



MARAC FINANCE LIMITED
Annual Report 2010

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Chairman and Managing Director's Report

2010 FINANCIAL RESULTS

We are pleased to report that MARAC Finance Limited (MARAC) produced a net profit after tax of \$14.3m for the year ended 30 June 2010 compared to \$19.1m for the previous year. We believe that this is a solid result given the current economic climate. This result was achieved principally through growth in MARAC's motor vehicle financing operations and gains obtained on the acquisition of the GMAC NZ (GMAC) retail motor vehicle financing book, offset by increases in impairments in MARAC's property and commercial books.

Highlights for the financial year to 30 June 2010 include:

- Strengthening MARAC's balance sheet through our parent company, Pyne Gould Corporation Limited (PGC) investing \$35m of new equity;
- Excess liquidity maintained with \$282m held at 30 June 2010;
- Forming a strategic alliance with The New Zealand Automobile Association (AA);
- The purchase of GMAC's retail motor vehicle financing book;
- The announcement by PGC of a proposal to merge MARAC and two other highly regarded financial services businesses, CBS Canterbury (CBS) and Southern Cross Building Society (SCBS); and
- MARAC's property book reducing by 60% during the year. This reduction has been made to improve the quality of MARAC's earnings and considerably reduces property exposure risk.

Importantly, we believe that the underlying performance of MARAC demonstrates the success of our strategy to reposition the business and to focus on our core competencies.

BOARD

During the year, a comprehensive review of the structure and composition of the Board was undertaken. Previously MARAC shared a common Board with PGC, however, it is necessary going forward as a non-bank deposit taker to have two independent directors.

Of the previous common Board, Warwick Steel, Richard Elworthy, Stephen Montgomery, George Kerr and Sam Maling all retired during the year.

On behalf of the current Board, we thank Warwick, Richard, Stephen, George and Sam for their contribution to MARAC over the years.

New directors who joined the Board are John Harvey and Michelle Smith, who have significant experience in the finance sector and were appointed as independent directors.

LEADERSHIP

Over the past twelve months we have made a number of senior executive appointments to key positions as we seek to deliver on our strategic plan. Each of these individuals brings significant experience and expertise to MARAC.

Key appointments made over the last twelve months include:

- Sean Kam, Chief Financial Officer
- Craig Stephen, Chief Investment Officer
- Michael Jonas, Group General Counsel
- Mark Mountcastle, Chief Risk Officer.

PROPOSED MERGER

On 1 June 2010, PGC unveiled their "heartland" strategy involving a possible merger between MARAC, CBS and SCBS.

Both CBS and SCBS are long established building societies that bring added diversity to MARAC. The two building societies have similar business activities but have geographical strengths and coverage in different parts of the country. Along with increased diversity, they bring capability in transaction banking and savings products.

Overseeing the merger process is an establishment board of which Bruce Irvine is Chairman and which also includes Gary Leech (Chairman of CBS), Geoff Ricketts (Chairman of SCBS) and Jeff Greenslade, who is the Project Director.

An extensive due diligence and a detailed valuation process has been completed which culminated in the signing of the Merger Implementation Agreement (MIA) on 16 September 2010. The proposed structure and timeline to achieve the merger has also been agreed. There is unanimous agreement between the boards to recommend the merger proposal to their respective stakeholders.

Our stated aim is to create a New Zealand banking¹ group providing a full range of banking and financial services to heartland New Zealand. Our banking strategy mirrors in many respects the creation and expansion of regional and specialist banks now occurring in the United States and the United Kingdom.

It is anticipated that the new merged entity would have an NZX-listed non-operating holding company². Existing CBS and SCBS shareholders would become shareholders of the new merged entity, along with PGC, who would be the major shareholder with an initial 71% shareholding of the new merged entity.

The merging of MARAC with CBS and SCBS is expected to create an entity with more than \$2.3b of assets, which we believe will achieve the critical mass and quality of assets to support an investment grade credit rating, and the scale and diversity required to support our proposed application for a bank licence.

If approved, a bank licence should bring advantages such as enhanced credibility and a lower cost of funds. We believe heartland New Zealand is seeking alternative specialist providers who understand the particular needs of regional New Zealand.

¹ None of CBS, SCBS and MARAC are currently a registered bank, and any merged group or entity will not be a registered bank until it is registered under the Reserve Bank of New Zealand Act 1989.

² It is intended that application will be made to NZX Limited for permission to list the shares issued in the merged group on the NZSX, although the shares have not been approved for trading on a securities market operated by a registered exchange (and no application for such listing has been made) as at the date of this report. NZX Limited accepts no responsibility for any statement in this announcement. NZX Limited is a registered exchange regulated under the Securities Markets Act 1988.

We see significant potential in merging MARAC, CBS and SCBS to create a larger, more diverse and stronger financial services business. A lot of work has been done towards making this a reality; however, there is still some way to go. MARAC investors will be provided with ongoing information as we progress down this path, which will require certain approvals from investors.

LENDING

MARAC's key competitive advantage in the current environment is its understanding of the productive and realisable values of certain assets, the income generating capability of those assets, and the security value of those assets.

MARAC's net operating income for the year ended 30 June 2010 was \$69.1m compared to \$65.6m for the 2009 year. Gross finance receivables at 30 June 2010 were \$1.1b, down \$175.1m on the previous year. This principally relates to MARAC's decision last year to reduce its exposure to the property sector. In addition, MARAC's commercial loan book declined last year, due mainly to a reduction in risk concentration and reduced investment by our business customers in the SME market.

Consumer

MARAC's consumer finance division recorded net operating income of \$29.0m against \$20.0m in the previous financial year. While the total market for consumer finance has contracted, MARAC increased its market share as a result of strong market positioning and through the acquisition of GMAC. We continue to operate a diversified lending strategy. New lending volumes were up 33% on the previous year. There was also a significant improvement in the impairment charge, which at \$2.4m, was less than half the previous year's \$5.2m.

During the year, MARAC has built and solidified a number of key business partnerships, including developing a close relationship with the AA. This relationship comprises a vehicle finance partnership and will be expanded in the future to include commercial finance.

Another key partnership announced after balance date was securing the exclusive rights to promote Holden Financial Services. This builds on MARAC's acquisition of the GMAC retail motor vehicle financing book earlier in the year. GMAC was the previous provider of branded finance to the Holden dealer network. This will drive an increase in MARAC's market share and will serve to further strengthen MARAC's leadership role within our preferred segment of the motor finance industry.

Commercial

MARAC's commercial finance division saw its book size reduce to \$457m during last year from \$511m. In spite of this drop the commercial division recorded net operating income of \$22.3m during last year compared to \$23.5m for the previous year. The margin growth obtained is a direct result of a tightening credit market. Impairments were up, at \$7.5m compared to \$5.0m for the previous year.

Property

MARAC's stated intention is to reduce property exposure over time. Last year MARAC transferred \$175m of its property assets out of a total of \$374m to PGC's wholly owned subsidiary Real Estate Credit Limited. As at 30 June 2010, the MARAC property division book stood at \$147m. We also made further provisions for the impaired loans on our property book totalling \$10.7m.

FUNDING

The mainstay of MARAC's funding continues to be our retail debenture program. Retail investors have supported us with solid levels of new funding and reinvestments. MARAC held \$829m of retail funds as at 30 June 2010.

On 12 August, MARAC's credit rating was confirmed at BB+, with the outlook improved from Negative to Stable. Following this on 17 September, after the signing of the MIA, Standard & Poor's placed MARAC on CreditWatch Positive. This signals an endorsement of our strategy and also means that an investment grade credit rating is likely if the proposed merger goes ahead.

LOOKING TO THE FUTURE

Continuing pressure on the finance industry will bring consolidation opportunities for those with financial flexibility.

Additionally, there are fewer parties supplying credit to heartland New Zealand. Both these factors offer further growth potential for MARAC.

A key focus for MARAC will be delivering on our strategy to become a New Zealand registered bank through the proposed merger with CBS and SCBS.

Becoming a registered bank will both reduce MARAC's cost of funds and assist earnings growth. In the short term, however, there will be additional costs due to the expense of participating in the Crown Retail Deposit Guarantee Scheme as well as costs associated with the proposed merger. But the expected benefits from delivering on this strategy will, over time, far outweigh the costs.

Achieving our goal of obtaining a bank licence is not the end of the journey. It is merely the beginning as we seek to build a strong credible business to meet the needs of our customers for the long term.



Bruce Irvine
Chairman



Jeff Greenslade
Managing Director

28 September 2010

Investor Information

BONDS

MARAC Finance Limited's Secured Bonds are listed on the NZDX, the debt market board of the NZX, under the ticker "MAR010". Transfers and settlement are handled electronically by means of the FASTER system, which means that the Company does not issue certificates. Bondholders receive a statement from the share registrar, which records any movements in their holding and the balance of bonds held.

WEBSITE

You can find more information on the Company's website www.marac.co.nz

FINANCIAL CALENDAR

Year-end	30 June 2010
Year-end results announcement	26 August 2010
Annual report mailed	29 September 2010
Half-yearly results announcement for 2011	1 March 2011

Five-Year Summary

STATEMENT OF COMPREHENSIVE INCOME

	2010 \$000	2009 \$000	2008 \$000	2007 \$000	2006 \$000
Interest income	148,337	168,933	173,438	134,849	108,501
Interest expense	89,271	109,318	108,637	80,371	69,963
Net interest income	59,066	59,615	64,801	54,478	38,538
Operating lease income	16,617	10,526	12,569	12,891	12,611
Operating lease expenses	10,037	7,467	9,425	10,458	9,391
Net operating lease income	6,580	3,059	3,144	2,433	3,220
Lending and credit fee income	1,071	1,450	1,383	2,139	13,584
Other income	2,364	1,495	862	932	912
Net operating income	69,081	65,619	70,190	59,982	56,254
Selling and administration expenses	25,025	25,048	25,815	22,151	19,818
Impaired asset expense	23,765	13,318	5,726	955	1,787
Profit before income tax	20,291	27,253	38,649	36,876	34,649
Income tax expense	5,992	8,199	12,785	12,199	11,461
Profit for the year	14,299	19,054	25,864	24,677	23,188

STATEMENT OF FINANCIAL POSITION

	2010 \$000	2009 \$000	2008 \$000	2007 \$000	2006 \$000
Total Assets	1,294,556	1,412,795	1,352,264	1,241,910	1,080,893
Total Tangible Assets	1,286,055	1,407,103	1,349,724	1,238,772	1,079,839
Total Liabilities	1,088,088	1,259,834	1,212,275	1,121,020	970,103
Total Equity	206,468	152,961	139,989	120,890	110,790

Results for 2010 to 2007 are in accordance with NZ IFRS.

Result for 2006 is in accordance with NZ GAAP.

Board of Directors



Bruce Irvine BCom, LLB, FCA,
AF Inst D, FNZIM

Non-Independent Director

Bruce is a professional director and formerly was a partner in the Christchurch office of Deloitte. He has been a director of MARAC and PGC since 2003, and was appointed Chairman in March 2010. Bruce is Chairman of the Audit Committee.



Bryan Mogridge BSc

Non-Independent Director

Bryan has held chief executive and senior management positions for over 20 years and has been a director of NZSX-listed companies since 1984. He became a director of MARAC in 1992 and was appointed to the PGC board in 2003. Bryan is a member of the Audit and Risk Committees.



