3,904)	(4,986)	(2,240)	-
Loans and advances - provision for impaired assets	(21,584)	(17,036)	(1,567)	(1,735)	(1,246)	-
Loans and advances - amortised cost	154,604	92,500	29,469	16,903	15,732	-
Finance leases - gross receivable	108,610	31,323	22,505	31,904	22,878	-
Finance leases - unearned effective interest	(14,178)	(4,749)	(3,543)	(4,202)	(1,684)	-
Finance leases - provision for impaired assets	(3,952)	(1,139)	(820)	(1,161)	(832)	-
Finance leases - net investment	90,480	25,435	18,142	26,541	20,362	-
Net loans, advances and finance leases	245,084	117,935	47,611	43,444	36,094	-
Reconciliation of Borrowings - Senior debt (secured) to Balance Sheet						
Borrowings - Senior debt (secured) - gross payable	16,715	16,715	-	-	-	-
Borrowings - Senior debt (secured) - future effective interest	(215)	(215)	-	-	-	-
Borrowings - Senior debt (secured) - amortised cost	16,500	16,500	-	-	-	-
Reconciliation of Borrowings - Capital notes and bonds to Balance Sheet						
Borrowings - Capital notes - gross payable	14,273	605	605	13,063	-	-
Borrowings - Capital notes - future effective interest	(1,668)	(605)	(605)	(458)	-	-
Borrowings - Capital notes - unamortised transaction costs	(207)	(75)	(75)	(57)	-	-
Borrowings - Capital notes - amortised cost	12,398	(75)	(75)	12,548	-	-
Borrowings - Bonds - gross payable	2,648	109	108	217	2,214	-
Borrowings - Bonds - future effective interest	(748)	(115)	(115)	(230)	(288)	-
Borrowings - Bonds - amortised cost	1,900	(6)	(7)	(13)	1,926	-
Net Capital notes and bonds	14,298	(81)	(82)	12,535	1,926	-
Reconciliation of Borrowings - Property assets (secured) to Balance Sheet						
Borrowings - Property assets (secured) - gross payable	45,953	33,678	12,275	-	-	-
Borrowings - Property assets (secured) - future effective interest	(1,687)	(1,070)	(617)	-	-	-
Borrowings - Property assets (secured) - amortised cost	44,266	32,608	11,658	-	-	-
Reconciliation of deposits to Balance Sheet						
Deposits - gross payable	244,716	117,997	43,817	58,808	24,094	-
Deposits - future effective interest	(18,823)	(7,537)	(4,891)	(5,079)	(1,316)	-
Deposits - amortised cost	225,893	110,460	38,926	53,729	22,778	-

