mtf finance

Annual Report

YEAR ENDED 30 SEPTEMBER 2021

Helping 53,835 New Zealanders to do more

39,790
Passenger Vehicles

7,867
Utility Vehicles

6,097
Motorcycles

3,165
Vans

1,388
Caravans

1,184
Boats

1,141
Machines

1,024
Trucks

906
Trailers

722
Jet Skis

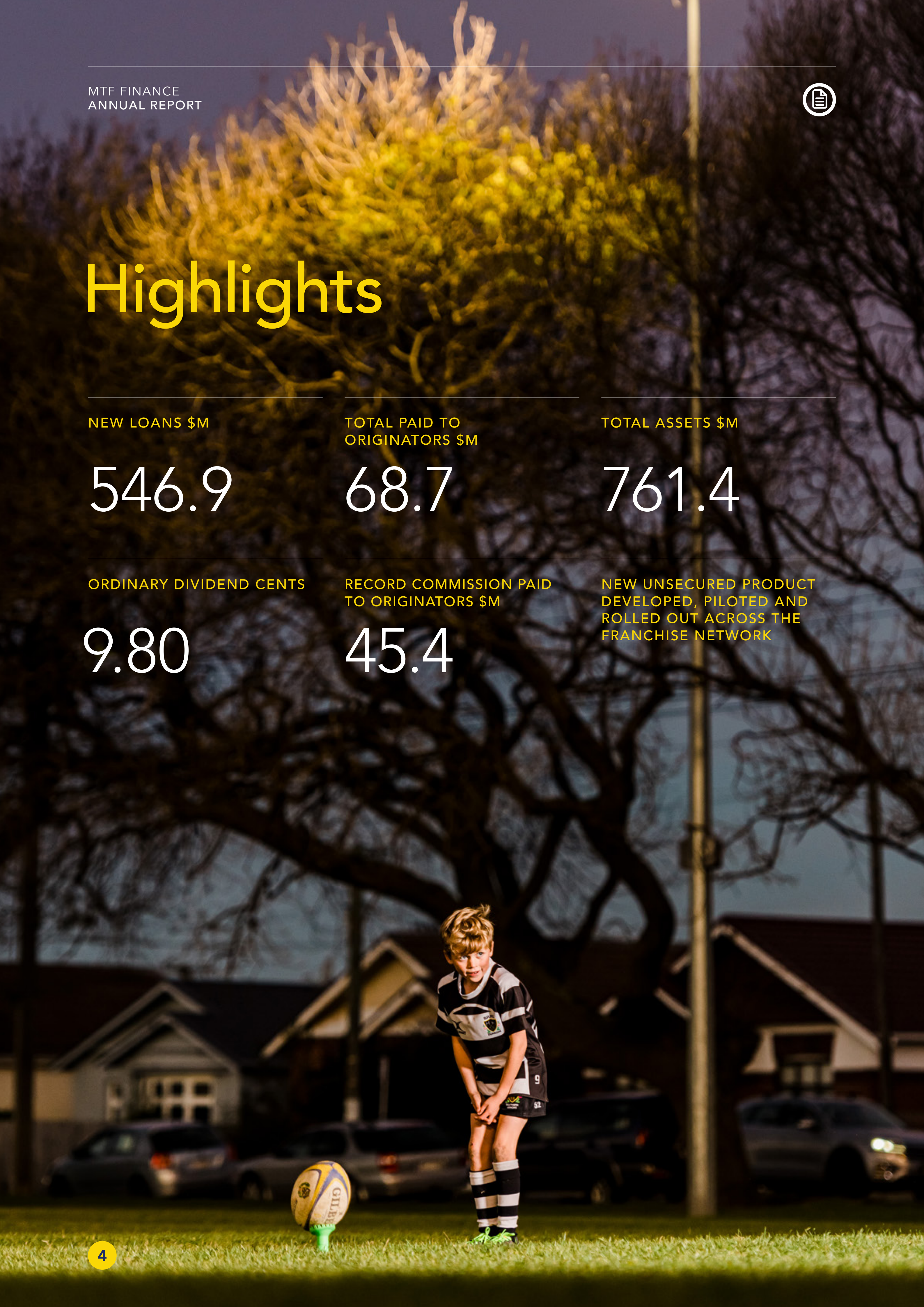
401
Buses

55
Tractors

5
Aircraft

Contents


STONEY CREEK



Highlights

NEW LOANS $M	546.9
TOTAL PAID TO ORIGINATORS $M	68.7
TOTAL ASSETS $M	761.4
ORDINARY DIVIDEND CENTS	9.80
RECORD COMMISSION PAID TO ORIGINATORS $M	45.4

NEW UNSECURED PRODUCT DEVELOPED, PILOTED AND ROLLED OUT ACROSS THE FRANCHISE NETWORK

	2021 $m	2020 $m
Operating result		
New loans	546.9	488.5
Profit after tax	8.0	5.0
Underlying profit after tax [1]	7.5	7.5
Total assets	761.4	753.8
Total paid to originators	68.7	65.2
Performance indicators		
Net interest income/average finance receivables	2.9%	2.9%
Expense/average total assets under management [2]	2.7%	2.6%
Impaired asset expense/average finance receivables	0.02%	0.04%
Credit risk allowance/average finance receivables	0.65%	0.93%
Capital percentage	12.3%	12.9%
Shareholder value (per ordinary share)		
Adjusted net asset backing [3]	$2.67	$2.54
Underlying profit after tax [4]	$0.32	$0.28
Dividend for the year (net)	$0.0980	$0.0711

[1] Underlying profit after tax (UPAT) removes the volatility of unrealised fair value movements and adjustment to credit risk assessment, to provide a more consistent measure of company performance.

	2021 $000	2020 $000
Profit after tax	8,001	4,960
Adjustments:		
Finance receivables at fair value (Note 7)	12,383	4,394
Interest rate swap derivatives at fair value (Note 7)	(13,148)	(862)
Total adjustments before tax	(765)	3,532
Tax on adjustments	214	(989)
Underlying profit after tax (UPAT)	7,449	7,503

[2] Expense excludes bad debt

[3] Adjusted net assets comprises net assets less perpetual preference shares

[4] Excludes dividends paid to perpetual preference shareholders

Overview

As we commenced the 2021 financial year, great uncertainty existed with respect to how the COVID-19 pandemic would play out, both globally and domestically, and the impact this would have on our customers and the wider MTF Finance business. We were particularly focused on the forecast economic pressures and the significant exposure to a potential sudden degradation in credit risk.

Fast forward to the present, any such predictions have failed to eventuate. In fact, many parts of the economy have shown remarkable resilience in the face of the maturing pandemic. Even the arrival of the Delta strain of the COVID-19 virus in New Zealand and subsequent lockdowns failed to have a material financial impact on our business.

While COVID-19 continues to provide uncertainty, the current year credit performance and market outlook do not signal widespread deterioration. This has allowed MTF Finance to not only return the vast majority of commission that was withheld in 2020 to originators, but also release some of the additional COVID-19 provision set aside in the prior year.

Realising this pandemic era we are living in as the new norm, MTF Finance has rallied to not just focus on a response to the virus, but also implement new initiatives to further develop and progress our business strategy. New products have been developed, piloted and rolled out in record time as the business starts to realise the benefits and investment of moving to an agile way of working in recent years. Alignment of interests between originators and shareholders has started to be addressed with two ordinary share buybacks executed this year.

On top of this, impending amendments to the Credit Contracts and Consumer Finance Act 2003 (CCCFA) have created significant additional work further straining resource in order to meet our regulatory obligations.

The Commerce Commission released a review into motor vehicle finance and add-on products in November. Overall the report did not find systemic or widespread issues of mis-selling of these risk protection products, while reminding lenders of their increased obligations with the upcoming amendments.

Our top priority continues to focus on supporting our originators, our customers, our staff, and the communities in which we operate, and this is reflected in everything that we do.

Financial performance

Profit after tax has increased 61.3% to $8.0m on the back of an unrealised gain on fair value of financial instruments. The proactive measures taken by MTF Finance last year to address uncertainty and forecast increase in credit risk led to an increase in the credit risk allowance. Due to the strong performance in the current period, record low unemployment and our rehabilitation process working to help originators meet their recourse obligations, MTF Finance is able to release some of last year's COVID-19 credit risk allowance in the 2021 year.

Commission paid to shareholder originators increased 6.2% to a record high for the company of $45.4m.

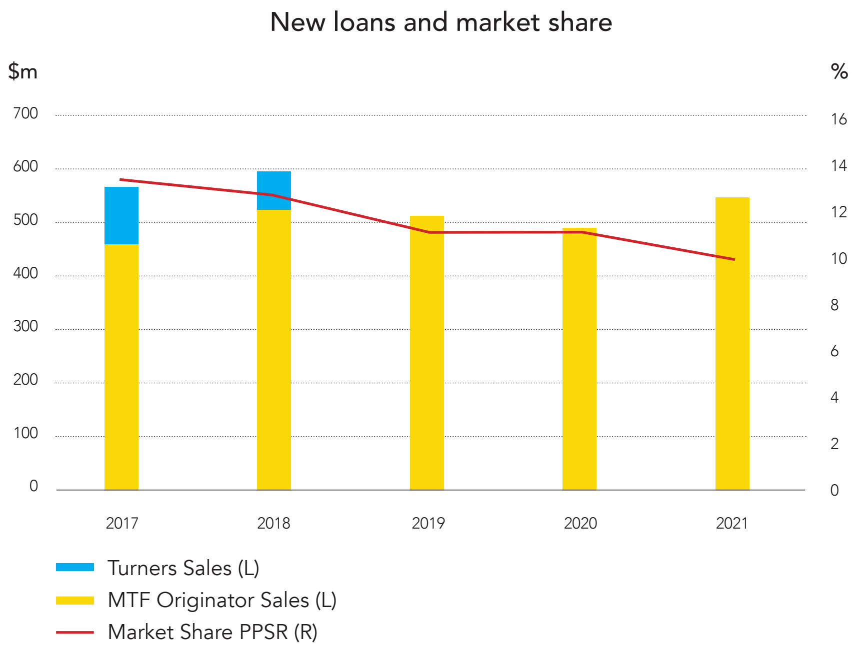
Underlying profit after tax, which removes the volatility of these provision movements, and provides a more consistent measure of company performance, held steady with last year totalling $7.45m (30 September 2020: $7.50m).

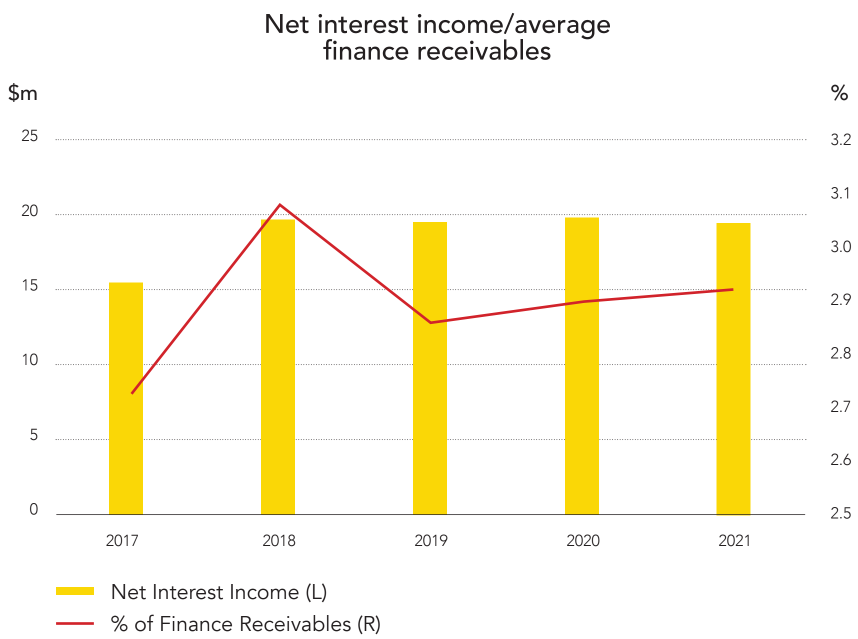
Net interest income, as a percentage of average finance receivables, of 2.92% (30 September 2020: 2.88%) is an improvement on last year as the book recovers from the initial shock of the COVID-19 pandemic arrival in New Zealand and the first nationwide lockdown grinding sales to a halt as the business moved rapidly to offer a remote digital onboarding solution.

Total amounts paid to shareholder originators, including commission, fees and payment waiver, increased 5.50% to $68.7m (2020: $65.1m). This continues to show the resilience of the MTF Finance business model and focus of the company to fight hard to protect our originators' earnings, as we understand the reliance on MTF Finance to provide cash flow certainty to allow originators to continue operations.

We have achieved this by continuing to challenge our operating budget following tightening last year as a direct response to the pandemic.

$547m in sales for the year
(a increase of 12% from $489m in 2020)


New loans and market share
$m
%
700
600
500
400
300
200
100
0
16
14
12
10
8
6
4
2
0
2017
2018
2019
2020
2021
Turners Sales (L)
MTF Originator Sales (L)
Market Share PPSR (R)


Net interest income/average finance receivables
$m
%
25
20
15
10
5
0
3.2
3.1
3.0
2.9
2.8
2.7
2.6
2.5
2017
2018
2019
2020
2021
Net Interest Income (L)
% of Finance Receivables (R)

Financial position and liquidity

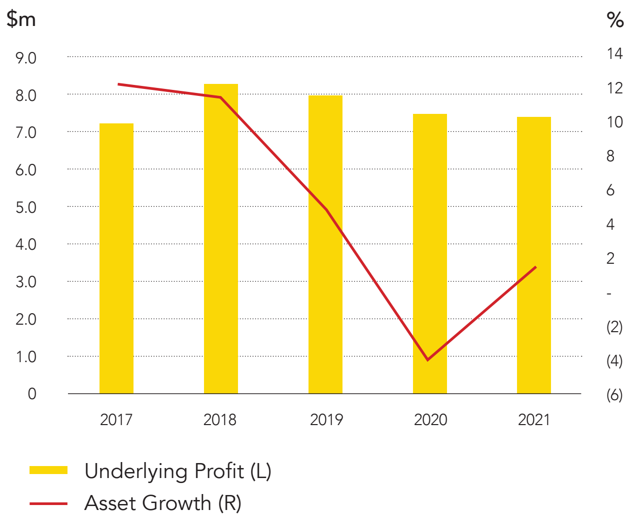
The company's balance sheet has a capital ratio of 12.3%, and continues to be in a very strong position to face any downturn in economic activity and support originators through the prolonged pandemic.