Jeffrey Kenneth Greenslade LLB

Non-Independent Director

Jeff has held senior roles in major banks in New Zealand. He was appointed CEO of MARAC in March 2009 and of PGC in June 2009. He was appointed Managing Director of MARAC and PGC in December 2009.



Michelle Smith MCom, CA – NZSA
and ICAEW

Independent Director

Michelle is a professional director who previously held senior positions with Goldman Sachs and Ernst and Young in London. She has extensive experience in banking, particularly risk management and transactional processing.

Michelle was appointed to the MARAC board in February 2010. She is a member of the Risk Committee.



John Harvey BCom, CA

Independent Director

John is a director with considerable financial services experience. He has 35 years of professional experience, including 23 as a partner of PricewaterhouseCoopers. He was Managing Partner in Auckland for 8 years and retired in June 2009 to concentrate on directorships.

John was appointed to the MARAC board in February 2010. He is Chairman of the Risk Committee and a member of the Audit Committee.

Retired Directors

Warwick Steel – Resigned 30 October 2009.

Richard Elworthy – Resigned 18 December 2009.

Stephen Montgomery – Resigned 18 December 2009.

George Kerr – Resigned 4 March 2010.

Sam Maling – Resigned 4 March 2010.

Corporate Governance

The board and management of MARAC Finance Limited (MARAC or the Company) are committed to ensuring that the Company maintains corporate governance practices in line with current best practice.

The board, to ensure it governs in accordance with the requirements of the Company's Constitution, has established policies and protocols which comply with the corporate governance requirements of the NZX/NZDX Listing Rules and which are consistent with the principles contained in the NZX Corporate Governance Best Practice Code.

This governance statement outlines the main corporate governance practices as at 26 August 2010. During the year the board reviewed and assessed the Company's governance structure and implemented a number of changes to ensure that it is consistent with best practice.

The board considers it has complied with the NZX Corporate Governance Best Practice Code for the year ended 30 June 2010.

This section of the Annual Report reflects the requirements of the New Zealand Securities Commission's Governance Principles and Guidelines.

PRINCIPLE 1 – ETHICAL STANDARDS

MARAC expects its directors and staff to at all times act honestly and in good faith, and in the best interests of the Company. They must act with the care, diligence and skill expected of a director or staff member of a Company that has securities that are publicly traded on the NZDX, and accepts funds direct from the general public. Directors and staff are required to act honestly and fairly in all dealings with the Company's customers, investors and service providers.

Each director and staff member has an obligation, at all times, to comply with the spirit as well as the letter of the law, to comply with the principles of the Company's Corporate Governance Code and the Constitution of the Company and to exhibit a high standard of ethical behaviour.

All directors and officers of the Company are required to obtain prior consent before buying or selling the Company's NZDX securities or shares in the Company's ultimate parent company Pyne Gould Corporation Limited and to certify that their decision to buy or sell has not been made on the basis of inside information.

PRINCIPLE 2 – BOARD COMPOSITION AND PERFORMANCE

Role of the board

The board of directors is responsible for corporate governance and the Company's overall direction. The board establishes objectives, strategies and an overall policy framework within which the business is conducted. Day-to-day management is delegated to the Chief Executive Officer. The board regularly

monitors and reviews management's performance in carrying out their delegated duties.

The board met in total 12 times during the year ended 30 June 2010.

Board Membership, Size and Composition

The constitution provides that directors are appointed by the Company's ultimate parent, Pyne Gould Corporation Limited.

The board currently comprises five directors including a non-executive Chairman, and the Company's Managing Director.

Independence of Directors

A director is considered to be independent if that director is not an executive of the Company and if the director has no direct or indirect interest or relationship that could reasonably influence, in a material way, the directors' decisions in relation to the Company.

The board has determined that John Harvey and Michelle Smith are independent directors. The other directors, being also directors of Pyne Gould Corporation Limited, the Company's ultimate parent company, are non independent directors.

Board Performance Assessment

The board undertakes a regular review of the board's, board committees' and individual directors' performance. This is to ensure it has the right composition and appropriate skills, qualifications, experience and background to effectively govern the Company and monitor the Company's performance.

The last review was undertaken in 2010 at the time of establishment of the new board.

PRINCIPLE 3 – BOARD COMMITTEES

Board Committees

The board has two permanently constituted committees to assist the board by working with management in specific areas of responsibility and then reporting their findings and recommendations back to the board. Both of these committees have terms of reference which set out the committees' objectives, membership, procedures and responsibilities.

Other ad hoc board committees are established for specific purposes from time to time.

Audit Committee

The role of the Audit Committee is to assist the board in:

- discharging its financial reporting and regulatory responsibilities;
- ensuring that the ability and independence of the external auditor to carry out its statutory audit role is not impaired;
- maintaining effective internal audit and internal control systems.

The board has determined that Bruce Irvine meets the requirement of being a “financial expert” in accordance with the committee’s terms of reference.

Risk Committee

The purpose of this committee is to oversee the Company’s Risk Profile and approve the risk management framework within the context of the risk-reward strategy determined by the board.

The Risk Committee’s role includes but is not restricted to Credit Risk, Liquidity Risk, Market Risk and Operational Risk, which includes compliance, reputation, strategic and other risks.

PRINCIPLE 4 – REPORTING AND DISCLOSURES

The board is committed to ensuring the highest standards are maintained in financial reporting, and disclosure of all relevant information.

The Audit Committee oversees the quality and timeliness of all financial reports, including all Prospectuses issued by group companies.

The CEO and CFO are required to certify to the Audit Committee that the financial statements present a true and fair view and comply with all relevant accounting standards.

PRINCIPLE 5 – REMUNERATION

The Company pays fees to the independent directors. Non independent directors are paid by Pyne Gould Corporation Limited.

Senior Executive Remuneration

The objective is to provide competitive remuneration that aligns executive’s remuneration with shareholder value and rewards the achievement of the Company’s strategies and business plans.

All senior executives receive a base salary and are also on short term and long term incentive plans under which they are rewarded for achieving key performance and operating results.

PRINCIPLE 6 – RISK MANAGEMENT

The board ensures that the Company has processes in place to identify and manage risk in the business. The three main types of risk identified are operational risk, business and market risks. Specific risk management strategies have been developed for each of these. The Risk Committee of the board oversee the risk management strategy.

The Company also has in place insurance cover for insurable liability and general business risk.

PRINCIPLE 7 – AUDITORS

The Audit Committee is responsible for overseeing the external, independent audit of the Company’s financial statements and Prospectuses. The Audit Committee ensures that the level of non-audit work undertaken by the auditors, does not result in their independence being jeopardised.

The Company also utilises Pyne Gould Corporation Limited’s internal audit function which is independent of the external auditors. The Audit Committee approves the annual audit programme which is developed in consultation with management.

PRINCIPLE 8 – INVESTOR RELATIONS

The board is committed to maintaining a full and open dialogue with all investors.

The Company is well aware of and appreciative of the number of investors who have supported the Company over many years and have other relationships with the Company and Pyne Gould Corporation Limited, its ultimate parent company.

PRINCIPLE 9 – STAKEHOLDER INTERESTS

The board is committed to ensuring positive outcomes for all stakeholders, be they shareholders, investors, customers, service providers, staff and the general public.

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Directors' Responsibility Statement

For the year ended 30 June 2010

The directors are responsible for ensuring that the financial statements give a true and fair view of the financial position of MARAC Finance Limited (the "Company") as at 30 June 2010 and the financial performance and cash flows for the year ended on that date.

The directors consider that the financial statements of the Company have been prepared using appropriate accounting policies consistently applied and supported by reasonable judgements and estimates and that all the relevant financial reporting and accounting standards have been followed.

The directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

The Board of Directors of MARAC Finance Limited authorises the financial statements set out on pages 10 to 38 for issue on 26 August 2010.

For and on behalf of the Board



Director



Director

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2010

	Note	2010 \$000	2009 \$000
Interest income	5	148,337	168,933
Interest expense	5	89,271	109,318
Net interest income		59,066	59,615
Operating lease income	6	16,617	10,526
Operating lease expenses	6	10,037	7,467
Net operating lease income		6,580	3,059
Lending and credit fee income		1,071	1,450
Other income	7	2,364	1,495
Net operating income		69,081	65,619
Selling and administration expenses	8	25,025	25,048
Profit before impaired asset expense and income tax		44,056	40,571
Impaired asset expense	27	23,765	13,318
Profit before income tax		20,291	27,253
Income tax expense	9	5,992	8,199
Profit for the year		14,299	19,054
Other comprehensive income / (expense)			
Cash flow hedges:			
Effective portion of changes in fair value, before income tax		6,011	(6,324)
Income tax expense / (benefit) on other comprehensive income / (expense)		1,803	(1,897)
Other comprehensive income / (expense) for the year, net of income tax		4,208	(4,427)
Total comprehensive income for the year		18,507	14,627
Profit attributable to:			
Owners of the Company		14,299	19,054
Profit for the year		14,299	19,054
Total comprehensive income attributable to:			
Owners of the Company		18,507	14,627
Total comprehensive income for the year		18,507	14,627

The notes on pages 14 to 38 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2010

	Note	Share Capital \$000	Hedging Reserve \$000	Retained Earnings \$000	Total Equity \$000
2010					
Balance at 1 July 2009		20,000	(6,192)	139,153	152,961
Total comprehensive income for the year					
Profit for the year		-	-	14,299	14,299
Other comprehensive income, net of income tax					
Effective portion of changes in fair value of cash flow hedges, net of income tax		-	4,208	-	4,208
Total other comprehensive income		-	4,208	-	4,208
Total comprehensive income for the year		-	4,208	14,299	18,507
Transactions with owners, recorded directly in equity					
Issue of share capital	22	35,000	-	-	35,000
Total transactions with owners		35,000	-	-	35,000
Balance at 30 June 2010		55,000	(1,984)	153,452	206,468
2009					
Balance at 1 July 2008		20,000	(1,765)	121,754	139,989
Total comprehensive income for the year					
Profit for the year		-	-	19,054	19,054
Other comprehensive income, net of income tax					
Effective portion of changes in fair value of cash flow hedges, net of income tax		-	(4,427)	-	(4,427)
Total other comprehensive income		-	(4,427)	-	(4,427)
Total comprehensive income for the year		-	(4,427)	19,054	14,627
Contributions by and distributions to owners					
Dividends to shareholders		-	-	(13,000)	(13,000)
Total transactions with owners		-	-	(13,000)	(13,000)
Acquired on amalgamation	32	-	-	11,345	11,345
Balance at 30 June 2009		20,000	(6,192)	139,153	152,961

The notes on pages 14 to 38 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

	Note	2010 \$000	2009 \$000
Assets			
Cash and cash equivalents	12	86,406	62,462
Finance receivables	13	941,328	1,136,646
Finance receivables - Securitised	13	160,853	157,941
Operating lease vehicles	14	42,895	36,209
Trade receivables and other assets	15	63,074	19,537
Total assets		1,294,556	1,412,795
Liabilities			
Borrowings	19	834,381	1,066,231
Borrowings - Securitised	19	149,298	150,728
Trade and other payables	20	104,409	42,875
Total liabilities		1,088,088	1,259,834
Equity			
Share capital	22	55,000	20,000
Retained earnings and reserves		151,468	132,961
Total equity		206,468	152,961
Total equity and liabilities		1,294,556	1,412,795

The notes on pages 14 to 38 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 30 June 2010

	Note	2010 \$000	2009 \$000
Cash flows from operating activities			
Cash was provided from:			
Interest received		136,420	134,161
Operating lease income received		14,604	10,285
Proceeds from sale of operating lease vehicles		12,377	7,526
Lending, credit fees and other income received		1,146	2,945
Total cash provided from operating activities		164,547	154,917
Cash was applied to:			
Payments to suppliers and employees		21,041	27,092
Interest paid		90,319	113,200
Purchase of operating lease vehicles		20,014	5,577
Taxation paid		2,800	3,133
Total cash applied to operating activities		134,174	149,002
Net cash flows from operating activities	11	30,373	5,915
Cash flows from investing activities			
Cash was provided from:			
Proceeds from sale of office fit-out and equipment		20	-
Proceeds from sale of investments		65	-
Proceeds from sale of finance receivables to related party	24	125,000	-
Net decrease in finance receivables		69,291	74,552
Total cash provided from investing activities		194,376	74,552
Cash was applied to:			
Purchase of office fit-out, equipment and intangible assets		872	788
Total cash applied to investing activities		872	788
Net cash flows from investing activities		193,504	73,764
Cash flows from financing activities			
Cash was provided from:			
Issue of share capital	22	35,000	-
Total cash provided from financing activities		35,000	-
Cash was applied to:			
Dividends paid		-	13,000
Decrease in borrowings		234,933	10,036
Total cash applied to financing activities		234,933	23,036
Net cash flows from financing activities		(199,933)	(23,036)
Net increase in cash held		23,944	56,643
Opening cash balance		62,462	8,655
Acquired on amalgamation	32	-	(2,836)
Closing cash balance	12	86,406	62,462

The notes on pages 14 to 38 are an integral part of these financial statements.