39.2 MATURITY ANALYSIS (continued)

Group

30 June 2009	Total	Under 6 Months	6-12 Months	1-2 Years	2-5 Years	Over 5 Years
Financial assets						
Cash and cash equivalents	48,294	44,643	-	3,651	-	-
Trade and other receivables	18,678	18,678	-	-	-	-
Loans and advances - gross receivable	164,498	88,348	30,872	26,544	18,641	93
Finance leases - gross receivable	152,255	37,271	32,271	45,347	37,366	-
Shares in other companies	188	188	-	-	-	-
Contractual receivables from financial assets	383,913	189,128	63,143	75,542	56,007	93
Expected maturity profile	383,913	141,475	75,263	111,075	56,007	93
Financial liabilities						
Cash and cash equivalents	2,614	2,614	-	-	-	-
Trade and other payables	14,381	14,381	-	-	-	-
Derivative financial instrument	6,506	2,737	1,845	1,558	366	-
Deposits - gross payable	349,655	91,347	132,262	80,845	45,201	-
Borrowings - Senior debt (secured) - gross payable	23,379	2,216	2,157	19,006	-	-
Borrowings - Capital notes and bonds - gross payable	18,406	714	713	1,427	15,552	-
Borrowings - Property assets (secured) - gross payable	117	56	61	-	-	-
Gross payable on financial liabilities	415,058	114,065	137,038	102,836	61,119	-
Expected maturity profile	415,058	81,201	83,194	167,384	73,954	9,431
Net position (expected maturity)	(31,145)	60,274	(7,931)	(56,309)	(17,947)	(9,338)
Cumulative net position	(31,145)	60,274	52,343	(3,966)	(21,913)	(31,251)
Reconciliation of loans, advances and finance leases to Balance Sheet						
Loans and advances - gross receivable	164,498	88,348	30,872	26,544	18,641	93
Loans and advances - future effective interest	(15,868)	(6,872)	(3,736)	(3,637)	(1,622)	(1)
Loans and advances - provision for impaired assets	(6,222)	(3,618)	(1,056)	(908)	(638)	(2)
Loans and advances - amortised cost	142,408	77,858	26,080	21,999	16,381	90
Finance leases - gross receivable	152,255	37,271	32,271	45,347	37,366	-
Finance leases - unearned effective interest	(21,556)	(6,759)	(5,147)	(6,271)	(3,379)	-
Finance leases - provision for impaired assets	(1,483)	(363)	(315)	(442)	(363)	-
Finance leases - net investment	129,216	30,149	26,809	38,634	33,624	-
Net loans, advances and finance leases	271,624	108,007	52,889	60,633	50,005	90
Reconciliation of deposits to Balance Sheet						
Deposits - gross payable	349,655	91,347	132,262	80,845	45,201	-
Deposits - future effective interest	(28,438)	(10,135)	(9,634)	(6,328)	(2,341)	-
Deposits - amortised cost	321,217	81,212	122,628	74,517	42,860	-
Reconciliation of Borrowings - Senior debt (secured) to Balance Sheet						
Borrowings - Senior debt (secured) - gross payable	23,379	2,216	2,157	19,006	-	-
Borrowings - Senior debt (secured) - future effective interest	(2,379)	(1,216)	(1,157)	(6)	-	-
Borrowings - Senior debt (secured) - amortised cost	21,000	1,000	1,000	19,000	-	-
Reconciliation of Borrowings - Capital notes and bonds to Balance Sheet						
Borrowings - Capital notes - gross payable	15,482	605	605	1,210	13,062	-
Borrowings - Capital notes - future effective interest	(2,877)	(605)	(605)	(1,210)	(457)	-
Borrowings - Capital notes - unamortised transaction costs	(358)	(75)	(75)	(150)	(58)	-
Borrowings - Capital notes - amortised cost	12,247	(75)	(75)	(150)	12,547	-
Borrowings - Bonds - gross payable	2,924	109	108	217	2,490	-
Borrowings - Bonds - future effective interest	(978)	(115)	(115)	(230)	(518)	-
Borrowings - Bonds - amortised cost	1,946	(6)	(7)	(13)	1,972	-
Net Capital notes and bonds	14,193	(81)	(82)	(163)	14,519	-
Reconciliation of Borrowings - Property assets (secured) to Balance Sheet						
Borrowings - Property assets (secured) - gross payable	117	56	61	-	-	-
Borrowings - Property assets (secured) - future effective interest	(11)	(6)	(5)	-	-	-
Borrowings - Property assets (secured) - amortised cost	106	50	56	-	-	-

39.2 MATURITY ANALYSIS (continued)

Parent

30 June 2010	Total	Under 6 Months	6-12 Months	1-2 Years	2-5 Years	Over 5 Years
Financial assets						
Advances to subsidiaries	78,288	78,288	-	-	-	-
Derivative financial instrument	46	-	-	-	46	-
Shares in other companies	10	10	-	-	-	-
Contractual receivables from financial assets	78,344	78,298	-	-	46	-
Expected maturity profile	78,344	25,625	18,930	14,997	18,792	-
Financial liabilities						
Trade and other payables	488	488	-	-	-	-
Borrowings - Senior debt (secured) - gross payable	16,715	16,715	-	-	-	-
Borrowings - Capital notes and bonds - gross payable	14,273	605	605	13,063	-	-
Derivative financial instrument	350	-	-	-	350	-
Subsidiary company advances	14,784	7,392	7,392	-	-	-
Gross payable on financial liabilities	46,610	25,200	7,997	13,063	350	-
Expected maturity profile	46,610	25,200	7,997	13,063	350	-
Net position (expected maturity)	31,734	425	10,933	1,934	18,442	-
Cumulative net position	31,734	425	11,358	13,292	31,734	31,734

Reconciliation of Borrowings - Senior debt (secured) to Balance Sheet

Borrowings - Senior debt (secured) - gross payable	16,715	16,715	-	-	-	-
Borrowings - Senior debt (secured) - future effective interest	(215)	(215)	-	-	-	-
Borrowings - Senior debt (secured) - amortised cost	16,500	16,500	-	-	-	-

Reconciliation of Borrowings - Capital notes and bonds to Balance Sheet

Borrowings - Capital notes and bonds - gross payable	14,273	605	605	13,063	-	-
Borrowings - Capital notes and bonds - future effective interest	(1,668)	(605)	(605)	(458)	-	-
Borrowings - Capital notes and bonds - unamortised transaction costs	(207)	(75)	(75)	(57)	-	-
Borrowings - Capital notes and bonds - amortised cost	12,398	(75)	(75)	12,548	-	-