Finance receivables, continue the gradual bounce back from the decline caused by the initial alert level lockdown in 2020, in the face of heightened competition across the industry and nationwide stock shortages driving up the average loan size.

Funding facilities have sufficient capacity to support existing borrowing and fund growth with $139.7m undrawn at year end.

In June we completed our sixth securitisation transaction (the MTF Pantera Trust 2021) with the issue of $280m of medium-term notes to institutional investors, consistently accommodating our core base of supporters, while introducing several new investors to our programme. The success of our capital markets programme led to unprecedented demand in both New Zealand and abroad resulting in the tightest pricing to date, highlighting the strength of our business model and confidence of our investor partners.

Underlying profit and asset growth



Assets under management

Credit quality

Our COVID-19 affected loan rehabilitation programme has been extremely successful in assisting our customers through the impact the pandemic has presented. This is evidenced by the lack of COVID-19 bad debt incurred and low arrears percentages seen during the year, along with strong customer feedback appreciating our approach and the assistance we were able to provide, when it was most needed.

As at the date of this report, 31+ day arrears, excluding COVID effected loans, stood at 0.58% (2020: 0.61%) and continue to trend as low as they ever have.

When we take into account all lending, the 31+ day arrears is sitting at 1.3% (30 September 2020: 1.9%), still reflecting a low level.

Our strategic focus

We continue to monitor and manage the impacts of COVID-19 on the business through our now well-established rehabilitation programme.

On top of this, the Board and Management have continued to develop and refine the strategic direction of the company and have made significant progress during the year on the execution of this.

We talked last year around partnering with our originators to develop products and services that are attractive to their customers. An unsecured lending product for our franchise network has been developed, piloted and is in the stages of roll out to the wider network. Following this, a non-recourse product for our dealer network has been developed and is in the pilot stage with roll out expected early 2022. Dealers will have the option to run either a recourse or non-recourse facility.

The speed with which these products have been developed, tested, piloted, refined (and in the case of the unsecured product rolled out), is testament to the investment and adoption of an agile way or working the business has committed to in recent years.

The Board signalled at the AGM this year a desire to better align ordinary shareholder interests with those of originators, to the benefit of all parties, as non-transacting originators no longer contribute to the growth of the business or generate returns for shareholders, but have contributed capital which MTF Finance is able to utilise, albeit at a higher cost.

This highlights a difficult situation that the business has started to address this year, managing those misaligned shareholder interests, overlayed with our intention to address legacy technology debt, through a significant upgrade of our IT systems over the next two to three years.

The required spend may have material effect on dividends in the near future and as such, the Board made two offers to dry shareholders to exit. The first offer was to Turners Finance for the repurchase of their entire holding of 1.5m shares (at $2.31 per share), which was accepted. The second offer to all other dry shareholders was capped at $5m (or 2.2m shares at $2.31 per share) which was fully subscribed. The Board will review further capital activity during the following year.

Digital transformation continues to underpin our strategy. Addressing the legacy technology debt and digitising onboarding and disclosure will be a heavy focus. Investing in our digital capability by continuing to work with our originators to create a seamless customer onboarding experience that is humanised and adaptable to meet the needs of our future customers remains an essential task. The Board established an IT Steering Committee to lead this crucial piece of work.

Our shareholders

Return on ordinary equity, using underlying profit after tax, was 12.3%, up from 11.1% for the same period last year.

After suspending interim dividends on ordinary shares as a COVID-19 precaution last year, the Board reinstated them for 2021. On 18 November 2021, the Board approved a final dividend of 2.83 cents per ordinary share (excluding treasury shares held by the Company) for payment 30 November 2021. Total distribution relevant to the period will be 9.80 cents (2020: 7.11 cents per share) or $2.0m (2020: $1.6m).

Perpetual preference share dividends totalling $0.7m (30 September 2020: $1.0m) were paid for the period. The dividend rate is set annually at 2.40% over the one-year swap rate, and was reset at 2.52% (2020: 3.42%) on 1 October 2020, for the twelve months to 30 September 2021.

While this is an improvement from 2020, the distribution is down on 14.51 cents realised in 2019 and supports signalling by the Board this year of an expectation in reduced dividends as investment in the company is made in line with the strategic focus mentioned earlier.

Board changes

As signalled last year, Stephen Higgs retired from the Board in December. Stephen made a substantial contribution to MTF Finance since his arrival in 2006, notably helping to guide the business though the GFC and more recently, the first year of the COVID-19 pandemic but also launching the franchise channel offering in 2008. We would like to take this opportunity to formally thank Stephen for his service to the company and wish him the very best for the future.

Melanie Templeton was appointed as an independent director on Stephen's retirement. Her background includes technology, finance, risk, and commercial skills which have added significant value to the Board.

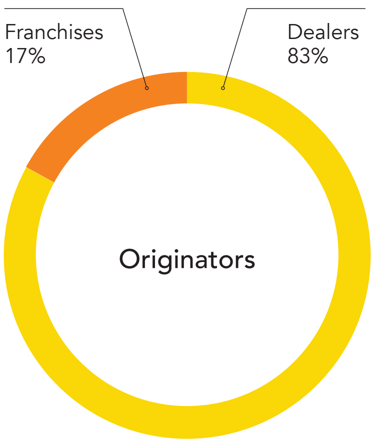
Mark Darrow was subsequently appointed as Chair.

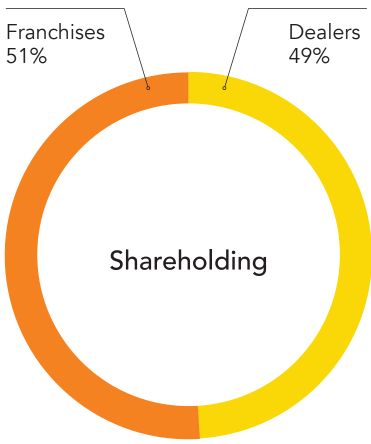
Our originators

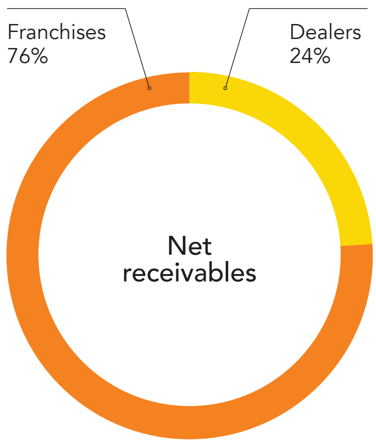
$68.7m PAID TO ORIGINATORS (up from $65.2m last year)

Originators have received income from MTF Finance of $68.7m for the period, up from $65.2m last year, coupled with consistent dividends. This increase reflects a lot of hard work and commitment to deliver value and results to our originators.

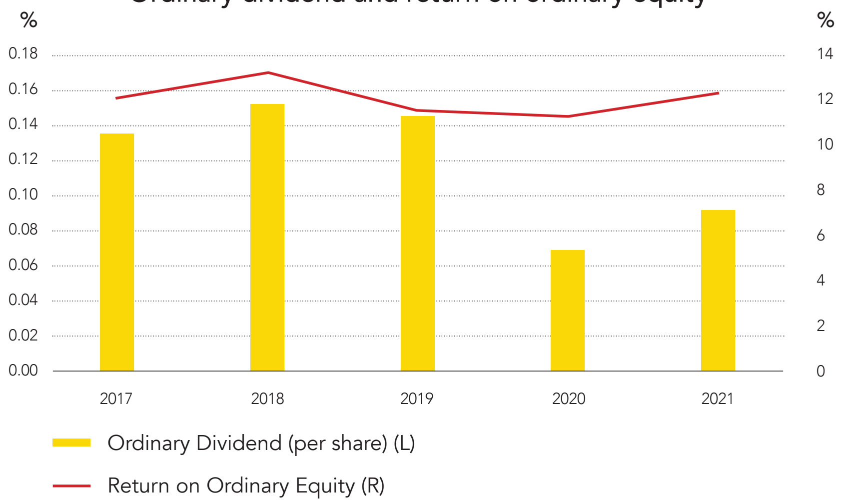
We appreciate the support and collective spirit of our originator network as we all work to deliver new products and initiatives to grow the value of the business in a sustainable manner into the future.



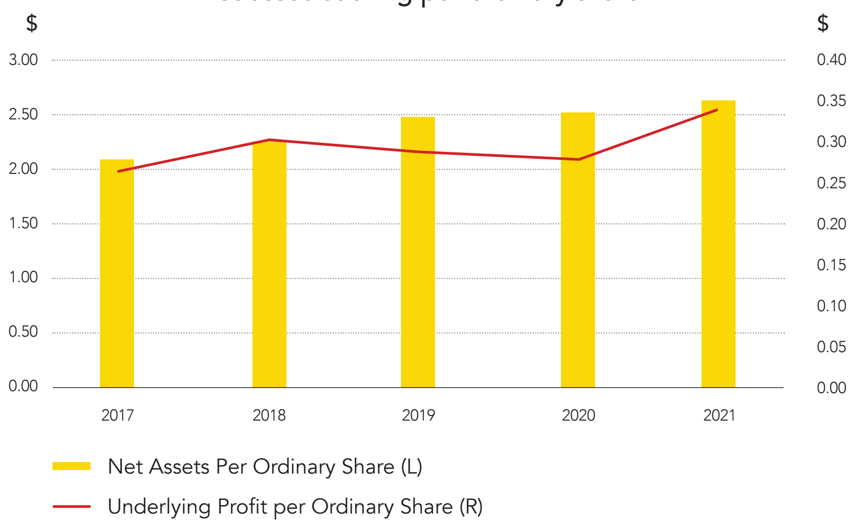




Ordinary dividend and return on ordinary equity



Net asset backing per ordinary share



Our people

Our people have had a lot of deal with this year. Ongoing COVID-19 uncertainty and alert level changes, the presence of the more severe Delta strain forcing us back into our homes, extensive regulatory change, the demand to stay competitive and develop and deliver new products to our originator network have all contributed to a full on year. We could not be prouder of the efforts of our team and wish to acknowledge that the business would not be in the healthy state that it is without the unwavering commitment of the team turning up each day and delivering on our values. We acknowledge the last two years has put incredible personal strain on staff and their families. To all our staff, thank you.

Outlook

Our second annual result in the COVID-19 pandemic world we live in has exceeded our expectations and is cause for some relief and quiet celebration. Whilst acknowledging that economic uncertainty still remains we have rallied to mitigate the impacts of the virus on our business and protect our originators and their customers, all while making significant progress on implementation of our strategic direction.

Sales are strong, even with persistent alert level restrictions and a supply shortage of imported vehicles into New Zealand. Margins have remained solid, and arrears are low. Our market share is under pressure as the competitive landscape changes, but we are evolving and improving the company to meet demands on a modern and competitive finance market.

We have identified and commenced addressing technology debt critical to our ability to deliver on our digital innovation plan and improve the customer experience. This will be a huge focus of 2022 and beyond, and something that excites us as we reframe the platform for how we will deliver products to our originators and customers.

The horizon has some interesting challenges emerging. The increase in wholesale interest rates in recent months and sentiment from the Reserve Bank of continued OCR increases through to mid-2023 presents cost and price pressure on our business. Funding costs comprise are large portion of our profit and loss and while we aim to be as competitive as possible, increases will need to be passed on as the market moves.

Customers, originators, and shareholders can always be assured that MTF Finance will continue to push itself towards continuous improvements in everything we do, in order to deliver innovation in the manner that you have come to expect from us.

Mark Darrow
Board Chair

Glen Todd
Chief Executive Officer

Financial Statements

YEAR ENDED 30 SEPTEMBER 2021

Five year financial review

	2021 $000	2020 $000	2019 $000	2018 $000	2017 $000
Financial performance					
Net interest income and fees	31,123	31,678	32,337	33,793	28,615
Commission	(45,371)	(42,718)	(42,519)	(40,089)	(37,610)
Operating expense (excluding bad debt)	(20,371)	(20,796)	(20,767)	(21,314)	(17,332)
Bad debt	(127)	(265)	(305)	(181)	(112)
Profit (loss) after tax	8,001	4,960	11,143	8,059	7,528
Underlying profit after tax[1]	7,449	7,503	7,949	8,696	7,835
Financial position					
Assets	761,354	753,809	784,017	748,036	670,157
Liabilities	667,503	656,327	688,088	658,458	581,958
Capital	93,852	97,482	95,929	89,578	88,199
Finance receivables	672,478	669,328	692,194	677,549	600,961
Performance indicators					
Net interest income/average finance receivables	2.92%	2.90%	2.86%	3.04%	2.73%
Operating expense (excluding bad debt) /average total assets under management	2.67%	2.65%	2.59%	2.81%	2.62%
Return on assets (underlying profit after tax)	0.98%	0.98%	1.04%	1.23%	1.24%
Capital percentage	12.33%	12.93%	12.24%	11.98%	13.16%

1 Underlying profit after tax removes the volatility of unrealised fair value movements and adjustment to credit risk assessment, to provide a more consistent measure of company performance. A reconciliation of profit after tax to underlying profit after tax is shown on page 5.