1 Reporting entity

These financial statements comprise MARAC Finance Limited (Company), MARAC ABCP Trust 1 (Trust), MARAC Retirement Bonds Superannuation Fund (Fund) and MARAC PIE Fund (PIE), collectively known as the Group. The assets securitised into the Trust continue to be recognised in the Company's financial statements. Accordingly, as the Company's and Group's financial performance and position are the same in all material respects, a single set of numbers is presented. Reliance is placed on the Group continuing as a going concern.

All entities in the Group offer financial services, they all operate and are domiciled in New Zealand. The registered office is: MARAC House, 35 Teed St, Newmarket, Auckland.

2 Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and their interpretations as appropriate to profit-oriented entities. The financial statements comply with International Financial Reporting Standards (IFRS).

The Company is a profit-oriented entity. The Company is a reporting entity and an issuer for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act. The financial statements have been prepared in accordance with the requirements of the Companies Act 1993 and the Securities Regulations 2009.

(b) Basis of measurement

The financial statements have been prepared on the basis of historical cost, unless stated otherwise.

(c) Functional and presentation currency

These financial statements are presented in New Zealand dollars which is the Group's functional currency. Unless otherwise indicated, amounts are rounded to the nearest thousand.

(d) Estimates and judgements

The preparation of financial statements requires the use of management judgement, estimates and assumptions that effect reported amounts. Actual results may differ from these judgements. For further information about significant areas of estimation, uncertainty and critical judgements that have the most significant effect on the financial statements, refer to Note 27 - Credit risk exposure.

(e) Going concern

The financial statements have been prepared on a going concern basis after considering the Company's and Group's funding and liquidity position.

The Company has a guarantee under a Crown Retail Deposit Guarantee Scheme, being a guarantee that expires on 31 December 2011. This helps provide it with a range of significant funding options to support further growth of the business.

3 Significant accounting policies

(a) Basis of consolidation

Special purpose entities are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. The financial statements of special purpose entities are included in the Group's financial statements where the substance of the relationship is that the Company controls the special purpose entity.

(b) Interest

Interest income and expense are recognised using the effective interest method in profit or loss. The effective interest rate is established on initial recognition of the financial assets and liabilities and is not revised subsequently. The calculation of the effective interest rate includes all yield related fees and commissions paid or received that are an integral part of the effective interest rate.

3 Significant accounting policies (continued)**(b) Interest (continued)**

Interest on the effective portion of a derivative designated as a cash flow hedge is initially recognised in the hedging reserve. It is released to profit or loss at the same time as the hedged item or if the hedge relationship is subsequently deemed to be ineffective.

(c) Operating lease income and expenses

Income from operating lease vehicles is apportioned over the term of the operating lease on a straight line basis.

Operating lease vehicles are depreciated on a straight line basis over their expected life after allowing for any residual values. The estimated lives of operating lease vehicles vary up to 5 years. Vehicles held for sale are not depreciated but are tested for impairment.

(d) Lending and credit fee income

Lending and credit fee income that is integral to the effective interest rate of a financial asset or liability is included in the measurement of the effective interest rate. Other lending and credit fee income is recognised as the related services are rendered.

(e) Tax

Income tax expense for the year comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the financial reporting carrying amount of assets and liabilities and the amounts used for tax purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse.

A deferred tax asset is only recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

(f) Management of capital

The Group has minimum capital requirements which it is required to maintain in accordance with its Trust deeds and borrowing facilities. The Group maintains an appropriate buffer above these ratios and reports these to its Board of Directors monthly.

(g) Cash and cash equivalents

Cash and cash equivalents consist of cash and liquid assets used in the day to day cash management of the Group. Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

(h) Derivative financial instruments

Derivative financial instruments are contracts entered into to reduce the exposure to fluctuations in interest rates on variable rate borrowings. The financial instruments are subject to the risk that market values may change subsequent to their acquisition, however such changes would be offset by corresponding, but opposite, effects on the variable rate borrowings being hedged. Derivatives are initially valued at fair value and subsequently remeasured at fair value. Fair value movements of derivatives that are not designated in a qualifying hedge relationship, are recognised in profit or loss.

Fair value movements of the effective portion of a qualifying hedge derivative, are recognised directly in other comprehensive income and held in the hedging reserve in equity. The amount recognised in equity is transferred to profit or loss in the same year as the hedged cash flow affects profit or loss, disclosed in the same line as the hedged item. Any ineffective portion of changes in fair value of the derivative are recognised immediately in profit or loss. Fair value movements of a derivative designated as a fair value hedge are recognised directly in profit or loss together with the hedged item.

3 Significant accounting policies (continued)**(i) Finance receivables**

Finance receivables are initially recognised at fair value plus incremental direct transaction costs and are subsequently measured at amortised cost using the effective interest method, less any impairment loss.

(j) Financial assets and liabilities***Classification*****Financial Assets/Liabilities**

Finance receivables

Trade receivables

Borrowings

Trade and related party payables

Derivatives

Accounting Category

Loans and Receivables

Loans and Receivables

Other liabilities at amortised cost

Other liabilities at amortised cost

Held for trading

Recognition

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group enters into transactions whereby it transfers assets recognised on its Statement of Financial Position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the Statement of Financial Position. Transfers of assets with the retention of all or substantially all risks and rewards include, for example, securitised assets and repurchase transactions.

(k) Impaired assets and past due assets

Impaired assets are those loans for which the Group has evidence that it has incurred a loss, and will be unable to collect all principal and interest due according to the contractual terms of the loan.

The term collectively impaired asset refers to an asset where an event has occurred which past history indicates that there is an increased possibility that the Group will not collect all its principal and interest as it falls due. No losses have yet been identified on these individual loans within the collectively impaired asset grouping, and history would indicate that only a small portion of these loans will eventually not be recovered. The Group provides fully for its expected losses.

Restructured assets are assets where the Group expects to recover all amounts owing, although the original terms have been changed due to the counterparty's difficulty in complying with the original terms of the contract and the amended terms are not comparable with similar new lending. In order to be classified as a restructured asset, following restructuring, the return under the revised terms is expected to be equal to or greater than the Group's average cost of funds, or a loss is not otherwise expected to be incurred.

Past due but not impaired assets are any assets which have not been operated by the counterparty within their key terms but are not considered to be impaired by the Group.

Bad debts provided for are written off against individual or collective provisions. Amounts required to bring the provisions to their assessed levels are recognised in profit or loss. Any future recoveries of amounts provided for are taken to profit or loss.

3 Significant accounting policies (continued)**(k) Impaired assets and past due assets (continued)**

The Company maintains an underwriting deed with Pyne Gould Corporation Limited (PGC), the ultimate parent company, to provide security for certain identified and not yet identified losses arising on impaired assets. Where the Group identified that a provision was required in relation to a particular loan or a group of loans, the existence of PGC's underwrite was taken into account in determining the value of the provision.

For further information about credit impairment provisioning refer to Note 27 - Credit risk exposure.

(l) Operating lease vehicles

Operating lease vehicles are stated at cost less accumulated depreciation. Profits on the sale of operating lease vehicles are included as part of operating lease income. Current year depreciation and losses on the sale of operating lease vehicles are included as part of operating lease expenses. Depreciation is on a straight line basis, at rates which will write the vehicles down to residual value over their economic lives of up to 5 years.

(m) Office fit-out, equipment and depreciation

Office fit-out and equipment are recorded at cost less accumulated depreciation and any impairment loss. Depreciation is on a straight line basis, at rates which will write off the cost over their estimated economic lives of 3 to 10 years.

(n) Intangible assets

Software acquired by the Group is stated at cost less accumulated amortisation and any accumulated impairment losses. Subsequent expenditure on software assets is capitalised only when it increases the future economic value of that asset. Amortisation of software is on a straight line basis, at rates which will write off the cost over their estimated economic lives of 3 to 4 years.

(o) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(p) Employee benefits

Annual leave entitlements are accrued at amounts expected to be paid. Long service leave is accrued by calculating the probable future value of entitlements and discounting back to present value. Obligations to defined contribution superannuation schemes are recognised as an expense when the contribution is paid.

(q) Share schemes

The Company provides benefits to staff in the form of share based payments, whereby staff provide services in exchange for shares. Currently the Company has the following schemes:

Discretionary staff share schemes

Under these schemes PGC undertakes to transfer a specific number of its shares to various key staff at a specified future date on that staff member achieving certain criteria. The shares are issued at a price agreed by the directors and held in trust until all the conditions are satisfied. The expected benefit is expensed over the periods over which any conditions are required to be met.

(r) Borrowings

Bank borrowings and debenture stock are initially recognised at fair value including incremental direct transaction costs. They are subsequently measured at amortised cost using the effective interest method.

(s) Financial guarantees written

Financial guarantees (underwrites) given by the Group are accounted for as insurance contracts. The guarantee payment received is initially capitalised and is subsequently amortised on a straight line basis over the life of the guarantee. A liability is recognised when a payment under the guarantee becomes payable.

(t) Goods and Services Tax (GST)

As the Group is predominantly involved in providing financial services, only a proportion of GST paid on inputs is recoverable. The non-recoverable proportion of GST is treated as an expense.

3 Significant accounting policies (continued)**(u) Amalgamations**

An amalgamation is an acquisition of an entity under common control. Identifiable assets acquired and liabilities assumed in an amalgamation are measured at their book values in the books of the acquiring company at the acquisition date.

(v) Statement of Cash Flows

The Statement of Cash Flows has been prepared using the direct method modified by the netting of certain cash flows, in order to provide more meaningful disclosure. Cash and cash equivalents consist of cash and liquid assets used in the day to day cash management of the Group.

(w) Comparative balances

Where necessary comparative amounts have been reclassified so that the information corresponds to the classification presented for the current year.