39.2 MATURITY ANALYSIS (continued)

Parent

30 June 2009	Total	Under 6 Months	6-12 Months	1-2 Years	2-5 Years	Over 5 Years
Financial assets						
Derivative financial instrument	62	-	-	-	62	-
Shares in other companies	10	10	-	-	-	-
Contractual receivables from financial assets	72	10	-	-	62	-
Expected maturity profile	72	10	-	-	62	-
Financial liabilities						
Trade and other payables	688	688	-	-	-	-
Borrowings - Senior debt (secured) - gross payable	23,379	2,216	2,157	19,006	-	-
Borrowings - Capital notes and bonds - gross payable	15,482	605	605	1,210	13,062	-
Borrowings - Property assets (secured) - gross payable	48	10	38	-	-	-
Credit enhancement facility - gross payable	4,357	235	4,122	-	-	-
Derivative financial instrument	1,271	622	302	-	347	-
Subsidiary company advances	853	853	-	-	-	-
Gross payable on financial liabilities	46,078	5,229	7,224	20,216	13,409	-
Expected maturity profile	46,078	5,229	7,224	20,216	13,409	-
Net position (expected maturity)	(46,006)	(5,219)	(7,224)	(20,216)	(13,347)	-
Cumulative net position	(46,006)	(5,219)	(12,443)	(32,659)	(46,006)	(46,006)
Reconciliation of Borrowings - Senior debt (secured) to Balance Sheet						
Borrowings - Senior debt (secured) - gross payable	23,379	2,216	2,157	19,006	-	-
Borrowings - Senior debt (secured) - future effective interest	(2,379)	(1,216)	(1,157)	(6)	-	-
Borrowings - Senior debt (secured) - amortised cost	21,000	1,000	1,000	19,000	-	-
Reconciliation of Borrowings - Capital notes and bonds to Balance Sheet						
Borrowings - Capital notes and bonds - gross payable	15,482	605	605	1,210	13,062	-
Borrowings - Capital notes and bonds - future effective interest	(2,877)	(605)	(605)	(1,210)	(457)	
Borrowings - Capital notes and bonds - unamortised transaction costs	(358)	(75)	(75)	(150)	(58)	-
Borrowings - Capital notes and bonds - amortised cost	12,247	(75)	(75)	(150)	12,547	-
Reconciliation of Borrowings - Property assets (secured) to Balance Sheet						
Borrowings - Property assets (secured) - gross payable	48	10	38	-	-	-
Borrowings - Property assets (secured) - future effective interest	(3)	(2)	(1)	-	-	-
Borrowings - Property assets (secured) - amortised cost	45	8	37	-	-	-
Reconciliation of Credit enhancement facility to Balance Sheet						
Credit enhancement facility - gross payable	4,357	235	4,122	-	-	-
Credit enhancement facility - future effective interest	(435)	(235)	(200)	-	-	-
Credit enhancement facility - amortised cost	3,922	-	3,922	-	-	-

39. FINANCIAL RISK MANAGEMENT (continued)

39.3 LIQUIDITY RISK

Liquidity risk is the risk that the Group will encounter difficulty in raising funds at short notice to meet commitments associated with financial instruments. The Group manages this risk through consideration of the following factors:
- maintaining appropriate matching of maturity profiles on financial assets and liabilities;
- maintaining sufficient liquid funds to meet its commitments based on historical and forecast cash flow requirements;
- reinvestment rates on deposits;
- early repayments of loans; and
- expectations that not all undrawn commitments will be drawn down.

Liquidity risk is reviewed on an ongoing basis including daily, weekly and monthly analysis and reporting.

Allied Nationwide Finance Limited's securitisation programme mitigates liquidity risk through providing an alternative funding source to public deposits. The programme provides funding by means of the issue of Commercial Paper, supported by a standby facility from the Bank of New Zealand. The standby facility of $120,000,000 at balance date has been reduced to $90,000,000 from 30 July 2010. In any event the standby support remains in place to support the funding for all securitised lending business written up to that date. The details of the securitisation programme are described in note 30.