Consolidated statement of comprehensive income

Year ended 30 September 2021	Note	2021 $000	2020 $000
Gross interest income from finance receivables	2	82,566	85,681
Commission	4	(45,371)	(42,718)
Net interest income from finance receivables		**37,195**	**42,963**
Interest income from assets measured at amortised cost	3	331	429
Interest expense	5	(17,954)	(23,659)
Net interest income		**19,572**	**19,733**
Payment waiver		3,555	3,593
Fees		7,996	8,352
Net interest income and fees		**31,123**	**31,678**
Expense			
Employee		(8,716)	(8,017)
Communication and processing		(4,798)	(4,686)
Depreciation and amortisation		(1,599)	(2,189)
Administration		(5,258)	(5,904)
Bad debt		(127)	(265)
	6	(20,498)	(21,061)
Profit before net gain (loss) from financial instruments at fair value		**10,625**	**10,617**
Net gain (loss) from financial instruments at fair value	7	765	(3,532)
Profit before tax		**11,390**	**7,085**
Tax	8	(3,389)	(2,125)
Profit after tax		**8,001**	**4,960**
Other comprehensive income		-	-
Total comprehensive income		**$8,001**	**$4,960**

The consolidated financial statements should be read in conjunction with the accounting policies and notes on the accompanying pages.

Consolidated statement of changes in equity

Year ended 30 September 2021

	Note	Ordinary shares $000	Retained earnings $000	Perpetual preference shares $000	Total equity $000
Year ended 30 September 2021					
Balance at 1 October 2020		23,073	35,443	38,966	97,482
Total comprehensive income for the year:					
Profit after tax		-	8,001	-	8,001
Total comprehensive income for the year		-	8,001	-	8,001
Transactions with shareholders:					
Ordinary share dividends	9	-	(2,532)	-	(2,532)
Perpetual preference share dividends	9	-	(726)	-	(726)
Shares cancelled on buyback	9	(2,482)	(3,226)	-	(5,708)
Shares held as treasury shares	9	(1,154)	(1,511)	-	(2,665)
Total transactions with shareholders		(3,636)	(7,995)	-	(11,631)
Balance at 30 September 2021		**$19,437**	**$35,449**	**$38,966**	**$93,852**
Year ended 30 September 2020					
Balance at 1 October 2019		23,073	33,890	38,966	95,929
Total comprehensive income for the year:					
Profit after tax		-	4,960	-	4,960
Total comprehensive income for the year		-	4,960	-	4,960
Transactions with shareholders:					
Ordinary share dividends	9	-	(2,422)	-	(2,422)
Perpetual preference share dividends	9	-	(985)	-	(985)
Total transactions with shareholders		-	(3,407)	-	(3,407)
Balance at 30 September 2020		**$23,073**	**$35,443**	**$38,966**	**$97,482**

The consolidated financial statements should be read in conjunction with the accounting policies and notes on the accompanying pages.

Consolidated balance sheet

As at 30 September 2021	Note	2021 $000	2020 $000
Funds employed			
Ordinary shares	9	19,437	23,073
Retained earnings		35,449	35,443
Perpetual preference shares	9	38,966	38,966
Total shareholder equity		**93,852**	**97,482**
Liabilities			
Bank overdraft		367	-
Provision for taxation	8	-	398
Accounts payable and accrued expense	17	9,513	11,395
Unearned payment waiver administration fees		6,020	5,975
Committed cash advance	10	6,200	43,200
Securitised funding	10	642,528	583,250
Derivative financial instruments	13, 24	-	8,836
Lease liability	16	3,052	3,273
Total liabilities		**667,680**	**656,327**
Total funds employed		**$761,532**	**$753,809**
Employment of funds			
Cash at bank		-	266
Cash in restricted bank accounts	23	73,480	72,505
Provision for taxation	8	2,534	-
Accounts receivable		2,399	1,346
Payment waiver indemnity prepayment		404	854
Finance receivables	12,13	672,478	669,328
Derivative financial instruments	13,24	4,313	-
Deferred tax	8	179	3,800
Property, plant and equipment	14	1,130	1,467
Right of use asset	16	2,869	3,174
Intangible assets	15	1,746	1,069
Total assets		**$761,532**	**$753,809**

Mark Darrow
Board Chair

Melanie Templeton
Audit & Risk Committee Chair

18 November 2021

The consolidated financial statements should be read in conjunction with the accounting policies and notes on the accompanying pages.

Consolidated statement of cash flows

Year ended 30 September 2021	Note	2021 $000	2020 $000
Cash flow from operating activities			
Interest income		82,897	86,110
Fee income		7,988	8,273
Interest expense		(14,146)	(20,065)
Other funding and securitisation costs		(3,672)	(3,917)
Income tax paid		(2,701)	(4,233)
Commission		(47,601)	(40,227)
Payment waiver		3,600	3,357
Operating expense		(18,626)	(18,459)
Net cash flow from operating activities before changes in operating assets and liabilities		7,739	10,839
Changes in operating assets and liabilities			
Finance receivable instalments		531,269	506,728
Increase in committed cash advance – net		(37,000)	10,900
(Decrease) increase in securitised funding – net		59,616	(46,420)
Finance receivable advances		(546,929)	(488,522)
		6,956	(17,314)
Net cash flow from operating activities	29	**14,695**	**(6,475)**
Cash flow from investing activities			
Sale of property, plant and equipment		84	14
Purchase of property, plant and equipment		(395)	(537)
Purchase of intangible assets		(1,324)	(369)
Net cash flow from investing activities		**(1,635)**	**(892)**
Cash flow from financing activities			
Share buybacks		(8,373)	-
Proceeds from unpaid shares		21	6
Lease payments		(221)	(206)
Trust establishment costs		(672)	(83)
Dividend to perpetual preference shareholders	9	(726)	(985)
Dividend to ordinary shareholders	9	(2,532)	(2,422)
Net cash flow from financing activities		**(12,503)**	**(3,690)**
Net (decrease) increase in cash		557	(11,057)
Cash on hand at beginning of period		72,556	83,828
Cash on hand at end of period		**$73,113**	**$72,771**
Represented by:			
Cash at bank (overdraft)		(367)	266
Cash in restricted bank accounts		73,480	72,505
		$73,113	**$72,771**

The consolidated financial statements should be read in conjunction with the accounting policies and notes on the accompanying pages.

Notes to consolidated financial statements

Note 1: Basis of reporting

Reporting entity

The consolidated financial statements presented are those of Motor Trade Finance Limited (MTF Finance) and its subsidiaries (the Group). MTF Finance is the ultimate Parent of the Group.

MTF Finance is a profit-oriented entity, domiciled in New Zealand and registered under the Companies Act 1993. MTF Finance is an FMC reporting entity for the purposes of the Financial Markets Conduct Act 2013 and the consolidated financial statements comply with this Act.

The registered office of MTF Finance is Level 1, 98 Great King Street, Dunedin.

The principal activity of the Group consists of accepting finance receivables entered into with transacting shareholders.

The consolidated financial statements were approved by the Board of Directors on 18 November 2021.

Basis of preparation

The consolidated financial statements are prepared in accordance with Generally Accepted Accounting Practice (NZ GAAP), they comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards as appropriate for profit-oriented entities. The consolidated financial statements also comply with International Financial Reporting Standards.

The Group is a tier 1 for-profit entity in terms of the External Reporting Board Standard A1: Application of the Accounting Standards Framework.

Basis of measurement

The consolidated financial statements are based on historical cost except for the revaluation of derivative financial instruments and finance receivables measured at fair value.

Cost is based on the fair value of the consideration given in exchange for assets.

Accounting policies are applied in a manner that ensures the resulting financial information satisfies the concepts of relevance and reliability, ensuring that the substance of the underlying transactions or other events is reported.

The accounting policies and computation methods used in the preparation of the consolidated financial statements have been applied consistently throughout the periods presented in the consolidated financial statements.

The consolidated financial statements have been prepared using the going concern assumption.

Functional and presentation currency

The reporting currency is New Zealand dollars which is the Group's functional currency. All financial information is rounded to the nearest thousand.

Critical judgement, estimates and assumptions

In the application of NZ IFRS, the Directors make judgement, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities that are not readily apparent from other sources. These estimates and associated assumptions are based on historical experience and factors considered reasonable under the circumstances. Actual results may differ from the estimates and assumptions.

Estimates and assumptions are regularly reviewed with any revision to accounting estimates recognised in the period the estimate is revised.

Accounting policies, and information about judgement, estimates and assumptions that have had a significant effect on the amounts recognised in the consolidated financial statements are disclosed in the relevant notes as follows:

- Determination of fair value of derivative financial instruments (Note 24)
- Consolidation of controlled entities (Note 25)
- Determination of fair value of finance receivables due to changes in accounting estimates associated with credit risk (Note 13)

COVID-19 impact on estimates and judgements

The COVID-19 pandemic continues to create an element of uncertainty in both the New Zealand and world-wide economies with the threat of lockdown always present which ultimately leads to rapid declines in sales volume. With this comes estimation uncertainty in the financial statements.

In 2020, management took proactive measures to increase provisioning (by way of credit risk adjustment to the fair value of finance receivables) as a response to forecasted deterioration to credit risk based on the group's credit exposure. Most of this provisioning has been released during the current period to reflect the current operating environment and that the pandemic's impact on the business was not as severe as originally anticipated.

These financial statements have been prepared based upon conditions existing as at 30 September 2021 and all reasonably known and available information with respect to the COVID-19 pandemic has been taken into consideration in the critical accounting estimates and judgements. The Group also reviewed past experience, including the impact of the global financial crisis (GFC), and closely considered the judgements and estimates from this experience.

COVID-19 impact on estimates and judgements cont...

The accounting judgement that is most impacted by the pandemic relates to the assessment of credit risk with respect to finance receivables at FVTPL as set out in Note 13.

The impact of the COVID-19 pandemic on each of these estimates and judgements is discussed further in the applicable notes to the consolidated financial statements:

- Asset quality (Note 11)
- Determination of fair value of finance receivables due to changes in accounting estimates associated with credit risk (Note 13)

Significant accounting policies

Significant accounting policies which are specific to certain transactions or balances are set out within the particular note to which they relate.

Basis of consolidation

The consolidated financial statements are prepared by combining the financial statements of MTF Finance and its subsidiaries. Subsidiaries are entities controlled by MTF Finance. Refer Note 25. Accounting policies of subsidiaries are consistent with those of the Group.

All inter-entity transactions, balances and unrealised profits or losses on transactions between Group entities are eliminated on consolidation.

New standards, interpretations and amendments on issue but not yet effective

The Group has not yet assessed the impact of the following new standards or interpretations on issue which have yet to be adopted:

- NZ IFRS 17 Insurance Contracts (effective from 2024 financial year)

Note 2: Gross interest income from finance receivables

Policy

Gross interest income on financial instruments measured at FVTPL is recognised using the effective interest method excluding originator fees, transaction costs and commission. It is not included with the net gain/(loss) from financial instruments at fair value.

The effective interest method calculates the amortised cost of a financial asset and allocates the interest income over the expected life of the financial asset. The method has the effect of recognising income evenly in proportion to the amount outstanding over the expected life of the financial asset. Refer Note 26 for full policy.

	2021 $000	2020 $000
Gross interest income from finance receivables:		
Finance receivables designated at FVTPL	82,566	85,681
	$82,566	**$85,681**
Gross interest income from finance receivables includes income from:		
Non-impaired assets	82,548	85,629
Impaired assets	18	52
	$82,566	**$85,681**

Note 3: Interest income from assets measured at amortised cost

Policy

Interest income on all financial instruments measured at amortised cost is recognised in profit or loss using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset and allocates the interest income over the expected life of the financial asset. The method has the effect of recognising income evenly in proportion to the amount outstanding over the expected life of the financial asset.

	2021 $000	2020 $000
Interest income from assets measured at amortised cost:		
Cash in restricted bank accounts	331	429
	$331	**$429**

Note 4: Commission

Policy

Commission is recognised as an expense on an accrual basis in line with the recognition of gross interest income from finance receivables. Refer Note 26 for full policy.

	2021 $000	2020 $000
Commission	45,371	42,718
	$45,371	**$42,718**

Note 5: Interest expense

Policy

Interest expense is represented by the interest cost on the committed cash advance, the senior notes issued and bank loan entered, to fund the securitisation programmes, the realised net cost of interest rate swaps to hedge the funding activities with the cash flows from finance receivables, and the direct cost of running the securitisation programmes.

Interest expense on all financial instruments measured at amortised cost are recognised in profit or loss using the effective interest method.

The effective interest method calculates the amortised cost of a financial liability and allocates the interest expense, including any directly related transaction costs that are an integral part of the effective interest rate, over the expected life of the financial liability. The method has the effect of recognising expense evenly in proportion to the amount outstanding over the expected life of the financial liability.

All other expenses are recognised in the statement of comprehensive income as incurred.

	2021 $000	2020 $000
Committed cash advance	106	264
Senior notes / bank loan	11,000	13,969
Interest rate swaps - net	4,441	7,173
Securitisation programme	1,387	1,323
Other	1,020	930
	$17,954	**$23,659**

Note 6: Expense

Policy

Bad debts are recognised at the time when financial receivable balances from originators are known to be unrecoverable.

Transaction costs are recognised as expenses at the time of initial recognition of the finance receivable in accordance with the provisions of NZ IFRS 9 for financial instruments measured at FVTPL.

Government grants and subsidies which compensate the Group for expenses incurred are recognised in the statement of comprehensive income on a net basis in the same line as the related expense.