(x) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 30 June 2010, and have not been applied in preparing these financial statements. The new standards identified which may have an effect on the financial statements of the Group are:

- NZ IFRS 8 Operating Segments, which clarifies that segment information with respect to total assets is required only if it is reported to the chief operating decision maker, effective 1 January 2010.
- NZ IAS 7 Statement of Cash Flows, which clarifies that only expenditure that results in the recognition of an asset can be classified as cash flow from investing activities, effective 1 January 2010.
- NZ IAS 39 Financial Instruments: Recognition and Measurement, which provides additional guidance on embedded derivatives and clarifies the treatment of cash flow hedges, effective 1 January 2010.
- NZ IFRS 2 Share-based Payments - Group cash-settled share-based payment transactions, which requires the entity receiving goods or services in a share-based payment transaction to account for the transaction in its financial statements, effective 1 January 2010.
- NZ IFRS 9 Financial Instruments, which specifies how an entity should classify and measure financial assets, effective 1 January 2013.

The impact of these standards on the financial statements of the Group has not yet been assessed.

(y) Changes in accounting policies

There have been no material changes in accounting policies in the current year. The following new standards and amendments to standards have been adopted from 1 July 2009 and have been applied in the preparation of these financial statements:

- NZ IAS 1 Presentation of Financial Statements (revised 2007) effective as of 1 July 2009. Since the change in accounting policy only affects presentation aspects, there is no impact on any of the amounts recorded in the current or comparative financial year in the financial statements.
- NZ IFRS 7 Financial Instruments: Disclosures (revised) has resulted in additional disclosures concerning fair value measurement and liquidity risk.

4 Segmental analysis

Segment information is presented in respect of the Group's operating segments which are those used for the Group's management and internal reporting structure. There are no significant concentrations of lending in New Zealand.

All income received is from external sources, except those transactions with related parties, refer to Note 24.

Operating segments

The Group comprises the following main operating segments:

Business: Finance of assets into commercial business applications.

Consumer: Finance of motor vehicles, boats and leisure assets.

Support: Includes treasury and back office support functions.

The Group's operating segments are different than the industry categories detailed in Note 27. The operating segments are primarily categorised by security type, whereas Note 27 categorises exposures by the industry the borrowers operate in.

4 Segmental analysis (continued)

	Business \$000	Consumer \$000	Support \$000	Total \$000
2010				
Net interest income	38,206	19,871	989	59,066
Net operating lease income	229	6,351	-	6,580
Lending, credit fee and other income	13	2,808	614	3,435
Net operating income	38,448	29,030	1,603	69,081
Depreciation and amortisation	-	-	968	968
Other selling and administration expenses	5,357	3,810	14,890	24,057
Selling and administration expenses	5,357	3,810	15,858	25,025
Profit before impaired asset expense and income tax	33,091	25,220	(14,255)	44,056
Impaired asset expense ⁽ⁱ⁾	18,126	2,357	3,282	23,765
Profit/(loss) before income tax	14,965	22,863	(17,537)	20,291
Income tax expense	-	-	-	5,992
Profit/(loss) for the period	14,965	22,863	(17,537)	14,299
Total assets	628,040	560,700	105,816	1,294,556
Total liabilities	-	-	-	1,088,088
Total equity	-	-	-	206,468
2009				
Net interest income	43,009	15,964	642	59,615
Net operating lease income	48	3,011	-	3,059
Lending, credit fee and other income	383	1,042	1,520	2,945
Net operating income	43,440	20,017	2,162	65,619
Depreciation and amortisation expense	-	-	1,032	1,032
Other selling and administration expenses	6,742	3,581	13,693	24,016
Selling and administration expenses	6,742	3,581	14,725	25,048
Profit before impaired asset expense and income tax	36,698	16,436	(12,563)	40,571
Impaired asset expense	8,141	5,177	-	13,318
Profit/(loss) before income tax	28,557	11,259	(12,563)	27,253
Income tax expense	-	-	-	8,199
Profit/(loss) for the year	28,557	11,259	(12,563)	19,054
Total assets	881,573	453,436	77,786	1,412,795
Total liabilities	-	-	-	1,259,834
Total equity	-	-	-	152,961

(i) The impaired asset expense shown in the Support segment relates to a provision following an investigation into a loan operated outside of the company's normal lending processes.

	Note	2010 \$000	2009 \$000
5 Net interest income			
Interest income			
Cash and cash equivalents		2,668	34
Finance receivables		145,669	168,899
Total interest income		148,337	168,933
Interest expense			
Retail debenture stock		66,640	67,685
Bank and securitised borrowings		18,411	36,054
Derivatives held for risk management:			
- Net interest expense on cash flow hedges		4,220	5,521
- Other derivatives held for risk management		-	58
Total interest expense		89,271	109,318
Net interest income		59,066	59,615

Included within interest on finance receivables is \$3,180k (2009: \$1,249k) on individually impaired assets.

6 Net operating lease income

Operating lease income			
Lease income		14,545	10,526
Gain on disposal of lease vehicles		2,072	-
Total operating lease income		16,617	10,526
Operating lease expenses			
Depreciation on lease vehicles		9,314	6,820
Direct lease costs		723	518
Loss on disposal of lease vehicles		-	129
Total operating lease expenses		10,037	7,467
Net operating lease income		6,580	3,059

7 Other income

On the 30 June 2010, the Company purchased GMAC New Zealand Limited's (GMAC) retail motor vehicle financing book for \$70.3m. The acquisition date of the book was 31 May 2010, with settlement occurring on the 30 July 2010. The fair value of the identifiable assets and liabilities acquired has been determined to be \$2.2m above the purchase price, taking into account comparative market interest rates and an allowance for impairment. The gain arising from the purchase of the GMAC book has been included in other income for the year ended 30 June 2010.

8 Selling and administration expenses

Personnel expenses		12,790	13,193
Superannuation		259	184
Audit fees		265	242
Audit related fees		276	36
Depreciation - office fit-out and equipment	16	400	395
Amortisation - intangible assets	17	568	637
Operating lease expenses as a lessee		907	961
Other operating expenses		9,560	9,400
Total selling and administration expenses		25,025	25,048

Audit related fees include professional fees in connection with trustee reporting, due diligence, review of prospectus documentation for various Group entities, ad hoc accounting advice and review work completed.

	2010	2009
	\$000	\$000
9 Income tax expense		
Current tax expense		
Current period	3,396	11,317
Deferred tax benefit / (expense)		
Origination and reversal of temporary differences	2,691	(3,118)
Impact of tax rate change	(95)	-
Income tax expense	5,992	8,199
Reconciliation of effective tax rate		
Profit before income tax	20,291	27,253
Prima facie tax at 30%	6,087	8,176
(Less) / plus tax effect of items not taxable / deductible	(95)	23
Income tax expense	5,992	8,199

The corporate tax rate will change from 30c to 28c effective 1 July 2011. The tax effect on the temporary differences reported above, that will not reverse in the following 12 month period, is an increase in the Group's deferred tax asset of \$95k.

10 Imputation credit account		
Balance at beginning of year	30,715	30,173
Credits attached to dividends paid	-	(6,403)
Tax paid net of refunds	2,800	5,959
Acquired on amalgamation	-	986
Balance at end of year	33,515	30,715

11 Reconciliation of profit after tax to net cash flows from operating activities

Profit for the year	14,299	19,054
Add / (less) non-cash items:		
Depreciation and amortisation expense	968	1,032
Impaired asset expense	23,765	13,318
Deferred tax	(2,691)	(3,118)
Derivatives, capitalised interest and accruals	(3,141)	(21,515)
Total non-cash items	18,901	(10,283)
Add / (less) movements in working capital items:		
Operating lease vehicles	(6,686)	(6,490)
Other assets	1,358	(411)
Current tax	1,474	3,498
Other liabilities	1,102	547
Total movements in working capital items	(2,752)	(2,856)
Less items classified as investing activities:		
Profit on disposal of office fit-out and equipment	(20)	-
Profit on disposal of investment	(55)	-
Total items classified as investing activities	(75)	-
Net cash flows from operating activities	30,373	5,915

	Non-securitised		Securitised	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
12 Cash and cash equivalents				
Cash and cash equivalents	82,798	57,239	3,608	5,223
Total cash and cash equivalents	82,798	57,239	3,608	5,223

Cash and cash equivalents are short term funds held with New Zealand registered international banks.

13 Finance receivables

Gross finance receivables	970,558	1,148,478	161,971	159,165
Less allowance for impairment	29,230	11,832	1,118	1,224
Total finance receivables	941,328	1,136,646	160,853	157,941

Gross finance receivables of \$68.4m were purchased from GMAC on 30 June 2010, refer Note 7 for more information. Included within finance receivables is a \$633k (June 2009: nil) loan to a related party, PGG Wrightson Seeds Limited.

	Note	2010 \$000	2009 \$000
14 Operating lease vehicles			
Cost			
Opening balance		57,383	46,526
Additions		26,305	6,400
Acquired on amalgamation		-	22,955
Disposals		(23,424)	(18,498)
Closing balance		60,264	57,383
Accumulated depreciation			
Opening balance		21,174	16,807
Depreciation charge for the year		9,314	6,820
Acquired on amalgamation		-	7,808
Disposals		(13,119)	(10,261)
Closing balance		17,369	21,174
Opening net book value		36,209	29,719
Closing net book value		42,895	36,209

Additions for the year to 30 June 2010 includes \$6.3m for the GMAC lease book purchased, refer Note 7 for more information.

15 Trade receivables and other assets

Derivative financial assets	18	5,013	7,704
Trade receivables		2,007	670
Due from related parties	24	43,664	-
Prepayments		3,369	4,727
Office fit-out and equipment	16	520	734
Intangible assets - software	17	901	783
Investments		-	10
Deferred tax	21	7,600	4,909
Total trade receivables and other assets		63,074	19,537

	2010	2009		
	\$000	\$000		
16 Office fit-out and equipment				
Cost				
Opening balance	4,115	3,998		
Additions	209	117		
Disposals	(40)	-		
Closing balance	4,284	4,115		
Accumulated depreciation				
Opening balance	3,381	2,986		
Depreciation charge for the year	400	395		
Disposals	(17)	-		
Closing balance	3,764	3,381		
Opening net book value	734	1,012		
Closing net book value	520	734		
17 Intangible assets - software				
Cost				
Opening balance	3,036	3,730		
Additions	686	671		
Disposals	-	(1,365)		
Closing balance	3,722	3,036		
Accumulated amortisation				
Opening balance	2,253	2,981		
Amortisation charge for the year	568	637		
Disposals	-	(1,365)		
Closing balance	2,821	2,253		
Opening net book value	783	749		
Closing net book value	901	783		
			Non-securitised	Securitised
	2010	2009	2010	2009
	\$000	\$000	\$000	\$000
18 Derivative financial instruments				
Derivative financial assets				
Derivatives held for risk management	5,013	7,704	-	-
Total derivative financial assets	5,013	7,704	-	-
Derivative financial liabilities				
Qualifying cash flow hedges	-	-	1,484	11,602
Total derivative financial liabilities	-	-	1,484	11,602

Derivatives consist of interest rate swaps and options held to manage the Group's exposure to interest rate repricing risk on its interest bearing assets and liabilities. The Group uses interest rate swaps to hedge the interest rate risk arising from both its current and future floating rate bank debt and designates those swaps as qualifying cash flow hedges. The Group uses interest rate swaps to hedge the interest rate risk arising from both its fixed rate debenture stock and designates those swaps as qualifying fair value hedges. Securitised derivatives are held in the name of the Trust to hedge the interest rate risk arising in the Trust.