GEOGRAPHICAL CONCENTRATION OF FUNDING SOURCES

	Group Pro-forma 2010 $000	**Group 2010 $000**	Group 2009 $000	**Parent 2010 $000**	Parent 2009 $000
Auckland and Northland	**71,251**	**84,661**	46,190	**30,315**	1,747
Waikato	**153**	**8,085**	12,500	**153**	76
Bay of Plenty	**433**	**5,912**	9,135	**433**	458
Hawkes Bay	**3,893**	**10,070**	14,170	**3,893**	3,812
Manawatu	**212**	**26,656**	34,296	**212**	275
Taranaki	**634**	**17,999**	22,439	**3,294**	214
Wellington and Wairarapa	**2,788**	**36,737**	73,605	**2,788**	24,235
Rest of North Island	**685**	**959**	4,245	**685**	492
Canterbury and West Coast	**1,204**	**11,430**	20,084	**1,204**	1,159
Otago and Southland	**115**	**4,055**	3,817	**115**	191
Rest of South Island	**165**	**2,892**	5,853	**165**	165
Overseas	**5,624**	**11,924**	6,841	**425**	468
	87,157	**221,380**	253,175	**43,682**	33,292
Commercial paper	**-**	**81,254**	103,386	**-**	-
Total funding	**87,157**	**302,634**	356,561	**43,682**	33,292

Funding is predominantly sourced from individuals (deposits and capital notes) and the Westpac Banking Corporation. Commercial Paper is issued to institutional investors through the wholesale debt market.

39.4 MARKET RISK

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk, and other price risk.

The only material market risk faced by the Group is interest rate risk. Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Interest rate risk is managed through monitoring maturity and interest rate gaps. The Audit Committee and the Board are the primary monitoring body for compliance with the Group's risk management activities, assisted by the Chief Financial Officer's day to day monitoring activities.

Parent hedging by way of an interest rate swap had mitigated the interest rate risk of the Westpac term loan facility.

Allied Nationwide Finance Limited enters into derivative arrangements in the ordinary course of business to manage interest rate risks arising on its securitisation business. Floating rate borrowings from the 90 day commercial paper market are hedged with fixed interest rate swaps matching the duration and tenor of the underlying cash flows purchased by the securitisation entity, Speirs Securities Limited.

These interest rate swaps held for hedging purposes are subject to material interest rate risk as their market values vary depending on movements in the 90 day interest rate. However, as explained in note 30 these instruments are designated as hedges against the commercial paper borrowings used to fund the cash flows purchased and are held to maturity over periods matching the duration of the underlying cash flows purchased.

The financial instruments of the Group that are subject to material interest rate risk that would affect cash flows are cash and cash equivalents, borrowings - senior debt (secured), borrowings - property assets (secured), and derivatives. Other financial instruments which have contractually or effectively fixed interest rates are assumed to be unaffected by movements in market interest rates.

39.4 MARKET RISK (continued)

Market risk sensitivity analysis

If market interest rates for cash and cash equivalents, borrowings - senior debt (secured), borrowings - property assets (secured), and derivatives were to increase or decrease by 50 basis points (bps) the affect on net profit after tax, and equity, for the year as applied to year end balances would be as follows:

	Group Pro-forma 2010 $000	**Group 2010 $000**	Group 2009 $000	**Parent 2010 $000**	Parent 2009 $000
Cash and cash equivalents					
If interest rates for the year were 50 bps higher					
Effect on net profit for the year / equity	**(4)**	**31**	160	**-**	-
If interest rates for the year were 50 bps lower					
Effect on net profit for the year / equity	**4**	**(31)**	(160)	**-**	-
Borrowings - Senior debt (secured)					
If interest rates for the year were 50 bps higher					
Effect on net profit for the year / equity	**(58)**	**(58)**	(74)	**(58)**	(74)
If interest rates for the year were 50 bps lower					
Effect on net profit for the year / equity	**58**	**58**	74	**58**	74
Borrowings - Property assets (secured)					
If interest rates for the year were 50 bps higher					
Effect on net profit for the year / equity	**(155)**	**(155)**	-	**-**	-
If interest rates for the year were 50 bps lower					
Effect on net profit for the year / equity	**155**	**155**	-	**-**	-
Derivative					
If interest rates for the year were 50 bps higher					
Effect on net profit for the year / equity	**-**	**337**	533	**-**	84
If interest rates for the year were 50 bps lower					
Effect on net profit for the year / equity	**-**	**(342)**	(540)	**-**	(84)

Capital notes

The fair value of the capital notes at 30 June 2010 is $7,747,000 (30 June 2009: $9,204,000) based on an on-market ask price of 50.0% (30 June 2009: 25.0%).

INTEREST RATE REPRICING

Interest rate repricing risk arises as a result of mismatches between the repricing dates of interest bearing assets and liabilities. Movements in interest rates may impact upon Allied Nationwide Finance Limited and Speirs Securities Limited's (together the 'ANFL Group') future financial results by affecting interest margins as a result of such mismatches. The ANFL Group monitors and actively manages the interest rate repricing profiles of the loan portfolio and borrowing portfolio and the repricing profiles of other interest bearing assets and liabilities.