Includes:		2021 $000	2020 $000
Auditor			
	- Audit of Group financial statements	219	182
	- Audit of Trust financial statements	67	85
	- Tax compliance	30	55
	- Other assurance fees	36	1
	- Other services	-	21
Depreciation			
	- Computer hardware	521	536
	- Right of use asset	305	305
	- Office equipment, fixtures and fittings	97	107
	- Motor vehicles	36	80
Amortisation			
	- Intangible assets (software and websites)	647	1,161
Directors fees		385	297
Payment waiver		1,366	1,411
Employee expense includes:			
Government grants and subsidies		-	(479)
Defined contribution scheme payments (Kiwisaver)		140	160
Key management remuneration of:			
	- Short term employee benefits	2,093	1,700
	- Post employment benefits (Kiwisaver)	62	61

Auditor

The auditor of the Group is Deloitte Limited. Other assurance fees comprise Deloitte's attendance at, and review of proxy counts prior to, the Annual General Meeting and AML/CFT risk assessment and risk programme audit. Other services provided by Deloitte in 2020 comprise a Social Engineering and Cyber Security exercise undertaken.

COVID-19 wage subsidy (2020)

The wage subsidy received in 2020 was recognised within employee expense as an offset to the underlying employee cost in accordance with NZ IAS 20: Accounting for Government Grants and Disclosure of Government Assistance. Conditions attached to the government subsidy have been satisfied. The Group's evaluation has not been reviewed by the Ministry of Social Development to date.

The Group did not apply for any wage subsidy relief during the current financial year.

Promotion expenses

Non-cancellable promotion expenses payable within one year from balance date are estimated to be $755,590 (2020: $190,000).

Note 7: Net gain (loss) from financial instruments at fair value

Policy

Net gain (loss) on financial instruments at FVTPL for finance receivables comprises the remaining net change in fair value of the finance receivables at FVTPL including changes in market and credit risks.

Assessment of credit impairment on financial instruments at FVTPL is included in the net gain (loss) from financial instruments at fair value and forms part of the finance receivables fair value assessment. Refer to Note 26 for full policy and Note 24 for Derivatives policy.

	2021 $000	2020 $000
Net gain (loss) arising on financial instruments mandatorily measured at FVTPL:		
Finance receivables	(12,383)	(4,394)
Interest rate swap derivatives	13,148	862
	$765	**($3,532)**

Note 8: Tax

8.1 Tax expense

Policy

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

Current tax is the amount of income tax payable or recoverable on taxable profit for the period and is calculated using tax rates and tax laws applicable to the period. Current tax for current and prior periods is recognised as a liability or asset to the extent that it is unpaid or refundable. Tax assets and liabilities are offset when the Group has a legally enforceable right to offset the recognised amounts, and intends to settle on a net basis.

	2021 $000	2020 $000
Profit before tax	11,390	7,085
Income tax expense calculated at 28% (2020: 28%)	3,189	1,984
Non-deductible expense	6	13
Other adjustments	165	131
Over provision of taxation payable in previous year	(2,472)	(3)
Over provision of deferred tax asset in previous year	2501	-
	$3,389	**$2,125**
Represented by:		
Current tax	(232)	5,241
Deferred tax	3,621	(3,116)
	$3,389	**$2,125**

Tax rate

The tax rate used in the reconciliation is the corporate tax rate of 28% (2020: 28%) payable by New Zealand corporate entities on taxable profits under New Zealand tax law for the 2021 income tax year.

Imputation credits

There were $22,434,000 imputation credits available for use as at 30 September 2021 (2020: $24,521,000).

8.2 Deferred tax

Policy

Deferred tax is recognised using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised.

Deferred tax assets and liabilities are measured at tax rates applicable to the period when the relevant asset and liability is expected to be realised or settled. The measurement of deferred tax liabilities and assets reflects the tax consequences that will follow from the manner in which the Group expects, at reporting date, to recover or settle the carrying amount of the assets and liabilities.

The deferred tax balances at 30 September 2021 are represented by:

	Opening balance $000	Charged to income $000	Closing balance $000
Deferred tax assets:			
Accounts payable and accrued expense	595	37	632
Property, plant and equipment	-	31	31
	595	**68**	**663**
Deferred tax liabilities:			
Intangible assets	23	(25)	(2)
Derivative financial instruments	2,473	(3,665)	(1,192)
Finance and other receivables	709	1	710
	3,205	**(3,689)**	**(484)**
Total deferred tax	**$3,800**	**($3,621)**	**$179**

The deferred tax balances at 30 September 2020 are represented by:	Opening balance $000	Charged to income $000	Closing balance $000
Deferred tax assets:			
Accounts payable and accrued expense	608	(13)	595
Property, plant and equipment	14	(14)	-
Derivative financial instruments	2,558	(115)	2,473
	3,210	**(142)**	**3,068**
Deferred tax liabilities:			
Intangible assets	(50)	73	23
Finance and other receivables	(2,476)	3,185	709
	(2,526)	**3,258**	**732**
Total deferred tax	**$684**	**$3,116**	**$3,800**

Note 9: Equity

9.1 Ordinary shares

Policy

Ordinary shares are classified as equity. Dividends are not guaranteed and are payable at the discretion of the Directors. Any dividend is recognised as a distribution within equity.

Ordinary shares

At 30 September 2021, there were 20,590,914 shares authorised and issued (2020: 23,073,000) with no unpaid shares outstanding (2020: 21,000). All fully paid ordinary shares have equal voting rights and share equally in dividends and surplus on winding up.

Share buy back

During the year the Group purchased shares from non-transacting originators as to better align the interests of originators and shareholders.

3,635,748 ordinary shares were acquired at $2.31 per share.

Treasury shares

Treasury shares comprise the cost of the Company's shares held by the Group.

Ordinary shares:

	2021		2020	
	000	$000	000	$000
Balance at beginning of the year	23,073	23,073	23,073	23,073
Shares acquired and cancelled	(2,482)	(2,482)	-	-
Treasury shares acquired	(1,154)	(1,154)	-	-
	19,437	**$19,437**	**23,073**	**$23,073**

Ordinary share dividend:

	2021 $000	2020 $000
Fully imputed dividend declared and paid during the year:		
Final dividend paid 30 November 2020 at 5.11 cents per share (2020: 8.51 cents)	1,178	1,961
Interim dividend paid 31 January 2021 at 2.00 cents per share (2020: 2.00 cents)	461	461
Interim dividend paid 30 April 2021 at 2.00 cents per share (2020: 2.00 cents)	461	-
Interim dividend paid 31 July 2021 at 2.00 cents per share (2020: 2.00 cents)	432	-
	$2,532	**$2,422**

Dividend

On 18 November 2021, the Directors declared a final dividend on paid-up ordinary shares of 2.83 cents per share amounting to $549,448 (fully imputed), for the period 1 October 2020 to 30 September 2021. The dividend is due for payment on 30 November 2021.

9.2 Perpetual preference shares

Policy

Perpetual preference shares (PPS) are classified as equity. The shares are non-redeemable and carry no voting rights. Dividends are not guaranteed and are payable at the discretion of the Directors. Any dividend is recognised as a distribution within equity. MTF Finance may redeem or repurchase all or part of the perpetual preference shares.

Perpetual preference shares

At 30 September 2021, there were 40,000,000 perpetual preference shares (2020: 40,000,000).

In the event of liquidation of MTF Finance, payment of the issue price and any dividend on the perpetual preference shares rank:

- before rights of holders of other classes of MTF Finance shares
- before profit distribution to transacting shareholders
- after rights of secured and unsecured creditors of MTF Finance

	2021 $000	2020 $000
Face value	40,000	40,000
Issue fees and expenses	(1,034)	(1,034)
	$38,966	**$38,966**

Perpetual preference share dividend:

	2021 $000	2020 $000
Fully imputed dividend declared and paid during the year at 1.81 cents per share (2020: 2.46 cents)	726	985
	$726	**$985**

PPS dividend

The dividend payable on perpetual preference shares is based on the benchmark rate plus 2.4% and is reset annually. The benchmark rate is the one-year interest rate swap on the reset day.

Note 10: Funding (secured)

Policy

MTF Finance funds a major portion of its business by the sale of finance receivables to securitisation entities established solely for purchasing finance receivables from MTF Finance.

MTF Finance recognises transactions with securitisation entities as financing arrangements; expenditure related to securitisation programmes is recognised as a cost of funding and the securitised assets and funding from securitisation programmes are recognised respectively as assets and liabilities in the balance sheet.

Funding is at floating interest rate and is measured at amortised cost using the effective interest method.

30 September 2021	Weighted average effective interest rate %	Facility expiry date	Limit $000	Undrawn $000	Drawn $000	Unamortised fees and expense $000	Carrying amount $000
Committed cash advance facility	2.03	30/06/2022	80,000	73,800	6,200	-	6,200
Securitisation:							
Senior Warehouse notes	1.79	15/03/2023	150,000	56,553	93,447	-	93,447
Senior Pantera notes	1.42	15/06/2029	278,500	-	278,500	(609)	277,891
Senior Rambler notes	1.80	15/08/2027	230,717	-	230,717	(145)	230,572
MUFG loan	1.74	15/11/2022	50,000	9,382	40,618	-	40,618
Total securitisation			709,217	65,935	643,282	(754)	642,528
Total			**$789,217**	**$139,735**	**$649,482**	**($754)**	**$648,728**

30 September 2020	Weighted average effective interest rate %	Facility expiry date	Limit $000	Undrawn $000	Drawn $000	Unamortised fees and expense $000	Carrying amount $000
Committed cash advance facility	1.96	30/06/2022	80,000	36,800	43,200	-	43,200
Securitisation:							
Senior Warehouse notes	1.73	15/02/2022	280,000	77,686	202,314	-	202,314
Senior Sierra notes	1.87	15/09/2025	75,402	-	75,402	(29)	75,373
Senior Rambler notes	1.70	15/08/2027	275,200	-	275,200	(387)	274,813
MUFG loan	1.68	15/01/2021	50,000	19,250	30,750	-	30,750
Total securitisation			680,602	96,936	583,666	(416)	583,250
Total			**$760,602**	**$133,736**	**$626,866**	**($416)**	**$626,450**

Judgements

Under the MTF Finance securitisation programme, entities are created to purchase eligible finance receivables. Securitisation entities are consolidated where the Group has control. Controlled entities are disclosed in Note 25.

Committed bank facilities

MTF Finance has a committed bank facility provided by Bank of New Zealand (2020: syndicated by both Bank of New Zealand and Westpac New Zealand Limited). The facility is secured by a general security agreement over all unsecuritised assets, including unsecuritised finance receivables.

Securitisation programme

The activities of MTF Finance are funded through a master trust securitisation structure established on 18 June 2010. The Trust Deed provides for the creation of an unlimited number of trusts, each separate and distinct. The trusts currently active under the master trust structure are the Warehouse Trust, the Pantera Trust, the Rambler Trust and the Honda Trust (Trusts). The senior notes are funded externally by banks and other investors.

In April 2021 the Sierra Trust reached the specified call date criteria and all the notes were repaid in full.

The principal components of the securitisation programme are:

The Warehouse Trust funds the purchase of qualifying finance receivables from MTF Finance. Senior Warehouse notes are issued for periods of up to 72 months past the facility expiry of 15 March 2023. The notes are rated AA(sf) (Standard & Poor's long term, structured finance rating, 26 October 2011) and are secured by a first ranking mortgage debenture over the assets of the Warehouse Trust.

The Rambler Trust funds the purchase of qualifying finance receivables from the Warehouse Trust prior to 15 August 2021. The Trust has now entered amortisation and no new qualifying finance receivables can be acquired.

The Pantera Trust funds the purchase of qualifying finance receivables from the Warehouse Trust. Senior Pantera notes are issued for periods of up to 96 months past the issue date 15 June 2021. The Pantera Trust has a revolving period of 24 months from issue date, during which the Trust may continue to acquire qualifying finance receivables from the Warehouse Trust. At the end of the Trust's revolving period, no new receivables may be acquired and the facility will amortise.

Senior Pantera and Senior Rambler notes are secured by a first ranking mortgage debenture over the assets of the Pantera Trust and Rambler Trust respectively and have structured finance (sf) ratings from Fitch Ratings.

Senior Pantera notes on issue	Fitch rating	2021 $000	2020 $000
Class A	AAA(sf)	249,000	-
Class B	AA(sf)	9,600	-
Class C	A(sf)	7,900	-
Class D	BBB(sf)	5,400	-
Class E	BB(sf)	4,800	-
Class F	B(sf)	1,800	-
		$278,500	**-**

Senior Rambler notes on issue	Fitch rating	2021 $000	2020 $000
Class A	AAA(sf)	204,517	249,000
Class B	AA(sf)	10,200	10,200
Class C	A(sf)	8,000	8,000
Class D	BBB(sf)	4,200	4,200
Class E	BB(sf)	3,800	3,800
		$230,717	**$275,200**

Senior Sierra notes on issue	Fitch rating	2021 $000	2020 $000
Class A	AAA(sf)	-	61,104
Class B	AA(sf)	-	5,392
Class C	A(sf)	-	4,728
Class D	BBB(sf)	-	2,154
Class E	BB(sf)	-	2,024
		-	**$75,402**

Securitisation programme cont ...

The Honda Trust funds the purchase of qualifying lease finance receivables from MTF Finance and MTF Leasing Limited by way of a cash commitment facility provided by Mitsubishi UFJ Financial Group (MUFG). The facility is secured by a first ranking mortgage debenture over the assets of the Honda Trust.

Trustees Executors Limited (TEL) is appointed as the Trustee of each of the trusts.

Under contracts with transacting shareholders, MTF Finance makes loans to transacting shareholders on terms that match the advances made by transacting shareholders to customers. As security for the repayment of the transacting shareholder loan, MTF Finance is given a security interest over transacting shareholder rights under the customer contract and the underlying asset. MTF Finance assigns absolutely and unconditionally its right, title and interest in, and to, the shareholder loan (and related rights), free of security interest to the Trustee. The legal and beneficial title to each finance receivable passes to the Trustee upon payment of the relevant sale price by the Trust.