	2010	2009
	\$000	\$000
19 Borrowings		
Bank borrowings sourced from New Zealand	5,000	150,000
Debenture stock sourced from New Zealand	796,435	886,921
Debenture stock sourced from overseas	32,946	29,310
Total non-securitised borrowings	834,381	1,066,231
Securitised borrowings sourced from New Zealand	149,298	150,728
Total borrowings	983,679	1,216,959

The Group has bank facilities totalling \$350.3m (2009: \$485.0m). There is no significant concentration of debenture funding to any particular region within New Zealand.

Bank borrowings and debenture stock borrowings rank equally and are secured over the non-securitised assets of the Group in terms of a Trust Deed dated 9 March 1984 in favour of The New Zealand Guardian Trust Company Limited as trustee for the stockholders.

Investors in MARAC ABCP Trust 1 rank equally with each other and are secured over the securitised assets of the Trust.

	Note	2010	2009
		\$000	\$000
20 Trade and other payables			
Derivative financial liabilities	18	1,484	11,602
Current tax		5,218	3,744
Trade payables		82,804	14,910
GST payable		9,937	8,835
Due to related parties	24	3,354	2,616
Employee benefits		1,612	1,168
Total trade and other payables		104,409	42,875

As at 30 June 2010, trade payables includes \$70.3m for the purchase of GMAC'S retail motor vehicle financing book, refer Note 7 for more information.

21 Deferred tax

Recognised deferred tax assets and liabilities

Office fit-out and equipment	58	39
Employee entitlements	250	272
Finance receivables	8,771	3,551
Derivative assets held for risk management	812	3,822
Tax assets	9,891	7,684
Intangible assets - software	50	54
Operating lease vehicles	2,241	2,721
Tax liabilities	2,291	2,775
Deferred tax	7,600	4,909

All deferred tax movements are included in profit or loss except for those in respect of cash flow hedges which are recognised directly in equity.

22 Share capital

	2010 Number of shares '000	2009 Number of shares '000
Issued shares		
Opening balance	20,000	20,000
Shares issued during the year	35,000	-
Closing balance	55,000	20,000

The shares have equal voting rights, rights to dividends and distributions and do not have a par value.

On 27th October 2009 MARAC Financial Services Limited subscribed for a further 35,000,000 ordinary shares at an issue price of \$1 per share. All issued shares are fully paid.

Dividends

No dividends have been proposed by the directors after the balance date.

23 Special purpose entities***MARAC Retirement Bonds Superannuation Fund and MARAC PIE Fund***

The Company controls the operations of MARAC Retirement Bonds Superannuation Fund, a superannuation scheme that invests in the Company's debenture stock and of MARAC PIE Fund, a portfolio investment fund that invests in the Company. The Company has resolved to wind down the Retirement Bonds Superannuation Fund with a view to winding it up in the near future. Investments by these funds are represented in debenture stock borrowings as follows:

	2010 \$000	2009 \$000
MARAC Retirement Bonds Superannuation Fund	5,922	21,348
MARAC PIE Fund	8,763	14,718

MARAC ABCP Trust 1 Securitisation

The Group has securitised a pool of receivables comprising commercial, motor vehicle and marine loans to MARAC ABCP Trust 1 (Trust). The Company substantially retains the credit risks and rewards associated with the securitised assets, and continues to recognise these assets and associated borrowings on the Statement of Financial Position. Despite this presentation in the financial statements, the loans sold to the Trust are set aside for the benefit of investors in the Trust and no longer form part of the Company's assets over which the secured debenture stock offered under the Company's Prospectus is secured.

24 Related party transactions

The Company's immediate parent is MARAC Financial Services Limited (MFSL). The Company's ultimate parent is Pyne Gould Corporation Limited (PGC).

(a) Transactions with related parties

In September 2009 MARAC Finance Limited entered into a sale and purchase agreement to transfer and assign legal and beneficial title to \$175m of non performing loans to its parent company MFSL. The loans were subsequently transferred to Real Estate Credit Limited, a wholly owned subsidiary of Perpetual Asset Management Limited. The ultimate parent of all companies is PGC.

The loans were transferred from the Company at book value. In October 2009 the transfer was completed with MFSL paying \$125m in cash, and issuing a loan note of \$50m for the balance. As at the 30 June 2010 the balance of the loan note is \$42.6m excluding accrued interest. PGC guarantees the obligations of MFSL under the loan note. Interest is accrued on the loan note on an arms length basis.

As a consequence of the loan transfer, the Underwrite Agreement under which PGC undertook to underwrite credit losses on certain impaired property loans was undrawn as at 30 June 2010.

MARAC Finance Limited provides administration services to Real Estate Credit Limited for a transitional period.

24 Related party transactions (continued)**(a) Transactions with related parties (continued)**

The Group received underwriting, financial and administrative assistance, computer services and leased premises from PGC during the year.

The Company provided administrative assistance to MARAC Securities Limited, MARAC Investments Limited, MARAC Insurance Limited, MARAC PIE Fund and MARAC Retirement Bonds Superannuation Fund and received insurance commission from MARAC Insurance Limited.

During the year MARAC Securities Limited, MARAC Insurance Limited, MARAC PIE Fund, MARAC Retirement Bonds Superannuation Fund and some key management personnel invested in the Company's debenture stock. PIE and Fund investments at the 30 June 2010 are detailed in Note 23. Key management personnel investments are detailed in 24(b).

All transactions were conducted on normal commercial terms and conditions, except that the underwrite from PGC was at no cost to the Group.

	2010	2009
	\$000	\$000
Material related party transactions		
MFSL - Parent		
Interest income	4,406	-
Due from parent	43,664	-
Due to parent	1	-
PGC - Ultimate parent		
Selling and administration expenses	(1,415)	(1,730)
Other related parties		
Lending and credit fee income	524	941
Other income	75	1,495
Interest expense	(180)	(175)
Total transactions with other related parties	419	2,261
Due to other related parties	3,353	2,616
Total due from related entities	43,664	-
Total due to related entities	3,354	2,616

(b) Transactions with key management personnel

Key management personnel, being directors of the Company and those staff reporting directly to the Chief Executive Officer and their immediate relatives, have transacted with the Company during the year as follows:

Debenture investments by key management personnel:

Maximum balance	5,096	5,314
Closing balance	721	1,997

Key management personnel interest expense and compensation is as follows:

Interest expense	73	169
Short-term employee benefits	1,184	1,162
Share-based payments	118	115
Total	1,375	1,446

25 Fair value

The following methods and assumptions were used to estimate the fair value of each class of financial asset and liability.

Finance receivables

The fair value of the Group's finance receivables is calculated using a valuation technique which assumes current market interest rates for loans of a similar nature and term.

The current market rate used to fair value finance receivables with a fixed interest rate is 11.29% (2009: 10.72%). Finance receivables with a floating interest rate are deemed to be at current market rates. The current amount of credit provisioning has been deducted from the fair value calculation of finance receivables as a proxy for future losses. Prepayment rates have not been factored into the fair value calculation as they are deemed not to be material.

Other financial assets and liabilities

The fair value of all other financial assets and liabilities is considered equivalent to their carrying value due to their short term nature.

Derivative items

The fair value of interest rate contracts is based on the quoted market prices of these instruments at balance date (Level 2 under the fair value hierarchy).

Borrowings

The fair value of debenture stock, deposits, bank borrowings and other borrowings is based on the current market interest rates payable by the Group for debt of similar maturities.

	2010		2009	
	Carrying Value \$000	Fair Value \$000	Carrying Value \$000	Fair Value \$000
Financial Assets				
Cash and cash equivalents	86,406	86,406	62,462	62,462
Finance receivables	941,328	951,401	1,136,646	1,142,692
Finance receivables - Securitised	160,853	166,696	157,941	160,367
Derivative financial assets	5,013	5,013	7,704	7,704
Other financial assets	45,671	45,671	680	680
Total assets	1,239,271	1,255,187	1,365,433	1,373,905
Financial Liabilities				
Borrowings	834,381	854,292	1,066,231	1,084,310
Borrowings - Securitised	149,298	149,298	150,728	150,728
Derivative financial liabilities	1,484	1,484	11,602	11,602
Other financial liabilities	97,707	97,707	27,529	27,529
Total liabilities	1,082,870	1,102,781	1,256,090	1,274,169

26 Risk management policies

The Group is committed to the management of risk. The primary financial risks are credit, liquidity and interest rate. The Group's financial risk management strategy is set by the directors. The Group has put in place management structures and information systems to manage individual financial risks, has separated monitoring tasks where feasible and subjects all accounting systems to regular internal and external audits.

27 Credit risk exposure

Credit risk management framework

Credit risk is the risk of financial loss to the Group caused by the failure of a customer to meet their contractual obligations that arise from the Group's lending activities. Credit risk carries the greatest risk of resulting in a material adjustment to the carrying amounts of the Group's assets within the next financial period.

To manage this risk the Risk Committee, which is a sub committee of the Board of Directors (Board), has been delegated the task of overseeing a formal credit risk management strategy. The Risk Committee reviews the Group's credit risk exposures and has wide ranging credit policies to manage all aspects of credit risk.

Reviewing and assessing credit risk

The credit risk management strategies ensure that:

- Credit origination meets agreed levels of credit quality at point of approval.
- Sector and geographical risks are actively managed.
- Industry and product concentrations are actively monitored.
- Maximum total exposure to any one debtor is actively managed.
- Changes to credit risk are actively monitored with regular credit reviews.

Lending standards and processes

The Group has adopted a detailed Credit Policy Framework supported by Lending Standards providing criteria for finance products within each business sector. The combination of the Credit Policy Framework and Lending Standards guides credit assessment, credit risk grading, documentation standards, legal procedures and compliance with regulatory and statutory requirements.

The Risk Committee has authority from the Board for approval of all credit exposures. Lending authority has been individually provided to the Chief Risk Officer, for delegation through the business units under a detailed delegated discretionary lending authority framework. Application of credit discretions in the business operation are monitored through a defined review and hindsight structure. Lending discretions are provided to individual officers with due cognisance of their experience and ability. Larger and higher risk exposures require approval of senior management, ultimately through to the Chief Risk Officer or the Risk Committee of the Board.

Collateral requirements

Although the Group relies primarily on the integrity of borrowers and their ability to make contracted repayments, the Group also requires appropriate collateral for loans. This collateral is usually by way of first charge over the asset financed and generally includes personal guarantees from borrowers and business owners.

Because of the wide nature of the collateral held against loans it is impracticable to provide an accurate estimate of their fair value.

Credit risk rating

The Group's receivables are monitored either by account behaviour or a regular assessment of their credit risk rating based on an objective review of defined risk characteristics. The portfolio risk is regularly refreshed based on current information.

Exposures to credit risk are graded by an internal risk rating mechanism. Grade 1 is the strongest risk grade for undoubted risk. Grade 7 represents the highest risk grade where a loss is probable. Grades 2 to 6 represent ascending steps in management's assessment of risk of exposures. The Company typically finances new loans in risk grades 2 and 3.

The Group classifies finance receivables as Transactional or Relationship. Transactional loans usually relate to financing the acquisition of a single asset. These loans are typically introduced by vendors of the asset financed and are smaller in value than Relationship loans. Transactional loans are risk graded based on arrears status.