The ANFL Group's loan portfolio is contractually priced on a variable interest rate regime which allows the ANFL Group to reprice loans at any time, even though this discretion is not normally utilised during the loan term. The deposits portfolio is priced at fixed interest rates based on the borrowing term. The repricing dates for deposits are the same as those of the principal maturities as set out in the maturity profile in note 39.2. The deposits portfolio is priced at fixed interest rates based on the borrowing term and the repricing profile is therefore the same as the maturity profile set out in note 39.2.

The ANFL Group also funds its lending activities through the issue of commercial paper in the wholesale market. The exposure to 90 day interest rates in this market is hedged through the use of interest rate swaps which change the short term, variable rate nature of the funding into fixed rate funding that matches the duration of the cash flows purchased with the funds raised. The effective repricing profile therefore follows the maturity profile set out in note 39.2.

39.5 CAPITAL MANAGEMENT

The Group's objectives when managing capital are:
- to comply with the capital requirements of the Capital Notes Deed;
- to comply with the capital requirements of the Trust Deed of Allied Nationwide Finance Limited;
- to safeguard the Group's ability to continue as a going concern, so that it can continue to provide benefits for debenture holders, shareholders, and other stakeholders; and
- to support growth of the business.

39.5 CAPITAL MANAGEMENT (continued)

The Group's capital is it's equity on the balance sheet, including its share capital, perpetual bonds, retained earnings and share based payment reserve.

The Group is required to maintain minimum capital level ratios as required by the Trust Deeds throughout the reporting periods covered by these financial statements. The ratios required are:

- Allied Farmers Limited is required under its Capital Notes Deed to ensure that external secured debt of Allied Farmers Limited shall not exceed 1.5 times equity of Allied Farmers Limited. Allied Farmers Limited has met the requirement throughout the reporting periods covered by these financial statements.

- Allied Nationwide Finance Limited is required under its governing Trust Deed to maintain a capital ratio such that total liabilities of the Allied Nationwide Finance Limited charging group do not exceed 90.0% of total tangible assets. At balance date the ratio was 89.9% (June 2009: 89.9%). The Trustee advised Allied Nationwide Finance Limited on 6 August 2010 that they considered Allied Nationwide Finance Limited to be in breach of the capital ratio. The board and management of Allied Nationwide Finance Limited did not agree with this view.

The Group manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may issue new shares, sell assets, seek new debt funding, or adjust the amount of dividends paid to shareholders.

40. Contingent assets and liabilities

There are no material contingent assets or liabilities outstanding as at 30 June 2010 for the Group or Parent (30 June 2009: nil).

41. Commitments

Allied Farmers Limited has entered into an arrangement with RESIMAC Limited, Australia's largest non bank issuer of mortgage backed securities. As part of this arrangement three nominees of RESIMAC Limited may be appointed to the Board of Allied Nationwide Finance Limited and it is intended that RESIMAC Limited be issued with share warrants by Allied Nationwide Finance Limited. These warrants will entitle RESIMAC Limited, at its discretion but with no obligation, to invest up to $7 million to acquire shares in Allied Nationwide Finance Limited at market value on the exercise date of the warrants. The expiry date of the warrants is 30 November 2014 and as at 30 June 2010 no shares or warrants had been issued.

The following amounts have been committed by the Group or Parent, but not recognised in the financial statements:

	Group Pro-forma 2010 $000	**Group 2010 $000**	Group 2009 $000	**Parent 2010 $000**	Parent 2009 $000
Operating lease commitments					
Lease commitments under non-cancellable operating leases:					
Not later than one year	**1,369**	**1,772**	1,928	**11**	43
Later than one year and not later than five years	**2,284**	**3,033**	3,730	**-**	85
Later than five years	**49**	**49**	371	**-**	-

The Group and Parent lease premises, plant and equipment and motor vehicles. Operating leases held over properties give the Group and Parent the right to renew the lease subject to a redetermination of the lease rental by the lessor. There are no renewal options or options to purchase in respect of plant and equipment held under operating leases. There are options to purchase in respect of motor vehicles.

Capital commitments
The Group and Parent have no material capital commitments as at 30 June 2010 (30 June 2009: nil).

	Group Pro-forma 2010 $000	**Group 2010 $000**	Group 2009 $000	**Parent 2010 $000**	Parent 2009 $000
Future operating lease receipts					
Non-cancellable lease receipts					
Not later than one year	**-**	**416**	1,084	**-**	-
Later than one year and not later than five years	**-**	**559**	3,101	**-**	-
Later than five years	**-**	**-**	-	**-**	-

Operating lease receipts principally relate to the leasing out of plant, machinery and vehicles, and includes leasing of the investment properties in note 32.