MTF Finance is contracted, as Trust Manager and Trust Servicer, to administer the securitised receivables, including the liability and treasury activities.

Beneficial interest in the Trusts vests in the residual capital beneficiary and the residual income beneficiary, being MTF Treasury Limited (MTFT), a wholly owned subsidiary of MTF Finance. Net taxable annual income of the Trusts vests absolutely in MTFT, which has the right to receive distributions of that net taxable annual income, to the extent that funds are available for distribution under the prescribed cash flow allocation. The residual capital beneficiary has no right to receive distributions from the Trusts other than the right to receive the entire beneficial interest in a Trust, on the termination of that Trust.

Finance receivables securitised at balance date with the Trusts:

	2021 $000	2020 $000
Honda Trust	38,733	28,923
Rambler Trust	206,380	255,207
Sierra Trust	-	70,926
Pantera Trust	252,517	-
Warehouse Trust	101,828	215,478
	$599,458	**$570,534**

Amortisation

The establishment fees and expense represent the cost incurred in setting up the securitisation programmes and are amortised over the life of each facility. For the year ended 30 September 2021, $335,000 (2020: $400,000) of amortisation is included in interest expense in the Consolidated statement of comprehensive income.

Note 11: Asset quality disclosures

	2021 $000	2020 $000
Asset quality - finance receivables		
Current	662,439	643,365
1-30 days past due	16,429	20,735
31-90 days past due	3,149	2,875
More than 90 days past due	1,840	1,349
Managed transacting shareholders	608	608
	684,465	668,932
Adjustments:		
Fair value adjustment	(7,544)	6,703
Credit risk adjustment	(4,443)	(6,307)
Total carrying amount	**$672,478**	**$669,328**

Credit risk adjustment

Credit risk is the risk of financial loss to MTF Finance if a transacting shareholder fails to meet its contractual obligations under an MTF Finance contract. MTF Finance has a range of credit enhancements against the transacting shareholder including, but not limited to, future commission payments (refer Notes 13 and 19).

Past due

A financial asset is considered past due when a counterparty has failed to make payment when contractually obligated. All customer loss is for the account of the transacting shareholder; payment is contractually due to MTF Finance, from the transacting shareholder, when a customer account has been in arrears for 91 days or more.

Past due > 90 days

Of total finance receivables at 30 September 2021, 0.27% (2020: 0.20%) had repayments that are past due more than 90 days.

Material restructured assets

The Group does not have any assets acquired through the enforcement of security (2020: Nil).

As part of the response to COVID-19 the Group offered customers payment options including payment holidays, postponed payment plans. A total of $36.6m of loans are categorised as affected by COVID-19 at 30 September 2021 (30 September 2020: $66.8m). Of these, the Group had restructured $26.4m at the customer's request (30 September 2020: $47.7m).

The remaining $10.2m are considered to be at a higher risk of default (30 September 2020: $19.1m). Of this $2.0m of these finance receivables have payment arrangements in place that allow the customer to make up their payments without the need to formally restructure the loans. A further $3.5m of these loans are categorised as on hold where payment holidays have been granted. These COVID-19 affected loans have been considered as part of the COVID-19 credit allowance per Note 13.

While MTF Finance is working together with originators and their customers to provide support to help each party meet their debt obligations, full recourse on these COVID-19 impacted finance receivables remains with each originator.

Note 12: Finance receivables

Policy

Finance receivables are measured at fair value through profit or loss (FVTPL) as the business model and contractual cash flow characteristics of these assets do not meet the criteria for measurement at amortised cost or fair value through other comprehensive income as per NZ IFRS 9.

	2021 $000	2020 $000
Receivable within 12 months	206,304	234,278
Receivable beyond 12 months	466,174	435,050
Total finance receivables	**$672,478**	**$669,328**

Details of changes in the fair value recognised on the finance receivables on account of credit risk are:

	2021 $000	2020 $000
Finance receivables at FVTPL gain/(loss)	1,864	(4,490)
	1,864	**(4,490)**

Finance receivables

Finance receivables include securitised and non-securitised finance receivables.

Finance receivables are economically hedged by a combination of floating rate debt and interest rate swaps as part of a documented risk management strategy.

Fair value

Refer to Note 13 for disclosure on fair value of finance receivables as at 30 September 2021.

Impairment of financial assets

Finance receivables are not assessed for impairment as the determination of fair value reflects the credit quality of the instrument and changes in fair value are recognised in the net gain (loss) from financial instruments at fair value in profit or loss in the consolidated statement of comprehensive income.

Note 13: Fair value

Policy

The Group measures certain financial instruments at fair value at each reporting date.

Fair value is the price that would be received on sale of an asset or paid to transfer a liability between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

Fair value measurements recognised in the balance sheet:

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
2021				
Financial assets mandatorily measured at FVTPL				
Finance receivables	-	-	672,478	672,478
	-	**-**	**672,478**	**672,478**
Financial assets at FVTPL				
Derivative financial assets (held for trading)	-	4,313	-	4,313
	-	**4,313**	**-**	**4,313**
2020				
Financial assets mandatorily measured at FVTPL				
Finance receivables	-	-	669,328	669,328
	-	**-**	**669,328**	**669,328**
Financial liabilities at FVTPL				
Derivative financial liabilities (held for trading)	-	(8,836)	-	(8,836)
	-	**(8,836)**	**-**	**(8,836)**

Judgements

Finance receivables are mandatorily measured FVTPL. As there is no active market, fair value is determined by the use of a discounted cash flow valuation model. To the extent possible, the model uses observable market data (interest rates). The main unobservable input to the valuation model is credit risk, which requires management to make judgements and estimates. Changes in the assumptions in the model and projections of future cash flows may affect the reported fair value of finance receivables.

Note 13: Fair value cont ...

Fair value of financial assets and liabilities

The carrying amount of all other financial assets and liabilities approximates fair value.

Valuation techniques and assumptions for the purpose of measuring fair value

Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from observable market interest rates and adjustments for counterparty credit risk.

As there is no active market, fair value of finance receivables is measured using the present value of estimated future cash flows (net of commission), discounted based on a theoretical yield curve derived from a series of observable market interest rates and adjusted for credit risk.

Fair value hierarchy levels

Level 2 fair value measurements are derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly, i.e. as prices, or indirectly, i.e. derived from prices. Financial assets and financial liabilities fair valued based on Level 2 inputs in the Group are the interest rate swaps detailed in Note 24 of these consolidated financial statements.

Level 3 fair value measurements are derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). Financial assets of the Group fair valued based on Level 3 inputs are finance receivables. This assessment is based on the absence of observable market data for the sale and purchase of finance receivables in an open market.

No financial assets or liabilities were transferred between levels during the period.

Finance receivables:

	2021 $000	2020 $000
Balance at beginning of the year	669,328	692,194
Gain/(loss) recognised in net gain (loss) from financial instruments at fair value	(12,383)	(4,394)
Sales	546,929	488,522
Settlements	(531,396)	(506,994)
Balance at end of the year	**$672,478**	**$669,328**

Significant assumptions used in determining fair value of financial assets and liabilities

Fair value of finance receivables is determined by applying a theoretical yield curve from market interest rates.

Finance receivables yield at a fixed rate comprising the swap rate plus a credit margin. It is assumed that the credit margin remains fixed throughout the term. At the valuation date, the theoretical yield curve is adjusted to reflect the current market interest rate plus the weighted average credit margin (net of commission). The change in the credit risk of the finance receivables is reflected in the fair value model as a credit risk adjustment.

A credit risk adjustment of $4,443,000 (2020: $6,307,000) is determined in line with the assumptions set out below.

No assumption is made in regard to prepayment rates within the discounted cash flow model as these are deemed not to be material. Prepayment rates are considered as part of the credit risk adjustment as discussed below.

The fair value of the finance receivables at 30 September 2021 was based on cash flows discounted using a weighted average interest rate of 5.40% (2020: 6.05%).

Refer to Note 21 for details of sensitivity analysis.

Credit risk accounting estimate

Credit risk is the risk of financial loss to MTF Finance if a transacting shareholder fails to meet its contractual obligations under an MTF Finance contract. MTF Finance has a range of credit enhancements against the transacting shareholder including, but not limited to, future commission payments (refer Note 19).

Given the recourse arrangement differs significantly from other market participants, the model focuses on projection of losses from originators with less weighting on market factors whilst incorporating considerations and allowances for future economic forecasts.

MTF Finance monitors the credit quality and performance of each transacting shareholder to ensure that the transacting shareholder is capable of indemnifying MTF Finance against any potential loss. MTF Finance's current process is based on a projection of losses calculated using the transacting shareholders arrears roll rates and historical prepayment rates along with an estimation of the impact of changes in future economic conditions.

Where expected losses are greater than expected future commission, the transacting shareholder is deemed to be in a net loss position. The total of each net loss across all transacting shareholders is the assessment of credit risk adjustment input into the fair value model for finance receivables.

Based on the historical modelling this resulted in a collective adjustment for credit risk of 0.25% (2020: 0.25%) of net receivables. This has been applied to all finance receivables where the customer has not indicated they have been directly or indirectly impacted by COVID-19.

Note 13: Fair value cont ...

COVID-19

The Group has made assumptions built using data on originator finance receivable ledgers and their specific exposure to risk associated with COVID-19. These assumptions have been applied to all finance receivable relating to customers who have contacted the Group to request assistance or to notify that they have been financially impacted by the pandemic.

At 30 September 2021 the total value of finance receivables considered to be financially impacted by COVID-19 was $36.6m (30 September 2020: $66.8m). Of this $36.6m, certain finance receivables have been restructured as discussed per Note 11. These are considered to carry a lower risk of default than those finance receivables where no refinancing has occurred, or payment plans are in place to catch up arrears.

The Group used this information to estimate the underlying bad debt risk of each originator's ledger. The Group assessed credit risk based on specific categories relating to the status of each loan in the rehabilitation process and applied a range of expected loss assumptions based on the current observable deterioration in the performance of these finance receivables during the pandemic. A greater risk weighting has been applied to the $10.2m of finance receivable loans for which there has been no rehabilitation as at balance date. Included in this calculation are estimates of the value of available layers of recourse including estimate of the recoverable value of the underlying asset and the actual cash collateral held by the Group as at the reporting date.

The Group used a number of scenarios to assess the range of possible impacts on the assessment of credit risk, which ranges between $1.3m and $3.6m at balance date (30 September 2020: $2.0m and $6.8m), and has taken a position that sets within the midrange of these scenarios, at $2.6m (30 September 2020: $4.5m).

Note 14: Property, plant and equipment

Policy

Property, plant and equipment are measured at cost less accumulated depreciation and impairment loss.

Property, plant and equipment are depreciated on a straight line basis at rates which write off the cost less estimated residual value over the expected useful life.

Residual values, useful life and depreciation method are reviewed and adjusted, if appropriate, at balance date.

Computer hardware	3 years
Office equipment, fixtures and fittings	5 years
Motor vehicles	5 years

Property, plant and equipment are reviewed for evidence of impairment at least annually and when events indicate that assets may have suffered impairment. The carrying amount is written down to the recoverable amount if the carrying amount is greater than the estimated recoverable amount. The recoverable amount is the higher of fair value less cost to sell and value in use.

Carrying amount:	2021 $000	2020 $000
Computer hardware	2,692	2,605
Less accumulated depreciation	(2,307)	(1,922)
Total carrying amount	**385**	**683**
Office equipment, fixtures and fittings	1,146	1,145
Less accumulated depreciation	(619)	(544)
Total carrying amount	**527**	**601**
Motor vehicles	410	424
Less accumulated depreciation	(192)	(241)
Total carrying amount	**218**	**183**
Total property, plant and equipment	**$1,130**	**$1,467**

Capital commitments

The estimated capital expenditure contracted for at balance date but not provided for is $63,050 (2020: $50,997).

Note 15: Intangible assets – computer software and websites

Policy

Computer software and websites are finite life intangible assets, recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight line basis over the estimated useful life, usually 3-5 years.

Finite life intangible assets are subject to the same impairment process as property, plant and equipment. Impairment is recognised in profit or loss.

	2021 $000	2020 $000
Cost		
Balance at beginning of year	9,549	9,180
Additions	1,324	369
Disposals	-	-
Balance at end of year	**10,873**	**9,549**
Amortisation and impairment		
Balance at beginning of year	8,480	7,319
Amortisation	647	1,161
Impairment	-	-
Balance at end of year	**9,127**	**8,480**
Total intangible assets	**$1,746**	**$1,069**

Capital commitments

The estimated capital expenditure contracted for at balance date but not provided for is $Nil (2020: Nil).

Note 16: Leases

Policy

The Group assesses whether a contract is, or contains, a lease, at the inception of the contract. The Group recognises a right of use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee.

Lease liabilities are initially measured at the present value of the remaining lease payments and discounted by the rate implicit in the lease. Where the rate cannot be readily determined, the Group's incremental borrowing rate (IBR) is applied. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the liability, using the effective interest method, and by reducing the carrying amount to reflect the lease payments made.

Right of use assets comprise the initial measurement of the corresponding lease liability. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right of use asset	2021 $000	2020 $000
Balance at 30 September	3,174	-
Recognised on change of accounting policy	-	3,479
Depreciation charge for the year	(305)	(305)
Total right of use asset	**$2,869**	**$3,174**

Lease liability – maturity analysis	2021 $000	2020 $000
Lease liabilities under NZ IFRS 16:		
Less than one year	239	221
Between one and five years	1,151	1,075
More than five years	1,662	1,977
	$3,052	**$3,273**
Current	239	221
Non-current	2,813	3,052
Balance at end of year	**$3,052**	**$3,273**

The Group leases a property under a non-cancellable lease expiring within 11 years.