Relationship loans relate to transactions where an ongoing and detailed working relationship with the customer has been developed. To manage relationship loans the Company maintains a comprehensive knowledge of the customer's business and performance. Relationship loans are individually risk rated based on loan status, financial information, security and debt servicing ability. Relationship loans in grade 7 are individually assessed for impairment.

27 Credit risk exposure (continued)**(a) Credit impairment provisioning**

Credit impairment provisions are made where events have occurred leading to an expectation of reduced future cash flows from certain receivables. These provisions are made in some cases against an individual loan and in other cases on a collective basis.

Collective provisioning

Relationship loans in grades 4 to 6 and Transactional loans in grades 4 to 7 attract a collective provision. These provisions are made against an individual loan. Collective provisions are also maintained where considered appropriate against a class of loan or those with common risk characteristics. Relationship loans with a risk grade of 1 to 3 may be past due and not attract a provision if the Group has reviewed the risk position and it is deemed to remain sound. Under such circumstances normally an amended credit risk rating will be the consequence.

Collective provisions are assessed with reference to risk profile groupings and historical loss data. Other judgemental factors including economic and credit cycle considerations are also taken into account in determining appropriate loss propensities to be applied. The future credit quality of these portfolios is subject to uncertainties that could cause actual credit losses to differ materially from reported loan impairment provisions. These uncertainties include the wider economic environment, interest rates and their effect on customer spending, unemployment levels, payment behaviour and bankruptcy rates.

In accordance with International Financial Reporting Standards, no provision is applied to loans that are newly written and loans that remain within their contractual terms, except where the Group becomes aware of an event that might alter its view of the risk of a particular deal or group of deals.

Individual provisioning

Specific impairment provisions are made where events have occurred leading to an expectation of reduced future cash flows from certain receivables. For individually significant loans for which the assessed risk grade is considered a "potential loss", an individual assessment is made of an appropriate provision for credit impairment.

Credit impairments are recognised as the difference between the carrying value of the loan and the discounted value of management's best estimate of future cash repayments and proceeds from any security held (discounted at the loan's original effective interest rate). All relevant considerations that have a bearing on the expected future cash flows are taken into account, including the business prospects for the customer, the likely realisable value of collateral, the Group's position relative to other claimants, the reliability of customer information and the likely cost and duration of the work-out process. Subjective judgements are made in this process. Furthermore, judgement can change with time as new information becomes available or as work-out strategies evolve, resulting in revisions to the impairment provision as individual decisions are taken. Changes in judgement could have a material impact on the financial statements.

Individual provisioning in regards to property development lending creates the greatest amount of risk resulting in the possibility of a material adjustment to the carrying amounts of the Group's assets within the next period. Estimating the timing and amount of future cash repayments and proceeds from the realisation of collateral are management's most difficult and subjective judgements. Reduced demand in the current environment has meant that value is difficult to determine. Subjective judgements made by management comprise the time taken for new sales being achieved and the amount received, determining the timing and amount of future cash flows.

Because of the wide nature of the collateral held and the subjective judgements in determining future cash flows on each individually impaired loan, it is impracticable to provide management's assumptions in regards to property receivables as a whole.

Bad debts

Bad debts provided for are written off against individual or collective provisions. Amounts required to bring the provisions to their assessed levels are recognised in profit or loss. Any future recoveries of amounts provided for are taken to profit or loss.

Verification

In addition to regular internal audit activity in regards to credit standards, the Group employs a comprehensive process of hindsighting loans to ensure that credit policies and the quality of credit processes are maintained.

Disclosures in this credit risk exposure note represent the Group's maximum exposure to credit risk.

27 Credit risk exposure (continued)
(a) Credit impairment provisioning (continued)

	Non-securitised		Securitised		Total	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000	2010 \$000	2009 \$000
(i) Provision for impaired assets						
Provision for individually impaired assets						
Opening individual impairment	7,179	3,903	305	-	7,484	3,903
Impairment loss for the year						
- charge for the year	15,426	10,475	118	305	15,544	10,780
- write offs	(3,857)	(5,951)	(57)	-	(3,914)	(5,951)
- effect of discounting	(1,283)	(1,248)	-	-	(1,283)	(1,248)
Closing individual impairment	17,465	7,179	366	305	17,831	7,484
Provision for collectively impaired assets						
Opening collective impairment	4,653	5,699	919	785	5,572	6,484
Impairment loss for the year						
- charge for the year	7,609	1,073	612	1,465	8,221	2,538
- recoveries	290	172	54	11	344	183
- assumed on acquisition of book	2,250	-	-	-	2,250	-
- assumed on amalgamation	-	248	-	-	-	248
- write offs	(3,037)	(2,539)	(833)	(1,342)	(3,870)	(3,881)
Closing collective impairment	11,765	4,653	752	919	12,517	5,572
Total provision for impairment	29,230	11,832	1,118	1,224	30,348	13,056

	Property	Consumer	All other	Total
	\$000	& personal \$000	industries (SME) \$000	\$000
2010				
Provision for individually impaired assets				
Opening individual impairment	1,460	-	6,024	7,484
Impairment loss for the year				
- charge for the year	8,752	7	6,785	15,544
- write offs	(1,138)	-	(2,776)	(3,914)
- effect of discounting	(362)	-	(921)	(1,283)
Closing individual impairment	8,712	7	9,112	17,831
Provision for collectively impaired assets				
Opening collective impairment	-	2,349	3,223	5,572
Impairment loss for the year				
- charge for the year	4,532	1,686	2,003	8,221
- recoveries	-	165	179	344
- assumed on acquisition of book	-	2,250	-	2,250
- write offs	(69)	(2,277)	(1,524)	(3,870)
Closing collective impairment	4,463	4,173	3,881	12,517
Total provision for impairment	13,175	4,180	12,993	30,348

27 Credit risk exposure (continued)	Property	Consumer	All other	Total
(a) Credit impairment provisioning (continued)		& personal	industries	
(i) Provision for impaired assets (continued)			(SME)	
	\$000	\$000	\$000	\$000
2009				
Provision for individually impaired assets				
Opening individual impairment	1,975	-	1,928	3,903
Impairment loss for the year				
- charge for the year *	5,108	-	5,672	10,780
- write offs	(4,866)	-	(1,085)	(5,951)
- effect of discounting	(757)	-	(491)	(1,248)
Closing individual impairment	1,460	-	6,024	7,484
Provision for collectively impaired assets				
Opening collective impairment	2,344	1,338	2,802	6,484
Impairment loss for the year				
- charge for the year *	(2,330)	4,060	808	2,538
- recoveries	-	148	35	183
- assumed on amalgamation	-	248	-	248
- write offs	(14)	(3,445)	(422)	(3,881)
Closing collective impairment	-	2,349	3,223	5,572
Total provision for impairment	1,460	2,349	9,247	13,056

	Non-securitised		Securitised		Total	
	2010	2009	2010	2009	2010	2009
	\$000	\$000	\$000	\$000	\$000	\$000
(ii) Impaired asset expense						
Expense for individually impaired assets	15,426	10,475	118	305	15,544	10,780
Expense for collectively impaired assets	7,609	1,073	612	1,465	8,221	2,538
Total impaired asset expense	23,035	11,548	730	1,770	23,765	13,318
(iii) Individually impaired assets						
Opening	22,778	20,407	687	-	23,465	20,407
Additions	33,048	21,152	224	687	33,272	21,839
Deletions	(13,724)	(18,781)	(366)	-	(14,090)	(18,781)
Closing gross individually impaired assets	42,102	22,778	545	687	42,647	23,465

	Property	Consumer	All other	Total
		& personal	industries	
			(SME)	
	\$000	\$000	\$000	\$000
2010 - Individually impaired assets				
Opening	6,059	-	17,406	23,465
Additions	22,042	15	11,215	33,272
Deletions	(2,995)	-	(11,095)	(14,090)
Closing gross individually impaired assets	25,106	15	17,526	42,647
2009 - Individually impaired assets				
Opening	15,152	-	5,255	20,407
Additions *	6,059	-	15,780	21,839
Deletions	(15,152)	-	(3,629)	(18,781)
Closing gross individually impaired assets	6,059	-	17,406	23,465

* The Company is party to an underwriting deed with PGC to underwrite certain impaired assets up to a maximum amount. In assessing the requirements for individual provisions, the Company had identified loans with a carrying amount of \$175 million for which a notice of a provisional shortfall amount under the underwriting deed was required of \$85 million as at 30 June 2009. The benefit of this underwriting deed was included in the determination of the charge for the year ended 30 June 2009. No loans were underwritten as at 30 June 2010.

27 Credit risk exposure (continued)

(a) Credit impairment provisioning (continued)

	Non-securitised		Securitised		Total	
	2010	2009	2010	2009	2010	2009
	\$000	\$000	\$000	\$000	\$000	\$000
(iv) Restructured assets	3,234	2,805	-	-	3,234	2,805
			Property & personal & personal	Consumer & personal	All other industries (SME)	Total
			\$000	\$000	\$000	\$000
2010						
Restructured assets			-	2,722	512	3,234
2009						
Restructured assets			-	2,141	664	2,805
	Non-securitised		Securitised		Total	
	2010	2009	2010	2009	2010	2009
	\$000	\$000	\$000	\$000	\$000	\$000
(v) Past due but not impaired						
Less than 30 days old	12,514	55,784	2,942	4,389	15,456	60,173
31 and less than 60 days old	31,552	56,164	1,326	1,870	32,878	58,034
61 but less than 90 days old	8,783	41,898	429	2,123	9,212	44,021
More than 90 days old	59,939	118,331	1,434	2,349	61,373	120,680
Total past due but not impaired	112,788	272,177	6,131	10,731	118,919	282,908
			Property & personal & personal	Consumer & personal	All other industries (SME)	Total
			\$000	\$000	\$000	\$000
2010						
Past due but not impaired						
Less than 30 days old			1,229	6,450	7,777	15,456
31 and less than 60 days old			15,690	2,566	14,622	32,878
61 but less than 90 days old			2,702	847	5,663	9,212
More than 90 days old			48,067	3,271	10,035	61,373
Total past due but not impaired			67,688	13,134	38,097	118,919
2009						
Past due but not impaired						
Less than 30 days old			32,823	8,609	18,741	60,173
31 and less than 60 days old			43,736	3,458	10,840	58,034
61 but less than 90 days old			16,414	2,536	25,071	44,021
More than 90 days old			102,310	5,074	13,296	120,680
Total past due but not impaired			195,283	19,677	67,948	282,908

27 Credit risk exposure (continued)

(b) Concentrations of credit risk

(i) By individual counterparties

	Non-securitised		Securitised		Total	
	2010	2009	2010	2009	2010	2009
Number of counterparties						
Excluding cash and cash equivalents						
Individual credit exposures over 10% (as a % of equity):						
10% - 19%	-	5	-	-	-	5
Cash and cash equivalents						
Individual credit exposures over 10% (as a % of equity):						
10% - 19%	1	2	-	-	1	2
20% - 29%	1	-	-	-	1	-

Short term funds held with New Zealand registered international banks.