42. Financial assets and liabilities

The table below sets out the Group's classification of each class of financial asset and liability.

Group Pro-forma

	Derivatives used for hedging $000	Assets at fair value through profit or loss $000	Available-for-sale financial assets $000	Loans and receivables $000	Other amortised cost $000	Total $000
30 June 2010						
Assets per balance sheet						
Cash and cash equivalents	-	-	-	646	-	646
Trade and other receivables	-	-	-	3,493	-	3,493
Loans, advances and finance leases	-	-	-	43,677	-	43,677
Derivative financial instruments	-	46	-	-	-	46
Shares in other companies	-	-	669	-	-	669
	-	46	669	47,816	-	48,531
Liabilities per balance sheet						
Bank overdraft (secured)	-	-	-	-	1,677	1,677
Trade and other payables	-	-	-	-	17,624	17,624
Borrowings - Senior debt (secured)	-	-	-	-	16,500	16,500
Borrowings - Capital notes and bonds	-	-	-	-	12,398	12,398
Borrowings - Property assets (secured)	-	-	-	-	44,266	44,266
Derivative financial instruments	1,518	-	-	-	-	1,518
Subsidiary company advances	-	-	-	-	12,316	12,316
	1,518	-	-	-	104,781	106,299

Group

	Derivatives used for hedging $000	Assets at fair value through profit or loss $000	Available-for-sale financial assets $000	Loans and receivables $000	Other amortised cost $000	Total $000
30 June 2010						
Assets per balance sheet						
Cash and cash equivalents	-	-	-	10,565	-	10,565
Trade and other receivables	-	-	-	21,547	-	21,547
Loans, advances and finance leases	-	-	-	245,084	-	245,084
Shares in other companies	-	-	669	-	-	669
	-	-	669	277,196	-	277,865
Liabilities per balance sheet						
Bank overdraft (secured)	-	-	-	-	1,677	1,677
Trade and other payables	-	-	-	-	20,745	20,745
Borrowings - Senior debt (secured)	-	-	-	-	16,500	16,500
Borrowings - Capital notes and bonds	-	-	-	-	14,298	14,298
Borrowings - Property assets (secured)	-	-	-	-	44,266	44,266
Derivative financial instruments	2,732	-	-	-	-	2,732
Deposits	-	-	-	-	225,893	225,893
	2,732	-	-	-	323,379	326,111
30 June 2009						
Assets per balance sheet						
Cash and cash equivalents	-	-	-	48,294	-	48,294
Trade and other receivables	-	-	-	18,678	-	18,678
Loans, advances and finance leases	-	-	-	271,624	-	271,624
Shares in other companies	-	-	188	-	-	188
	-	-	188	338,596	-	338,784
Liabilities per balance sheet						
Bank overdraft (secured)	-	-	-	-	2,614	2,614
Trade and other payables	-	-	-	-	14,381	14,381
Borrowings - Senior debt (secured)	-	-	-	-	21,000	21,000
Borrowings - Capital notes and bonds	-	-	-	-	14,193	14,193
Borrowings - Property assets (secured)	-	-	-	-	106	106
Derivative financial instruments	7,209	-	-	-	-	7,209
Deposits	-	-	-	-	321,217	321,217
	7,209	-	-	-	373,511	380,720

42. Financial assets and liabilities (continued)

The table below sets out the Parent's classification of each class of financial asset and liability.

Parent

	Derivatives used for hedging $000	Assets at fair value through profit or loss $000	Available-for-sale financial assets $000	Loans and receivables $000	Other amortised cost $000	Total $000
30 June 2010						
Assets per balance sheet						
Advances to subsidiaries	-	-	-	-	78,288	78,288
Derivative financial instruments	-	46	-	-	-	46
Shares in other companies	-	-	10	-	-	10
	-	46	10	-	78,288	78,344
Liabilities per balance sheet						
Trade and other payables	-	-	-	-	488	488
Borrowings - Senior debt (secured)	-	-	-	-	16,500	16,500
Borrowings - Capital notes and bonds	-	-	-	-	12,398	12,398
Derivative financial instruments	350	-	-	-	-	350
Subsidiary company advances	-	-	-	-	14,784	14,784
	350	-	-	-	44,170	44,520
30 June 2009						
Assets per balance sheet						
Derivative financial instruments	-	62	-	-	-	62
Shares in other companies	-	-	10	-	-	10
	-	62	10	-	-	72
Liabilities per balance sheet						
Trade and other payables	-	-	-	-	688	688
Borrowings - Senior debt (secured)	-	-	-	-	21,000	21,000
Borrowings - Capital notes and bonds	-	-	-	-	12,247	12,247
Borrowings - Property assets (secured)	-	-	-	-	45	45
Credit enhancement facility	-	-	-	-	3,922	3,922
Derivative financial instruments	1,271	-	-	-	-	1,271
Subsidiary company advances	-		-	-	853	853
	1,271	-	-	-	38,755	40,026