	2021 $000	2020 $000
Amounts recognised in the consolidated statement of comprehensive income:		
Depreciation of right of use assets	305	305
Interest expense on lease liabilities	127	136

The total cash outflow for leases in 2021 was $348,000 (2020: $341,000).

Note 17: Accounts payable and accrued expense

Employee entitlements

Provision is made for entitlements accruing to employees in respect of salaries and leave entitlements when it is probable that settlement will be required and can be measured reliably.

Provision for entitlements expected to be settled within twelve months is measured at nominal value using the remuneration rate expected to be applied at the time of settlement.

Standard credit terms for trade payables is 30 days with most suppliers not charging interest during this period. The Group has financial risk management policies to ensure all payables are paid within pre-agreed credit terms.

	2021 $000	2020 $000
Trade creditors	1,191	772
Sundry creditors and accruals	2,071	2,478
Unpaid commission	4,815	6,995
Employee entitlements	1,436	1,150
	$9,513	**$11,395**

Credit period

The average credit period for creditors and accruals is 30 days.

Commission withheld

Unpaid commission comprises accrued commission and withheld commission.

Accrued commission is commission earned by originators in the month of September but paid in the month of October. At 30 September this totalled $3.70m (2020: $3.65m).

Withheld commission is commission being retained by MTF Finance from originators. At 30 September this totalled $1.1m (2020: $3.35m). During 2021, most COVID-19 related commission retention was released, with only $206k currently retained for COVID-19 related bad debts.

Note 18: Related party transactions

Commission paid to companies (transacting shareholders) associated with the Directors:

	2021 $000	2020 $000
Noel Johnston	1,903	1,835
Geoffrey Kenny	876	967
Stu Myles	465	181
Brent Robertson	-	1,521
Grant Woolford	94	105
	$3,338	**$4,609**

Commission payable to companies (transacting shareholders) associated with the Directors:

	2021 $000	2020 $000
Noel Johnston	154	156
Geoffrey Kenny	86	78
Stu Myles	45	35
Grant Woolford	7	8
	$292	**$277**

Revenue received from companies (transacting shareholders) associated with the Directors:

	2021 $000	2020 $000
Noel Johnston	4,005	4,214
Geoffrey Kenny	1,755	2,036
Stu Myles	972	457
Brent Robertson	-	2,913
Grant Woolford	226	271
	$6,958	**$9,891**

Note 18: Related party transactions cont ...

Finance receivables outstanding with companies (transacting shareholders) associated with Directors:

	2021 $000	2020 $000
Noel Johnston	29,707	29,432
Geoffrey Kenny	14,911	11,849
Stu Myles	9,166	5,977
Grant Woolford	1,640	1,978
	$55,424	**$49,236**

Related parties

Directors Noel Johnston, Geoffrey Kenny, Stu Myles and Grant Woolford are Directors of companies with shareholdings in MTF Finance that derive commission from the Group on the same basis as all other transacting shareholders.

Directors fees are disclosed per Note 6.

Revenue

Revenue received from companies (transacting shareholders) associated with the Directors includes interest income, fee income and payment waiver admin fee income.

Note 19: Credit risk

Maximum exposures to credit risk:

	2021 $000	2020 $000
Cash at bank	-	266
Cash in restricted bank accounts	73,480	72,505
Accounts receivable	2,222	1,346
Derivative financial instruments	4,313	-
Honda Trust securitised finance receivables	38,733	28,923
Rambler Trust securitised finance receivables	206,380	255,207
Sierra Trust securitised finance receivables	-	70,926
Pantera Trust securitised finance receivables	252,517	-
Warehouse Trust securitised finance receivables	101,828	215,478
Non securitised finance receivables	73,020	98,794

Finance receivables credit risk by geographical location:

	2021 $000	2020 $000
Auckland	88,747	84,596
Bay of Plenty	77,958	76,530
Canterbury	76,732	69,851
Waikato	73,733	76,718
South Auckland	68,935	67,424
Wellington/Wairarapa	58,236	58,897
Otago	57,680	59,631
Manawatu/Whanganui	32,898	34,734
Nelson/Marlborough	27,302	28,169
Hawkes Bay	22,345	23,580
Gisborne	19,712	18,872
Southland	17,981	19,936
Northland	16,621	15,923
Mid/South Canterbury	12,394	13,686
Taranaki	11,084	11,050
West Coast	10,120	9,731
Finance receivables by geographical location	**$672,478**	**$669,328**

Note 19: Credit risk cont ...

Finance receivables credit risk by security type:

	2021 $000	2020 $000
Passenger vehicle	294,790	302,320
Commercial vehicle	177,380	170,140
Utes/Trucks/Trailers	94,679	92,491
Motorcycle	38,206	40,195
Marine	23,325	24,818
Caravans	23,014	20,564
Vans/Buses	16,292	15,976
Equipment/Aircraft/Tractors/Machinery	4,359	2,824
Unsecured loan – no security	433	-
Finance receivables by security type	**$672,478**	**$669,328**

Finance receivables credit risk by transacting shareholder:

	2021 $000	2020 $000
0 - $5,000,000	106,702	120,549
$5,000,000 - $10,000,000	156,090	187,796
$10,000,000 - $20,000,000	302,945	284,510
$20,000,000+	106,741	76,473
Finance receivables by transacting shareholder	**$672,478**	**$669,328**

Finance receivables credit risk by individual contract size:

	2021 $000	2020 $000
0 - $5,000	56,823	63,896
$5,001 - $10,000	126,205	143,842
$10,001 - $20,000	204,064	207,381
$20,001 - $30,000	129,289	122,145
$30,001 - $40,000	70,716	64,938
$40,001- $50,000	38,993	30,343
$50,001+	46,388	36,783
Finance receivables by contract size	**$672,478**	**$669,328**

Note 19: Credit risk cont ...

Credit risk

Credit risk is the risk of financial loss to MTF Finance if a transacting shareholder, or counterparty to a financial instrument, fails to meet its contractual obligations. Financial instruments which potentially subject the Group to credit risk principally consist of cash at bank, cash in restricted bank accounts, accounts receivable, finance receivables and derivative financial instruments.

Management of credit risk

The Directors have overall responsibility for management of credit risk. This responsibility is delegated to the Credit Committee. The Credit Committee reviews credit risks, recommends credit policy and approves certain credit limits in addition to approving any large credit exposures.

The MTF Finance credit and compliance teams perform key credit risk management tasks, including assessing transacting shareholder applications, reviewing transacting shareholder accounts, setting and reviewing facility limits, managing asset quality, detecting transacting shareholder fraud, recovering bad debt and perfecting security interests. MTF Finance undertakes regular independent risk reviews with the credit committee ensuring any recommendations arising are investigated and appropriate action taken where necessary. The findings of the credit team are reported fortnightly to the Credit Committee.

Customer loss is for the account of the transacting shareholder. The credit risk assumed by MTF Finance is to the individual transacting shareholder and its capacity to meet any customer shortfall. In the event of default by a transacting shareholder under an MTF Finance contract, MTF Finance has available as security the vehicle, or goods, subject to the contract and a right of action against the defaulting customer and any guarantors. MTF Finance requires each transacting shareholder to indemnify MTF Finance against any default and the indemnity includes the right to forfeit shares, dividends and commission, current and future, of any transacting shareholder in the event that the transacting shareholder fails to meet its obligations under the recourse arrangement. MTF Finance may hold a range of additional credit enhancements against the transacting shareholder including, but not limited to, bank guarantees and personal guarantees.

MTF Finance closely monitors the credit quality, lending limits, performance and financial position of each transacting shareholder to ensure the quality of the business written meets minimum standards and that the transacting shareholder is capable of indemnifying MTF Finance against any potential loss. Transacting shareholders that are unable, or unwilling, to meet the credit and indemnity criteria have their MTF Finance facilities cancelled.

Exposure to credit risk

The credit risk on securitised finance receivables within the MTF Finance securitisation programme is limited to the subordinated notes subscribed to by MTF Finance and the Pantera notes issued to MTF Finance, in support of the credit enhancement of the securitisation programme. The balance of credit risk on MTF Finance securitised finance receivables is assumed by subscribers to the senior notes pursuant to the securitisation programme.

Note 19: Credit risk cont ...

Subordinated notes on issue	Effective credit enhancement		Carrying amount	
	2021 %	2020 %	2021 $000	2020 $000
Rambler Trust	2.04	1.72	4,800	4,800
Sierra Trust	-	4.53	-	3,838
Pantera Trust	0.54	-	1,500	-
Warehouse Trust	15.00	15.00	16,426	35,519
			$22,726	**$44,157**

Senior notes on issue	Fitch rating	2021 $000	2020 $000
Sierra Trust - Class F	B(sf)	-	972
		-	**$972**

Non-securitised finance receivables are amounts owing by transacting shareholders and are secured by a specific charge over each asset held under various transacting shareholder loans. Transacting shareholders indemnify loss from default by their customers.

Concentration of credit risk

The Group has a concentration of credit risk to its transacting shareholders for finance receivables. The position is mitigated by the limited exposure to transacting shareholders relative to the total asset base, the high number of individual loans that comprise the finance receivables and the risk assumed by the holders of senior notes on securitised finance receivables.

The credit risk above must be read in the context of the Group exposure to the securitised finance receivables being limited to the subordinated debt funding provided to the MTF Finance Trusts and the Pantera senior notes issued to MTF Finance.

Note 20: Liquidity risk

Financial assets matched against financial liabilities at 30 September 2021 (undiscounted contractual cash flow):

	On demand $000	0 – 6 months $000	6 – 12 months $000	12 – 24 months $000	24 – 60 months $000	Total $000
Monetary assets						
Cash in restricted bank accounts[1]	73,480	-	-	-	-	73,480
Accounts receivable	-	2,399	-	-	-	2,399
Finance receivables	-	141,361	166,426	256,323	224,950	789,060
	73,480	143,760	166,426	256,323	224,950	864,939
Monetary liabilities						
Bank overdraft	367	-	-	-	-	367
Committed cash advance	6,200	-	-	-	-	6,200
Accounts payable and accrued expense	-	9,513	-	-	-	9,513
Senior notes - secured	-	105,408	88,882	152,768	327,799	674,857
	6,567	114,921	88,882	152,768	327,799	690,937
Net liquidity gap	**$66,913**	**$28,839**	**$77,544**	**$103,555**	**($102,849)**	**$172,002**
Net liquidity gap - cumulative	**$66,913**	**$95,752**	**$173,296**	**$276,851**	**$174,002**	

Financial assets matched against financial liabilities at 30 September 2020 (undiscounted contractual cash flow):

	On demand $000	0 - 6 months $000	6 - 12 months $000	12 - 24 months $000	24 - 60 months $000	Total $000
Monetary assets						
Cash at bank	266	-	-	-	-	266
Cash in restricted bank accounts[1]	72,505	-	-	-	-	72,505
Accounts receivable	-	1,347	-	-	-	1,347
Finance receivables	-	161,120	162,100	252,849	210,441	786,510
	72,771	162,467	162,100	252,849	210,441	860,628
Monetary liabilities						
Committed cash advance	43,200	-	-	-	-	43,200
Accounts payable and accrued expense	-	11,395	-	-	-	11,395
Senior notes - secured	-	127,101	41,104	245,042	182,539	595,786
	43,200	138,496	41,104	245,042	182,539	650,381
Net liquidity gap	**$29,571**	**$23,941**	**$120,996**	**$7,807**	**$27,902**	**$210,247**
Net liquidity gap - cumulative	**$29,571**	**$53,542**	**$174,538**	**$182,345**	**$210,247**	

[1] Not available for general use

Note 20: Liquidity risk cont ...

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulties in meeting contractual obligations associated with financial liabilities. The Group manages liquidity risk by maintaining sufficient liquid funds to meet its commitments, based on historical and forecast cash flow requirements.

The contractual maturity profile reflects the remaining period to contractual maturity of assets and liabilities at balance date. The finance receivable amount is based on undiscounted contractual cash flow and not based on the fair value amount in the balance sheet. The amounts in the liquidity profile include both interest and principal repayments. MTF Finance has unutilised facilities with its transacting shareholders at balance date; however, as MTF Finance is not contractually obligated to meet the funding obligations related to these facilities they are not included in the liquidity profile.

Liquidity risk management

Liquidity risk is managed primarily through access to the MTF Finance securitisation programme by which finance receivables are sold.

The Warehouse notes issued are subject to a credit rating by Standard and Poor's Rating Services, while Pantera and Rambler notes are subject to a credit rating by Fitch Ratings.

The Senior Warehouse note maturity date is a maximum of 72 months after the expiry date of the facility. The next facility review is 15 February 2022. Senior Pantera and Rambler notes have a maturity date of 96 months after the issue dates of 15 June 2021 and 15 August 2019, respectively. Details of the securitisation programme are contained in Note 10 of these consolidated financial statements.

Other than the MTF Finance securitisation programme, the Group has access to committed credit facilities utilised to fund finance receivables that are not eligible to be securitised.

The Group manages non-securitised assets and liabilities to ensure maturities allow an adequate margin between the requirements to fund non-securitised assets and access to funding.

The Group sets a credit facility limit for each transacting shareholder, based on criteria such as the assessed quality of receivables introduced by the transacting shareholder and the transacting shareholders assessed financial position.

Concentration of funding risk

MTF Finance has concentration of funding risk to the MTF Finance securitisation programme for the future legal sale of finance receivables, which may arise in the event that MTF Finance is unable to meet the terms and conditions of the securitisation programme or in the event the programme is unable to provide a continuous source of funding, for reasons outside the control of MTF Finance. At 30 September 2021, MTF Finance complies with all covenants of the MTF Finance securitisation programme.