	Non-securitised		Securitised		Total	
	2010	2009	2010	2009	2010	2009
\$000						
(ii) By industry						
Agricultural, forestry and fishing	88,483	79,026	4,815	15,359	93,298	94,385
Government and public authorities	19,434	22,888	1,496	2,437	20,930	25,325
Financial, investments and insurance	27,058	31,339	1,402	2,685	28,460	34,024
Construction	62,778	69,713	3,060	9,813	65,838	79,526
Transport and storage	85,295	81,208	3,259	7,743	88,554	88,951
Wholesale and retail trade	179,516	161,242	3,800	8,629	183,316	169,871
Hospitality and tourism	37,133	53,028	1,158	3,120	38,291	56,148
Manufacturing and printing	40,048	39,761	2,027	4,083	42,075	43,844
Property	149,917	365,987	113	387	150,030	366,374
Consumer & personal	251,666	232,454	139,723	103,685	391,389	336,139
Total financial receivables	941,328	1,136,646	160,853	157,941	1,102,181	1,294,587

(iii) By geographic region

Auckland	359,143	524,516	64,273	59,640	423,416	584,156
Wellington	91,795	120,545	11,567	8,342	103,362	128,887
Rest of North Island	291,413	284,173	44,138	40,614	335,551	324,787
Canterbury	95,753	112,168	25,928	27,497	121,681	139,665
Rest of South Island	103,224	95,244	14,947	21,848	118,171	117,092
Total financial receivables	941,328	1,136,646	160,853	157,941	1,102,181	1,294,587

(c) Maximum exposure to credit risk by internal risk grading

Grade 1 - Undoubted	78	146	36	-	114	146
Grade 2 - Strong *	41,104	272,238	364	798	41,468	273,036
Grade 3 - Sound	699,657	767,344	151,667	152,306	851,324	919,650
Grade 4 - Satisfactory	104,937	57,828	4,060	4,024	108,997	61,852
Grade 5 - Uncertain	51,107	20,160	2,638	663	53,745	20,823
Grade 6 - At risk	17,516	2,758	1,518	68	19,034	2,826
Grade 7 - Loss	26,929	16,172	570	82	27,499	16,254
Total maximum exposure to credit risk	941,328	1,136,646	160,853	157,941	1,102,181	1,294,587

27 Credit risk exposure (continued)

(c) Maximum exposure to credit risk by internal risk grading (continued)

	Property	Consumer	All other	Total
	& personal	& personal	industries	
			(SME)	
	\$000	\$000	\$000	\$000
2010				
Grade 1 - Undoubted	-	52	62	114
Grade 2 - Strong	25,200	892	15,376	41,468
Grade 3 - Sound	34,029	389,424	427,871	851,324
Grade 4 - Satisfactory	48,229	551	60,217	108,997
Grade 5 - Uncertain	17,268	384	36,093	53,745
Grade 6 - At risk	9,085	73	9,876	19,034
Grade 7 - Loss	16,219	13	11,267	27,499
Total maximum exposure to credit risk	150,030	391,389	560,762	1,102,181
2009				
Grade 1 - Undoubted	-	-	146	146
Grade 2 - Strong *	256,919	122	15,995	273,036
Grade 3 - Sound	93,828	334,601	491,221	919,650
Grade 4 - Satisfactory	10,512	1,220	50,120	61,852
Grade 5 - Uncertain	294	161	20,368	20,823
Grade 6 - At risk	222	35	2,569	2,826
Grade 7 - Loss	4,599	-	11,655	16,254
Total maximum exposure to credit risk	366,374	336,139	592,074	1,294,587

Within the property industry above, comprising development and investment properties, as at 30 June 2010, \$82m (2009: \$240m) of the Company's property loans were secured by a first ranking mortgage, and \$68m (2009: \$126m) by a second ranking mortgage or lower ranking security.

* The Company is party to an underwriting deed with PGC to underwrite certain impaired assets up to a maximum amount. In assessing the requirements for individual provisions, the Company had identified loans with a carrying amount of \$175 million for which a notice of a provisional shortfall amount under the underwriting deed was required of \$85 million as at 30 June 2009. The benefit of this underwriting deed was included in the determination of the charge for the year ended 30 June 2009. No loans were underwritten as at 30 June 2010.

	Non-securitised		Securitised		Total	
	2010	2009	2010	2009	2010	2009
	\$000	\$000	\$000	\$000	\$000	\$000
(d) Commitments to extend credit						
Undrawn facilities available to customers	70,495	74,570	-	-	70,495	74,570
Conditional commitments to fund at future dates	18,499	33,996	-	-	18,499	33,996

28 Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulty in raising funds at short notice to meet its commitments and arises from any mismatch of the maturity of financial assets and liabilities. Responsibility for liquidity management is delegated to the Asset and Liability Committee (ALCO).

The Group manages liquidity and funding risk by:

- daily liquidity reporting and scenario analysis to quantify the Group's current and forecast position.
- maintaining a diverse and stable funding base.
- retaining borrowing facilities committed to the Group by registered banks.
- holding a portfolio of liquid assets.
- ensuring the liquidity management framework is compliant with local regulatory requirements.

28 Liquidity risk (continued)

Contractual liquidity profile of financial assets and liabilities

	On Demand \$000	0-6 Months \$000	6-12 Months \$000	1-2 Years \$000	2-5 Years \$000	5+ Years \$000	Total \$000
2010							
Financial assets							
Finance receivables	-	353,889	185,061	256,124	327,552	223	1,122,849
Finance receivables - Securitised	-	47,104	40,001	58,225	47,011	-	192,341
Derivative financial assets	5,013	-	-	-	-	-	5,013
Other financial assets	67,822	34,255	30,000	-	-	-	132,077
Total financial assets	72,835	435,248	255,062	314,349	374,563	223	1,452,280
Financial liabilities							
Borrowings	62,899	337,640	206,076	152,395	143,151	-	902,161
Borrowings - Securitised	-	3,120	149,628	-	-	-	152,748
Derivative financial liabilities	1,484	-	-	-	-	-	1,484
Other financial liabilities	1,342	96,365	-	-	-	-	97,707
Total financial liabilities	65,725	437,125	355,704	152,395	143,151	-	1,154,100
Net financial assets	7,110	(1,877)	(100,642)	161,954	231,412	223	298,180
Unrecognised loan commitments	70,495	-	-	-	-	-	70,495
Undrawn committed bank facilities	195,250	-	-	-	-	-	195,250
The undrawn committed bank facilities totalling \$195.3m are available to be drawn down on demand. To the extent drawn, \$195.3m is contractually repayable in 6-12 months time upon facility expiry.							
2009							
Financial assets							
Finance receivables	-	515,981	195,054	245,804	327,617	9,134	1,293,590
Finance receivables - Securitised	-	54,136	44,799	56,050	28,960	-	183,945
Derivative financial assets	7,704	-	-	-	-	-	7,704
Other financial assets	62,462	680	-	-	-	-	63,142
Total financial assets	70,166	570,797	239,853	301,854	356,577	9,134	1,548,381
Financial liabilities							
Borrowings	38,012	364,410	328,176	177,515	225,569	-	1,133,682
Borrowings - Securitised	-	6,418	151,422	-	-	-	157,840
Derivative financial liabilities	11,602	-	-	-	-	-	11,602
Other financial liabilities	868	29,092	645	562	106	-	31,273
Total financial liabilities	50,482	399,920	480,243	178,077	225,675	-	1,334,397
Net financial assets	19,684	170,877	(240,390)	123,777	130,902	9,134	213,984
Unrecognised loan commitments	74,570	-	-	-	-	-	74,570
Undrawn committed bank facilities	185,250	-	-	-	-	-	185,250
The undrawn committed bank facilities totalling \$185.3m are available to be drawn down on demand. To the extent drawn, \$25.3m is contractually repayable on demand, \$88.0m repayable in 6-12 months time with the remainder, \$72.0m repayable in 6-12 months time upon facility expiry.							
The tables above show the cash flows on the Group's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity.							
In the tables above, total financial assets do not include unrecognised loan commitments and total financial liabilities do not include undrawn committed bank facilities.							

28 Liquidity risk (continued)

Expected maturity profile of financial assets and liabilities

	On Demand \$000	0-6 Months \$000	6-12 Months \$000	1-2 Years \$000	2-5 Years \$000	5+ Years \$000	Total \$000
2010							
Financial assets							
Finance receivables	-	320,448	246,655	310,265	262,075	-	1,139,443
Finance receivables - Securitised	-	47,104	40,001	58,225	47,011	-	192,341
Derivative financial assets	5,013	-	-	-	-	-	5,013
Other financial assets	67,822	34,255	30,000	-	-	-	132,077
Total financial assets	72,835	401,807	316,656	368,490	309,086	-	1,468,874
Financial liabilities							
Borrowings	25,160	264,809	145,749	254,617	220,261	641	911,237
Borrowings - Securitised	-	3,120	149,628	-	-	-	152,748
Derivative financial liabilities	1,484	-	-	-	-	-	1,484
Other financial liabilities	1,342	96,365	-	-	-	-	97,707
Total financial liabilities	27,986	364,294	295,377	254,617	220,261	641	1,163,176
Net financial assets	44,849	37,513	21,279	113,873	88,825	(641)	305,698
Unrecognised loan commitments	70,495	-	-	-	-	-	70,495
Undrawn committed bank facilities	195,250	-	-	-	-	-	195,250
2009							
Financial assets							
Finance receivables	-	380,198	314,933	310,785	278,953	-	1,284,869
Finance receivables - Securitised	-	60,983	45,182	49,455	20,577	-	176,197
Derivative financial assets	7,704	-	-	-	-	-	7,704
Other financial assets	62,462	680	-	-	-	-	63,142
Total financial assets	70,166	441,861	360,115	360,240	299,530	-	1,531,912
Financial liabilities							
Borrowings	38,880	192,399	237,355	285,005	392,208	50,039	1,195,886
Borrowings - Securitised	-	6,418	151,422	-	-	-	157,840
Derivative financial liabilities	11,602	-	-	-	-	-	11,602
Other financial liabilities	868	29,092	645	562	106	-	31,273
Total financial liabilities	51,350	227,909	389,422	285,567	392,314	50,039	1,396,601
Net financial assets	18,816	213,952	(29,307)	74,673	(92,784)	(50,039)	135,311
Unrecognised loan commitments	74,570	-	-	-	-	-	74,570
Undrawn committed bank facilities	185,250	-	-	-	-	-	185,250

The tables above shows management's expected maturities of existing financial assets and financial liabilities.

Expected maturities of financial assets are based on management's best estimate having regard to current market conditions and past experience. Historical debenture reinvestment levels have been applied to debenture borrowings. Other financial liabilities reflect contractual maturities.

The above does not reflect a forward looking view of how the Company expects actual financial assets and liabilities to perform in the future, as the above does not include new lending and borrowing.

29 Interest rate risk

Interest rate risk is the risk that market interest rates will change and impact on the Group's financial results by affecting the margin between interest earning assets and interest bearing liabilities. The Group monitors market interest rates on a daily basis and regularly reviews interest rate exposure. Interest rate risk is mitigated by management's frequent monitoring of the interest rate repricing profiles of finance borrowings and finance receivables and where appropriate the establishment of derivative instruments.

Contractual Repricing Analysis

The interest rate risk profile of financial assets and liabilities that follows has been prepared on the basis of maturity or next repricing date, whichever is earlier.