43. Financial assets and liabilities carried at fair value

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. Valuation requires the selection of a method from a variety available and use of assumptions on market conditions existing at balance date. The valuation techniques used for derivative financial instruments presented at fair value are further discussed in note 24.

NZ IFRS 7: *Financial Instruments: Disclosure* requires an entity to classify fair value measurements using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

a) quoted prices (unadjusted) in active markets for identical assets of liabilities (Level 1);
b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
c) inputs from the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The following table presents those financial assets and liabilities presented at fair value on the balance sheet and their classification within the fair value hierarchy above.

	Level 1	**Level 2**	**Level 3**	**Total**
Group Pro-forma 2010				
Assets				
Derivative financial instruments	-	-	46	46
Liabilities				
Derivative financial instruments	-	-	1,518	1,518
Group 2010				
Liabilities				
Derivative financial instruments	-	-	2,732	2,732
Group 2009				
Liabilities				
Derivative financial instruments	-	-	7,209	7,209

43. Financial assets and liabilities carried at fair value (continued)

	Level 1	Level 2	Level 3	Total
Parent 2010				
Assets				
Derivative financial instruments	-	-	46	46
Liabilities				
Derivative financial instruments	-	-	350	350
Parent 2009				
Assets				
Derivative financial instruments	-	-	62	62
Liabilities				
Derivative financial instruments	-	-	1,271	1,271

44. Receivership of Allied Nationwide Finance Limited

As at 30 June 2010 Allied Nationwide Finance Limited, the wholly owned finance company subsidiary of Allied Farmers Limited, was under the direct control of Allied Farmers Limited and has been consolidated in the Group financial statements as at that date. On 20 August 2010 Allied Nationwide Finance Limited was placed in receivership by its Trustee (The New Zealand Guardian Trust Company Limited). Consequently, the Board of Directors reassessed the carrying value of Allied Nationwide Finance Limited in the financial statements of the Parent and Group. At 30 June 2010, the Parent has written its investment in Allied Nationwide Finance of $40,080,000 down to nil value, whilst the Group has written off goodwill of $20,485,000 and deferred tax assets of $7,824,000. All other balances arising from Allied Nationwide Finance Limited continue to be consolidated while all transactions and balances with other Group companies and Allied Nationwide Finance Limited continue to be eliminated in the Group financial statements.

45. Group Pro-forma 2010 Accounts

Additional “Group Pro-forma” financial information has been included in the financial statements which represents the consolidated Group as it would stand without Allied Nationwide Finance Limited (in receivership). The Group Pro-forma financial information has been prepared by consolidating all of the Group companies other than Allied Nationwide Finance Limited using the same accounting policies and on the same basis as the Group, other than the application of the following assumptions:

- Balances at the beginning of the year reflect the opening balance of the Group including Allied Nationwide Finance Limited;

- Notes requiring a reconciliation of movements between the opening and closing balance are presented excluding the current year transactions for Allied Nationwide Finance Limited and an adjustment titled “Allied Nationwide Finance Limited adjustment” is included to remove the Allied Nationwide Finance Limited component from the opening balance; and
- All balances related to Speirs Securities Limited have been excluded as control of this company resided with Allied Nationwide Finance Limited.

The Group Pro-forma financial information complies with generally accepted accounting practice except for the non-consolidation of Allied Nationwide Finance Limited. The Group Pro-forma financial information provides additional information about the past financial performance and cash flows of the Group for the year ended 30 June 2010 and its financial position as at that date, subject to the assumptions outlined above. This provides a more relevant reflection of the Group.

46. Events subsequent to balance date

On 20 August 2010 Allied Nationwide Finance Limited, the wholly owned finance company subsidiary of Allied Farmers Limited, was placed in receivership by its Trustee (The New Zealand Guardian Trust Company Limited). The impact of this receivership is disclosed in note 44.

Subsequent to 30 June 2010, the Group realised various financial and property assets. Consequently, the Group has the ability to repay the senior bank debt to Westpac New Zealand Limited once all of these transactions have settled. The Group has also entered into a conditional agreement with the receiver of Allied Nationwide Finance Limited as to the repayment terms on the obligations from the Group to Allied Nationwide Finance Limited.