Note 21: Market risk

Market risk

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

Market risk management

The objective of market risk management is to control market risk exposure, to achieve optimal returns, while maintaining risk at acceptable levels. An annual review of treasury policy and risk management is performed, with the Directors ensuring that recommendations arising are investigated and actioned where necessary.

A Risk Committee consisting of the Chief Executive Officer, Chief Financial Officer, Chief Information Officer, Manager – Credit, Legal, Risk & Compliance Manager and Finance Manager meets regularly to consider all risks facing the group, including balance sheet risk and management, within the framework of Director approved treasury policy.

Interest rate risk

Securitisation programme funding

To economically hedge the fixed rate income from securitised receivables, the Group enters into interest rate swaps to convert the floating rate interest liability on Warehouse, Pantera and Rambler Trust senior notes and Honda Trust loan facility into fixed interest cost.

Actual loss incurred on early termination of a loan agreement is passed to the customer as part of the settlement process.

Other funding

Interest rate risk is managed by generally matching maturities on the non-securitised funding facilities with maturities on the non-securitised finance receivables. Interest rates on funding facilities are set out in Note 10.

Management monitors interest rates on an on-going basis, and from time to time, may lock in fixed rates on the next floating reset using swap contracts when it considers that interest rates will rise. At 30 September 2021, the committed cash advance facility had interest rate maturity of less than 90 days.

The committed cash advance is renegotiated at market rates upon maturity.

Management may economically hedge the perpetual preference share interest rate reset, which occurs annually on 30 September. The effect is to lock in fixed rates on the next rate reset, using swap contracts, when it considers that interest rates may rise.

Financial assets

Interest rates applicable to finance receivables are fixed for the term of the finance receivables. The weighted average interest rate applicable to finance receivables at 30 September 2021 was 5.40% (2020: 6.05%).

Cash at bank and cash in restricted bank accounts are at call with interest rate maturities of less than 30 days. The weighted average interest rate applicable to cash balances at 30 September 2021 was 0.25% (2020: 0.25%).

Note 21: Market risk cont ...

Interest rate sensitivity

The sensitivity analysis is based on the exposure to interest rates for both derivative and non-derivative instruments at balance date. A change in interest rates impacts the fair value of fixed rate assets and interest rate swaps. Fair value changes impact profit and loss only where the fixed rate assets are measured at FVTPL.

A 100 bp change (2020: 20 bp) represents the Group's best estimate of a reasonably possible change in interest rates and is considered appropriate for interest rate sensitivity based on historical and current economic forecasts.

Impact on profit (loss) after tax:

	2021 $000	2020 $000
100 bp increase in interest rates (2020: 20 bp)	313	(4)
100 bp decrease in interest rates (2020: 20 bp)	696	723

Impact on equity:

	2021 $000	2020 $000
100 bp increase in interest rates (2020: 20 bp)	313	(4)
100 bp decrease in interest rates (2020: 20 bp)	696	723

Note 22: Capital risk management

Capital structure:

	2021 $000	2020 $000
Ordinary shares	19,437	23,073
Retained earnings	35,449	35,443
Perpetual preference shares	38,966	38,966
Total capital for capital management purposes	**$93,852**	**$97,482**

Capital structure

The Group manages its capital to ensure that it will continue as a going concern, while optimising the return to transacting shareholders through an efficient mix of debt and equity instruments. For purposes of capital management, the capital structure of the Group consists of ordinary shares, retained earnings and perpetual preference shares.

During the year the Group purchased shares from non-transacting originators as to better align the interests of originators and shareholders. These shares are held by the Group as treasury shares and comprise ordinary shares along with the share capital invested by the Group's ordinary shareholders.

Covenants

The Group is subject to externally imposed capital requirements through a variety of covenants under banking, securitisation and trustee arrangements. These covenants monitor capital as a percentage of securitised finance receivables, unsecuritised finance receivables, total net tangible assets and total assets, at a Group level.

These covenants are reflected in the Group treasury policy and performance is reported weekly to Management and monthly to the Directors and external funding parties. During the period, the Group complied with all covenants.

Risk management

The Directors are responsible for the Group system of risk management. The Directors regularly monitor the operational and financial risk aspects of the Group and, through the audit committee, consider the recommendations and advice of external advisors.

Note 23: Cash in restricted bank accounts

Cash in restricted bank accounts

Payments received from customers with respect to securitised finance receivables are paid into bank accounts maintained within the securitisation programme and are credited against the applicable securitised receivable account monthly in accordance with the programme payment cycle. Included in cash in restricted bank accounts is liquidity support required for the securitisation programme and cash required under the payment waiver programme.

Note 24: Derivative financial instruments

Policy

The Group enters into various financial instruments for the primary purpose of reducing exposure to fluctuations in interest rates. Derivative financial instruments, consisting of interest rate swap agreements, are classified as held for trading and are used to economically hedge the cash flows of the securitisation funding of finance receivables and perpetual preference share dividends. While these financial instruments are subject to risk that market rates may change subsequent to acquisition, such changes are usually offset by opposite effects on the items being economically hedged.

Derivatives are recognised initially at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately.

Fair value:

	2021 $000	2020 $000
Interest rate swaps	4,313	(8,836)
	4,313	**(8,836)**

Interest rate swaps:

	Average contracted interest rate		Notional principal amount		Fair value	
	2021 %	2020 %	2021 $000	2020 $000	2021 $000	2020 $000
Less than 1 year	0.91	1.15	260,754	254,332	1,622	(3,790)
1 to 2 years	0.89	0.97	202,286	195,761	1,362	(2,842)
2 to 3 years	0.93	0.78	121,035	114,894	890	(1,580)
3 to 4 years	1.05	0.57	46,940	42,041	361	(535)
4 to 5 years	1.54	0.17	10,107	8,104	78	(89)
			$641,122	**$615,132**	**$4,313**	**($8,836)**

Judgements

The fair value of derivative financial instruments is based on discounted cash flow using observable market data. The fair value includes adjusting for counterparty credit risk.

Interest rate swaps

The above table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding at reporting date.

The interest rate swaps have been entered into with trading banks. The Group exposure to credit risk from these financial instruments is limited because it does not expect non-performance of the obligations contained therein due to the credit rating of the financial institutions concerned. The Group does not require collateral or other security to support these financial instruments.

Note 25: Investment in subsidiaries

Policy

Subsidiaries are entities controlled by MTF Finance. MTF Finance controls an entity when it has power over the entity, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Securitisation entities are designed so that their activities are not governed by way of voting rights. In assessing whether the Group has power over such entities, the Group considers factors such as:

- purpose and design of the entity
- ability to direct the relevant activities of the entity
- nature of the relationship with the entity; and
- size of its exposure to the variability of returns of the entity.

MTF Finance reassesses whether it controls an investee if facts and circumstances indicate that there have been changes to one or more element of control.

Name of entity	**Principal activity**	**Percentage held**	
		2021	2020
MTF Leasing Limited	Leasing	100%	100%
MTF Securities Limited	Non-trading	100%	100%
MTFS Holdings Limited	Non-trading	100%	100%
MTF Finance Limited	Non-trading	100%	100%
MTF Direct Limited	Non-trading	100%	100%
MTF Limited	Non-trading	100%	100%
MTF Treasury Limited	Securitisation	100%	100%
MTF Warehouse Trust No.1	Securitisation	-	-
MTF Sierra Trust 2017	Securitisation	-	-
MTF Rambler Trust 2019	Securitisation	-	-
MTF Pantera Trust 2021	Securitisation	-	-
Honda Trust	Securitisation	-	-

Judgements

The Group consolidates the securitisation entities, MTF Warehouse Trust No.1 (Warehouse Trust), MTF Sierra Trust 2017 (Sierra Trust), MTF Rambler Trust 2019 (Rambler Trust), MTF Pantera Trust (Pantera Trust) 2021 and Honda Trust on its balance sheet.

Management make judgements about MTF Finance's power over the securitisation entities, its exposure to variable returns and its ability to affect those returns by exercising its power.

Subsidiaries

Each subsidiary and controlled entity has a balance date of 30 September and is domiciled in New Zealand.

Note 26: Categories of financial instruments

Policy

Financial assets and derivative financial instruments are classified into one of the following categories at initial recognition:

- financial assets measured at amortised cost
- fair value through profit or loss

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Financial assets measured at amortised cost

Cash at bank and in restricted bank accounts and accounts receivable are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest method, net of provisions for impairment.

Note 26: Categories of financial instruments cont ...

Fair value through the profit or loss

The Group measures all finance receivables at FVTPL, as the business model and contractual cash flow characteristics of these assets do not meet the criteria for measurement at amortised cost or fair value through other comprehensive income as per NZ IFRS 9.

The gain or loss on finance receivables measured at FVTPL is recognised in the statement of comprehensive income via the following line items:

- Gross interest income from finance receivables measured at FVTPL – is recognised using the effective interest method excluding origination fees, transaction costs and commissions.
- Commissions – are recognised on an accrual basis in line with the recognition of gross interest income.
- Fees – origination fees are recognised as revenue at the time of initial recognition of the finance receivable in accordance with the provisions of NZ IFRS 9 for financial instruments measured at FVTPL.
- Communication and processing expense – transaction costs are recognised as expenses at the time of initial recognition of the finance receivable in accordance with the provisions of NZ IFRS 9 for financial instruments measured at FVTPL.
- Bad debts – are recognised at the time when financial receivable balances from originators are known to be unrecoverable.
- Net gain/loss on financial instruments at fair value through profit or loss comprises the remaining net change in fair value of the financial instrument at FVTPL including changes in market and credit risks.

Derivative financial instruments, together with the floating rate funding, is used to manage the interest rate risk inherent in finance receivables. The derivatives are measured at fair value with movement recognised in profit before tax.

Financial liabilities

Debt and equity instruments are classified as financial liabilities or equity in accordance with the substance of the contractual arrangement.

Liabilities are recorded initially at fair value, net of transaction costs. Subsequently, all financial liabilities with the exception of derivative financial liabilities are measured at amortised cost with any difference between the initial recognised amount and the redemption value recognised in profit or loss in the consolidated statement of comprehensive income over the period of borrowing, using the effective interest rate method.

Offset financial instruments

The Group offsets financial assets and financial liabilities and reports the net balance in the consolidated balance sheet where there is a legally enforceable right to offset and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously. This is not applicable in the current year.

Note 26: Categories of financial instruments cont ...

Categorisation of financial instruments at 30 September 2021:

	Financial instruments at FVTPL	Financial assets at amortised cost	Financial liabilities at amortised cost	Total carrying amount
	$000	$000	$000	$000
Assets				
Cash in restricted bank accounts	-	73,480	-	73,480
Accounts receivable	-	2,399	-	2,399
Finance receivables	672,478	-	-	672,478
Derivative financial instruments (held for trading)	4,313	-	-	4,313
	$676,791	**$75,879**	**-**	**$752,670**
Liabilities				
Bank overdraft	-	-	367	367
Committed cash advance	-	-	6,200	6,200
Accounts payable and accrued expense	-	-	9,513	9,513
Lease liability	-	-	3,052	3,052
Senior notes - secured	-	-	642,528	642,528
	-	**-**	**$661,660**	**$661,660**

Categorisation of financial instruments at 30 September 2020:

	Financial instruments at FVTPL	Financial assets at amortised cost	Financial liabilities at amortised cost	Total carrying amount
	$000	$000	$000	$000
Assets				
Cash at bank	-	266	-	266
Cash in restricted bank accounts	-	72,505	-	72,505
Accounts receivable	-	1,346	-	1,346
Finance receivables	669,328	-	-	669,328
	$669,328	**$74,117**	**-**	**$743,445**
Liabilities				
Committed cash advance	-	-	43,200	43,200
Accounts payable and accrued expense	-	-	11,395	11,395
Lease liability	-	-	3,273	3,273
Senior notes - secured	-	-	583,250	583,250
Derivative financial instruments (held for trading)	8,836	-	-	8,836
	$8,836	**-**	**$641,118**	**$649,954**

Note 27: Events after balance date

Dividend

On 18 November 2021, the Directors declared a final dividend on paid-up ordinary shares of 2.83 cents per share amounting to $549,448 (fully imputed), for the period 1 October 2020 to 30 September 2021. The dividend is due for payment on 30 November 2021.

Honda funding facility

On 15 November 2021 the Facility Lender of the Facility Agreement agreed to increase the total commitment limit of the facility from $50 million to $65 million, effective from 15 November 2021.

Note 28: Segment information

Policy

NZ IFRS 8 requires operating segments to be identified on the basis of internal reports that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. Information reported to the Group chief operating decision maker is presented in consolidated form and is not disaggregated by segment, product or geographical data.

Segments

The Group operates predominantly in one industry, being the sale of finance receivables.

The Group operates in one geographical location, New Zealand.

Note 29: Statement of cash flows

Policy

The consolidated statement of cash flow has been prepared exclusive of GST, consistent with the method used in the consolidated statement of comprehensive income.

Cash and cash equivalents

Cash reflects the balance of cash and liquid assets used in the day-to-day management of the entity.

Netting of cash flows

Certain cash flows are netted to provide more meaningful disclosure. Committed cash advances and senior notes cash flows result from the day-to-day cash management of the Group and involve the rapid turnover of financial instruments or arrangements not exceeding three months. The turnover of these cash flows is netted.

Investing activities are activities involving the acquisition and proceeds from the sale of property, plant and equipment and intangible assets.

Financing activities are activities relating to changes in equity and debt capital structure and activities relating to the cost of servicing equity capital.

Operating activities are the principal revenue activities of the Group and other activities that are not investing or finance activities.