	Effective Int Rate %	0-6 Months \$000	6-12 Months \$000	1-2 Years \$000	2-5 Years \$000	Total \$000
2010						
Financial assets						
Cash and cash equivalents	3.01%	86,406	-	-	-	86,406
Finance receivables	10.85%	398,059	201,879	230,067	111,323	941,328
Finance receivables - Securitised	11.66%	39,392	33,453	48,693	39,315	160,853
Due from related parties	13.55%	13,664	30,000	-	-	43,664
Other financial assets	-	2,007	-	-	-	2,007
Total financial assets		539,528	265,332	278,760	150,638	1,234,258
Financial liabilities						
Borrowings	7.79%	379,801	185,346	133,931	135,303	834,381
Borrowings - Securitised	4.19%	149,298	-	-	-	149,298
Other financial liabilities	-	99,191	-	-	-	99,191
Total financial liabilities		628,290	185,346	133,931	135,303	1,082,870
Effect of derivatives held for risk management		46,020	(32,120)	(49,580)	35,680	-
Net financial assets		(42,742)	47,866	95,249	51,015	151,388
2009						
Financial assets						
Cash and cash equivalents	3.65%	62,462	-	-	-	62,462
Finance receivables	11.75%	415,121	280,876	262,958	177,691	1,136,646
Finance receivables - Securitised	11.80%	46,484	38,466	48,126	24,865	157,941
Other financial assets	-	680	-	-	-	680
Total financial assets		524,747	319,342	311,084	202,556	1,357,729
Financial liabilities						
Borrowings	7.50%	521,257	246,336	79,185	219,453	1,066,231
Borrowings - Securitised	3.97%	150,728	-	-	-	150,728
Other financial liabilities	-	27,529	-	-	-	27,529
Total financial liabilities		699,514	246,336	79,185	219,453	1,244,488
Effect of derivatives held for risk management		93,620	(81,640)	(50,460)	38,480	-
Net financial assets		(81,147)	(8,634)	181,439	21,583	113,241

The tables above illustrate the periods in which the cash flows from interest rate swaps are expected to occur and affect profit or loss.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non standard interest rate scenarios. Standard scenarios which are considered on a monthly basis include a 100 basis point parallel fall or rise in the yield curve.

There is no material impact on profit or loss or on other comprehensive income in terms of a fair value change from movements in market interest rates. Further there is no material cash flow impact on the Statement of Cash Flows from a 100 basis point change in interest rates.

	2010	2009
	\$000	\$000
30 Contingent liabilities and commitments		
Letters of credit, guarantees and performance bonds	2,767	8,206
Total contingent liabilities	2,767	8,206

31 Staff share ownership arrangements

In the year, there were no shares issued to key management personnel by PGC (2009: 65,912 shares at \$3.57 per share) and no shares were transferred by the Trustees to staff at the end of the restrictive period (2009: 35,000).

The total expense recognised in the year was \$127,869 (2009: \$115,246).

32 Amalgamation

On 30 April 2009 Nissan Finance New Zealand Limited was amalgamated with the Company, with the Company continuing as the amalgamated company.

33 Subsequent events

There have been no material events subsequent to balance date that would affect the interpretation of the financial statements or the performance of the Group.



Audit report

To the shareholder of MARAC Finance Limited

We have audited the financial statements on pages 10 to 38. The financial statements provide information about the past financial performance and financial position of MARAC Finance Limited (the 'Company') and Group (collectively known as the 'Group') as at 30 June 2010. This information is stated in accordance with the accounting policies set out on pages 14 to 18.

Directors' responsibilities

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

Auditor's responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the Directors and report 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:

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

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain 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.

Our firm has also provided other audit related services to the Group. Subject to certain restrictions, partners and employees of our firm may also deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. These matters have not impaired our independence as auditor of the Group. The firm has no other relationship with, or interest in, the Group.



Unqualified opinion

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

In our opinion:

- proper accounting records have been kept by the Group as far as appears from our examination of those records;
- the financial statements on pages 10 to 38:
 - comply with New Zealand generally accepted accounting practice;
 - give a true and fair view of the financial position of the Group as at 30 June 2010 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 26 August 2010 and our unqualified opinion is expressed as at that date.

A handwritten signature in black ink, appearing to read 'KPMG'.

Auckland

Statutory Disclosures

DISCLOSURES OF INTERESTS

Specific Disclosures

The following are the disclosures of interest given by the directors.

B R Irvine

Chairman and shareholder

- Pyne Gould Corporation Limited

Director

- PGG Wrightson Limited
- Market Gardeners Limited
- Christchurch City Holdings Limited
- Godfrey Hirst (NZ) Limited
- House of Travel Holdings Limited
- Rakon Limited
- Skope Limited
- Scenic Circle Limited
- Retail Adventures Pty Limited

Trustee

- Christchurch Art Gallery Trust
- Christchurch Symphony Trust

J K Greenslade

Non-Independent Director

Director and shareholder

- Pyne Gould Corporation Limited
- Provisional Tax Finance Limited

E J Harvey

Director and shareholder

- Pomare Investments Limited

Director

- Kathmandu Holdings Limited
- DNZ Property Fund Limited
- Port Otago Limited
- New Zealand Opera Limited

Shareholder

- PGG Wrightson Limited

B W Mogridge

Director and shareholder

- Pyne Gould Corporation Limited
- Mainfreight Limited
- Mogridge & Associates Limited
- Rakon Limited
- Trio Group Limited
- Paragon Limited

Director

- BUPA Care NZ Limited

Vice Chairman

- UBS

Trustee

- Starship Foundation
- Waitakere Enterprises

M A Smith

Director

- Christchurch Arts Festival Trust
- Medical Assurance Society

General Disclosure

All directors have provided a general notice that they may from time to time undertake personal business transactions with the Company, including placing funds on deposit, borrowing, or utilising the Company's services. All such transactions are carried out in accordance with the Company's normal business criteria for those types of transactions.

Information Used by Directors

No notices were received from directors of the Company requesting to disclose or use Company information received in their capacity as directors which would not otherwise have been available to them.

Indemnification and Insurance of Directors and Officers

The Company has given indemnities to and has arranged insurance for directors of the Company to indemnify and insure directors against liability and costs for actions undertaken by them in the course of their duties to the extent permitted by the Companies Act 1993. The cost of the insurance premiums to the Company for the year was \$3,031.

MARAC Finance Limited Secured Bonds held by Directors

Secured Bonds issued by MARAC Finance Limited in which directors and associated persons held a relevant interest as at 30 June 2010.

Secured Bondholder	2010		2009	
	Director	Associated Persons	Director	Associated Persons
B W Mogridge Beneficial	-	150,000	-	150,000
R F Elworthy Beneficial	-	-	100,000	-
S R Maling Beneficial	-	-	-	15,000
S C Montgomery Beneficial	-	-	-	250,000

RF Elworthy, SR Maling and SC Montgomery ceased to be directors during the 2010 year.

Remuneration of Directors

The total remuneration of the independent directors who held office in the Company during the year ended 30 June 2010 was as follows:

MA Smith \$29,863

EJ Harvey \$37,329

The non independent directors are paid by Pyne Gould Corporation Limited.

EXECUTIVE EMPLOYEES' REMUNERATION

The number of employees of the Company, (other than directors, and senior executives who are employed by PGC), who received remuneration, including non-cash benefits, in excess of \$100,000 is set out in the remuneration bands detailed below.

Remuneration	Number
\$100,000 to \$110,000	6
\$110,000 to \$120,000	4
\$120,000 to \$130,000	9
\$130,000 to \$140,000	4
\$140,000 to \$150,000	2
\$150,000 to \$160,000	2
\$160,000 to \$170,000	3
\$170,000 to \$180,000	3
\$190,000 to \$200,000	1
\$210,000 to \$220,000	1
\$220,000 to \$230,000	1
\$340,000 to \$350,000	1
\$400,000 to \$410,000	1

DONATIONS

The Company made no donations during the year.

CREDIT RATING

The Company and the Secured Bonds are rated **BB+ (Outlook Stable/CreditWatch Positive)** by Standard and Poor's, as at 17 September 2010.

Bondholder Information

BONDHOLDER INFORMATION AS AT 31 AUGUST 2010

Size of Secured Bondholdings	Number of Bondholders	% of Issued Secured Bonds
\$1 – \$1,000	0	0.00%
\$1,001 – \$5,000	213	1.02%
\$5,001 – \$10,000	531	4.95%
\$10,001 – \$50,000	1,257	33.35%
\$50,001 – \$100,000	177	14.09%
\$100,001 and over	73	46.59%
	2,251	100.00%

Domicile of Secured Bondholders

New Zealand	1,198	97.64%
Overseas	53	2.36%
	2,251	100.00%

Twenty largest Secured Bondholders

	Size of Secured Bondholding	% of Issued Secured Bonds
Forsyth Barr Custodians Limited	\$6,723,000	6.45%
ANZ Nominees Limited - NZCSD	\$6,181,000	5.93%
Forsyth Barr Custodians Limited	\$5,520,000	5.30%
NZPT Custodians (Grosvenor) Limited - NZCSD	\$3,239,000	3.11%
FNZ Custodians Limited	\$3,015,000	2.89%
Presbyterian Support Services (South Canterbury) Incorporated	\$2,000,000	1.92%
Leveraged Equities Finance Limited	\$1,700,000	1.63%
Investment Custodial Services Limited	\$1,227,000	1.18%
Forsyth Barr Custodians Limited	\$1,161,000	1.11%
Graham Carr (NZ) Limited	\$1,000,000	0.96%
Gavin Leslie Hall	\$925,000	0.89%
Forsyth Barr Custodians Limited	\$730,000	0.70%
Forsyth Barr Custodians Limited	\$547,000	0.53%
Maarten Stolp & Albertha Stolp & Whitehouse Eleven Trustees Limited	\$507,000	0.49%
Robin MacDonald Smith	\$500,000	0.48%
BR & MM Girvan Limited	\$500,000	0.48%
Stanley Thomas Weir & Eunice Kathleen Weir	\$500,000	0.48%
David Leslie Julius Rutherford & Elizabeth Ann Rutherford	\$500,000	0.48%
Bob Henry Supermarkets Limited	\$500,000	0.48%
PGG Wrightson Employee Benefits Plan Limited	\$500,000	0.48%
	\$37,475,000	35.97%

Directory

Directors	B R Irvine, Chairman J K Greenslade E J Harvey B W Mogridge M A Smith	Registered Office	MARAC House 35 Teed Street, Newmarket, Auckland 1023 PO Box 9919, Auckland 1149 Ph 09-520 0097 Fax 09-520 3709 E info@marac.co.nz W www.marac.co.nz
Auditors	KPMG KPMG Centre, 18 Viaduct Harbour Avenue, Auckland 1010 Ph 04-382 8800	Management	Jeff Greenslade <i>Chief Executive Officer</i> Sean Kam <i>Chief Financial Officer</i> Craig Stephen <i>Chief Investment Officer</i> Michael Jones <i>General Counsel</i> Alan Williams <i>Group Head of Product & Distribution Development</i> Mark Mountcastle <i>Chief Risk Officer</i> David Battersby <i>General Manager – Commercial</i> Chris Flood <i>General Manager – Consumer</i> Andrew Ford <i>Retail Investment Manager</i> Stuart Mainwaring <i>Funding Manager</i>
Solicitors	Lane Neave 119 Armagh Street, Christchurch 8011 Ph 03-379 3720 Bell Gully Vero Centre, 48 Shortland Street, Auckland 1010 Ph 09-916 8800		
Trustee	The New Zealand Guardian Trust Co. Ltd 48 Shortland Street, Auckland 1010 Ph 09-377 7300		
Securities Registrar - Secured Bonds	Computershare Investor Services Ltd Private Bag 92119, Auckland 1142 Ph 09-488 8777 Fax 09-488 8787		

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