The Directors are not aware of any matter or circumstance subsequent to balance date, not otherwise dealt with in this report or the financial statements, that has significantly affected or may significantly affect the operations of the Group, the results of these operations or the state of affairs of the Group.

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Auditors' Report

to the shareholders of Allied Farmers Limited

We have audited the financial statements on pages 25 to 93. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the year ended 30 June 2010 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 33 to 43.

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Directors' Responsibilities

The Company's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Company and Group as at 30 June 2010 and their financial performance and cash flows for the year ended on that date.

Auditors' Responsibilities

We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting our opinion to you.

Basis of Opinion

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

(a) the significant estimates and judgements made by the Directors in the preparation of the financial statements; and

(b) whether the accounting policies are appropriate to the circumstances of the Company and Group, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have no relationship with or interests in the Company or any of its subsidiaries other than in our capacity as auditors and providers of tax and accounting advice.

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Auditors' Report
Allied Farmers Limited

Qualifications

Going concern
As described on page 43 of the financial statements, these financial statements have been prepared on a going concern basis. The validity of this assumption depends on the ability of the Company and the Group to generate sufficient future cash flows from the various funding initiatives set out on page 43. We have been unable to obtain sufficient audit evidence upon which to form an opinion whether application of the going concern assumption remains appropriate.

These financial statements do not include any adjustments that may need to be made to reflect the situation should the Company and Group be unable to continue as a going concern. Such adjustments may include assets being realised at other than the amounts at which they are currently recorded in the balance sheet. In addition, the Company and Group may have to provide for further liabilities that might arise and to reclassify certain non-current assets and liabilities as current.

Receivership of significant subsidiary
As described on page 33 and in Note 44 of the financial statements, Allied Nationwide Finance Limited ("ANF"), a material subsidiary of the Company, was placed in receivership on 20 August 2010 by its Trustee, The New Zealand Guardian Trust Company Limited. The impact of ANF on the Group financial statements is pervasive and, as a consequence of the receiver taking control of ANF and its accounting records, we have been unable to complete our audit of ANF and therefore the Group financial statements.

Explanatory paragraphs

Valuation of assets
In forming our qualified opinion on the Company and Group financial statements, we have considered the adequacy of the disclosures on pages 42 and 43 of the financial statements for the Company and Group concerning the carrying value of loans and advances, inventory – property and investment property. The value of these assets may be further negatively impacted by the current credit environment, an increased level of uncertainty in respect of property values and difficulties in assessing borrowers' ability to meet their future obligations.

In addition, the recovery of these assets is, in many cases, dependent on the ability to sell the collateral assets in which the Company and Group have a security interest. In the current market conditions there is additional uncertainty over the value of some collateral assets and the timing of sale of those assets. We are unable to quantify the potential effect of these uncertainties.

These financial statements do not include any adjustments that may need to be made to reflect the situation should the Directors' estimates of the amount and timing of the cash flows from loans and advances, inventory – property and investment property prove to be inaccurate.

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Auditors' Report
Allied Farmers Limited

Pro-forma financial information
In forming our qualified opinion on the Company and Group financial statements, we have considered the adequacy of the disclosures on page 34 and in Note 45 of the financial statements for the Company and Group concerning the basis of preparation of the pro-forma financial information.

The pro-forma financial information is not prepared in accordance with generally accepted accounting practice. It has been prepared to quantify the impact of a non-adjusting subsequent event and is subject to the assumptions adopted by the Directors, and the disclosures contained within the pro-forma financial information should be read in that context.

The pro-forma financial information provides information about the past financial performance and cash flows of the Group for the year ended 30 June 2010 and its financial position as at that date, subject to the assumptions adopted by the Directors. The financial information is not necessarily indicative of the future financial performance, cash flows and financial position of the Group.

Qualified opinion on the Company's and Group's financial statements

We have obtained all the information and explanations we have required other than as explained in the qualification paragraphs above.

In our opinion proper accounting records have been kept by the Company as far as appears from our examination of those records.

Because of the potential effect of the limitation of the scope of the evidence available to us as described in the qualification paragraphs above, we are unable to form an opinion on whether the Company and Group financial statements on pages 25 to 93:

(a) comply with generally accepted accounting practice in New Zealand;

(b) comply with International Financial Reporting Standards; and

(c) give a true and fair view of the financial position of the Company and Group as at 30 June 2010 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 30 September 2010 and our qualified opinion is expressed as at that date.

PricewaterhouseCoopers

Chartered Accountants Wellington

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Chief Financial Officer

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