	2021 $000	2020 $000
Reconciliation of profit after tax to net cash flow from operating activities		
Profit after tax	8,001	4,960
Depreciation and amortisation	1,599	2,189
	9,600	**7,149**
Movement in other items		
Decrease in accounts receivable	(838)	446
Decrease in payment waiver indemnity prepayment	449	450
Decrease (increase) in finance receivables	(3,151)	22,866
Increase in committed cash advance	(37,000)	10,900
(Increase) decrease in deferred tax	3,621	(3,116)
Decrease in provision for tax	(2,932)	1,007
Increase (decrease) in accounts payable and accrued expense	(1,879)	1,007
(Decrease) increase in unearned payment waiver fees	45	(295)
(Decrease) increase in securitised funding	59,278	(46,103)
(Increase) decrease in derivative financial assets	(4,313)	-
(Decrease) increase in derivative financial liabilities	(8,836)	(861)
	4,444	(13,699)
Movement in working capital items classified as investing or financing activities	651	75
Net cash surplus from operating activities	**$14,695**	**($6,475)**

Deloitte.

Independent Auditor's Report

To the Shareholders of Motor Trade Finance Limited

Opinion

We have audited the consolidated financial statements of Motor Trade Finance Limited and its subsidiaries (the 'Group'), which comprise the consolidated balance sheet as at 30 September 2021, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, on pages 17 to 64, present fairly, in all material respects, the consolidated financial position of the Group as at 30 September 2021, and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs') and International Standards on Auditing (New Zealand) ('ISAs (NZ)'). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other assignments for the Group in the areas of taxation compliance, the audit of Trust financial statements and AML CFT programme assurance reporting. These services have not impaired our independence as auditor of the Company and Group. In addition to this, partners and employees of our firm deal with the Company and its subsidiaries on normal terms within the ordinary course of trading activities of the business of the Company and its subsidiaries. The firm has no other relationship with, or interest in, the Company or any of its subsidiaries.

Audit materiality

We consider materiality primarily in terms of the magnitude of misstatement in the financial statements of the Group that in our judgement would make it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced (the 'quantitative' materiality). In addition, we also assess whether other matters that come to our attention during the audit would in our judgement change or influence the decisions of such a person (the 'qualitative' materiality). We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group financial statements as a whole to be $2,300,000.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter

Valuation of Finance Receivables
 	
As disclosed in note 12, the Group has finance receivables of $672.5m at 30 September 2021.
 	
The Group measures its finance receivables at fair value through profit or loss.
 	
The Group estimates fair value using an internally developed discounted cash flow (DCF) model. At balance date, the discount rate used in the model reflects the current market interest rate and the weighted average credit margin in the finance receivable contracts (net of commission). The credit margin remains fixed throughout the term of the contract. The change in credit risk is reflected through a credit risk adjustment. The model uses a combination of observable data (market interest rates) and unobservable data (credit risk).
 	
There has been significant judgement required to consider the current year impact of the COVID-19 pandemic alongside forward-looking information to reflect future economic impacts.
 	
Disclosures about the fair value of finance receivables are included in notes 1 and 13 of the financial statements.
 	
The valuation of finance receivables is a key audit matter due to the size of the balance and the level of judgement applied by the Group in estimating fair value.
	Our procedures focused on the appropriateness of the valuation methodology and the reasonableness of the assumptions in the model.
	
	Our procedures included, amongst others:
	• Assessing the design and implementation of the controls over the completeness and accuracy of inputs to the model;
	• Selecting a sample of finance receivables and:
	  • Agreeing inputs (including outstanding principal, interest rate, maturity date, payment frequency and credit margin) to underlying contracts; and
	  • Recalculating the contribution of the sample to the weighted average credit margin (net of commission), and testing the mathematical accuracy of the weighted average credit margin (net of commission) calculation used in the model;
	• Agreeing market interest rates to independent external market data sources;
	• Selecting a sample of finance receivables and utilising an internal valuation specialist to independently calculate the value which reflects current market interest rates (using models and inputs independent of those used by the Group) and the weighted average actual credit margin (net of commission). Where necessary we then investigated variances from the fair value calculated by the Group to assess whether a systemic bias or error exists;
	• Assessing the adequacy of the adjustment for credit risk by:
	  • Assessing the design and implementation of controls over credit risk;
	  • Assessing the internal process for credit monitoring and reviews of transacting shareholder credit quality and performance;
	  • Challenging and evaluating the logic of management's credit risk methodology and the key assumptions, with a particular focus on the continuing impact of COVID-19.

Other information

The directors are responsible on behalf of the Group for the other information. The other information comprises the information in the Annual Report that accompanies the consolidated financial statements and the audit report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and consider whether it is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If so, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the consolidated financial statements

The directors are responsible on behalf of the Group for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible on behalf of the Group for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located on the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1

This description forms part of our auditor's report.

Restriction on use

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

Deloitte Limited

Heidi Rautjoki, Partner
for Deloitte Limited
Dunedin, New Zealand
18 November 2021

Governance

Framework

The MTF Finance Board (the Board) has adopted a corporate governance framework that encourages high standards of ethical conduct and provides appropriate accountability and control systems through the application of the Financial Markets Authority (FMA) 'Principles for corporate governance' detailed below. MTF Finance was founded as a co-operative company and maintains many elements of the co-operative model, including its governance structures.

Key governance policies are available on the MTF Finance website.

Principle 1: Ethical Standards

Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for these standards being followed throughout the organisation.

The Board recognises that high ethical standards and behaviours are central to good corporate governance and it is committed to the observance of its written Code of Conduct.

The Board are committed to the highest standards of corporate governance and Director behaviour in relation to their obligations to MTF Finance and one another, recognising that behaviours demonstrated by the Board influence the behaviour and culture of the entire organisation.

MTF Finance has adopted this code as a basis for the behaviour it expects of Directors. It is aligned with the MTF Finance staff policy and is intended to drive behaviour that is in line with the Company's values, goals, and legal obligations.

The Code is available on the Company's website.

MTF Finance has a Securities Trading Policy to mitigate the risk of insider trading in its securities by employees and Directors. Additional trading restrictions apply to Restricted Persons including Directors and certain employees. Details of Directors' shareholding are on page 80 of the annual report.

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Principle 2: Board composition and performance

To ensure an effective Board, there should be a balance of independence, skills, knowledge, experience and perspectives.

The Board is responsible for setting the strategic direction of the Company, overseeing the financial and operational controls of the business, putting in place appropriate risk management strategies and policies and enhancing shareholder value in accordance with good corporate governance principles.

The Board operates under a charter which:

- sets out the Board structure, role and responsibilities of Directors;
- procedures for the nomination, resignation and removal of Directors; and
- identifies procedures to ensure that the Board meets regularly, conducts its meetings in an efficient and effective manner and that each Director is fully empowered to perform their duties as a Director of the Company.

Day to day management of MTF Finance is undertaken by the executive team under the leadership of the Chief Executive Officer, through a set of delegated authorities which are reviewed regularly.

To perform their duties, Directors have unrestricted access to information, data and advice provided by MTF Finance's senior management and external advisers. Directors have the right, with the approval of the Board Chair or by resolution of the Board, to seek independent legal or professional advice at the expense of MTF Finance for the proper performance of their duties.

Board composition and appointment

The number of elected Directors and the procedure for their re-election or retirement at Annual Shareholder Meetings is set out in the Constitution of the Company.

A nominations committee convenes when there is a Board vacancy to fill and is comprised of the full Board. The Board takes into consideration capability, diversity and skills when reviewing Board composition and new appointments.

At each Annual Shareholder Meeting, one-third of the current Shareholder Directors retire by rotation and are eligible for re-election. Any Shareholder Directors appointed since the previous annual meeting must also retire and are eligible for election.

The Board currently comprises six Directors, two independent Directors and four shareholder Directors. They are elected based on the value they bring to the Board and against set criteria. Independent Directors are appointed to ensure ongoing balance in the Board composition in terms of finance and wider business knowledge.

Information on each Director is available on the MTF Finance website. Director's interests are disclosed on page 81 of this report.

The Company encourages all Directors to undertake appropriate training so that they may best perform their duties including attending technical and professional development courses.

The Board undertakes regular performance evaluation as it recognises that it is an important feature of effective governance and helps the Board achieve a greater understanding of its performance in the key areas of: role, meetings, purpose, stakeholders, conformance, performance, Management and Board, culture and capability. The evaluation assists the Board and Directors to recognise strengths and weaknesses, assess and benchmark performance and identify opportunities to improve.

Diversity

MTF Finance believes that diversity and inclusion of background, experiences, thoughts and ways of working lead to greater creative and innovative solutions which ultimately lead to a superior outcome for its stakeholders socially, economically and environmentally.

Diversity in MTF Finance includes (but is not limited to) the following: gender, race, ethnicity and cultural background, thinking, physical capability, age, sexual orientation, and religious or political belief. Hiring policies are non-discriminatory and offer equal employment opportunities for all.

As at 30 September 2021, the gender balance of Directors and Senior Management was as follows:

	2021		2020	
	Male	Female	Male	Female
Directors	5	1	6	-
Senior Management	6	3	7	3

Senior Management are defined as being the Chief Executive Officer (CEO), specific direct reports of the CEO and those that hold key functional responsibility.

Board meetings and attendance

The Board held nine scheduled meetings during the year. The table below sets out Directors' attendance at Board and Committee meetings during the year ended 30 September 2021.

	2021
Mark Darrow	9
Stephen Higgs (retired 18 Dec 2020)	2
Noel Johnston	9
Geoffrey Kenny	8
Stu Myles	9
Melanie Templeton (appointed 18 Dec 2020)	7
Grant Woolford	9

Principle 3: Board committees

The Board should use committees where this will enhance its effectiveness in key areas, while still retaining Board responsibility.

The Board has four Committees, being the Audit and Risk Committee, the Credit Committee, the Nominations Committee and the Remuneration Committee.

Committees allow issues requiring detailed consideration to be dealt with separately by members of the Board with specialist knowledge and experience, to improve the efficiency and effectiveness of the Board. The Board retains ultimate responsibility for the decisions and functions of its Committees and determines their responsibilities.

The committees meet as required and have Charters to provide terms of reference, which are approved and reviewed by the Board.

Each Committee is able to seek any information it requires from employees in pursuing its duties and to obtain independent advice where necessary.

The membership of each Committee is reviewed after the Annual Shareholder Meeting.

An IT Steering Committee has formed subsequent to balance date as part of the strategic focus of the business to address the legacy technology debt and investment in digital capability.

Audit and Risk Committee

The role of the Audit and Risk Committee is to assist the Board in overseeing matters relating to accounting, audit and reporting of MTF Finance and its subsidiaries.

The Committee is to provide a specific governance focus on enterprise risks and the financial management, accounting, audit and reporting of MTF Finance and its subsidiaries. A charter outlines the Audit and Risk Committee's delegated authority, duties, responsibilities and relationship with the Board.

The Committee must be comprised solely of Directors of MTF Finance, have a minimum of three members, with at least one independent Director, and have at least one Director with an accounting or financial background. The Chair of the Committee cannot be Chair of the Board.

Management attend these meetings as required. To provide a forum for free and open communication, the Committee routinely has Committee-only time with the external auditors without Management present.

Members as at 30 September 2021 were Melanie Templeton (Chair), Stu Myles and Grant Woolford. It met seven times during the financial year.

Nominations Committee

The Nominations Committee convenes to fill a Board vacancy as required to ensure appropriate Board skill sets and Director succession, and to oversee the process for identifying and recommending potential candidates for appointment as Directors.

The Nomination Committee members as at 30 September 2021 were Mark Darrow (Chair), Noel Johnston and Geoff Kenny. No meeting of the Committee was held in the current year.

Credit Committee

The Credit Committee reviews the lending and credit policies of the Company. It is also responsible for the approval of lending policies, the review of originator facility applications in line with delegated authorities.

The Credit Committee members as at 30 September 2021 were Melanie Templeton (Chair), Noel Johnston and Geoff Kenny.

Remuneration Committee

The Remuneration Committee reviews remuneration of Directors, the CEO and senior executive officers, annually.

The Remuneration Committee members as at 30 September 2021 were Mark Darrow (Chair), Stu Myles and Grant Woolford.

Committee meeting attendance

	Audit and Risk		Credit		Remuneration	
	Held	Attended	Held	Attended	Held	Attended
Mark Darrow	7	2*			1	1
Noel Johnston			15	15		
Geoffrey Kenny			15	14		
Stu Myles	7	7			1	1
Melanie Templeton	7	5*	15	15		
Grant Woolford	7	7			1	1

* On 18 December 2020, Mark Darrow became Chair of the Board of Directors replacing Stephen Higgs. In line with the Audit and Risk Committee Charter, he stepped down as Chair of the Audit and Risk Committee and was replaced by Melanie Templeton.

Principle 4: Reporting and disclosure

The Board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosures.

MTF Finance Directors are committed to keeping investors and the market informed of all material information about the Company and its performance and ensures compliance with legislative requirements.

In addition to all information required by law, MTF Finance also seeks to disclose all meaningful information to ensure stakeholders and investors are well informed, including financial and non-financial information. Compliance with NZX's listing rule 10.1.1 with respect to continuous disclosure is undertaken each meeting of the Board and documented in the minutes accordingly.

The Board is responsible for ensuring the consolidated financial statements give a true and fair view of the financial position of the Company and have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgements and estimates and for ensuring all relevant financial reporting and accounting standards have been followed.

For the financial year ended 30 September 2021, 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 consolidated financial statements with the Financial Reporting Act 2013.

The Chief Executive and Chief Financial Officer have confirmed in writing to the Board that the MTF Finance financial reports present a true and fair view in all material aspects.

MTF Finance's full and half year consolidated financial statements are available on the Company's website.

Non-financial information

The Board recognises the importance of non-financial information disclosure. MTF Finance discusses its strategic objectives and its progress against these in the Chair and CEO's commentary in shareholder reports, and at the Annual Shareholder Meeting.

The Company is committed to providing fair and responsible products and services that includes adherence to the Responsible Lending Code, the Responsible Credit-Related Insurance Code, and other various Acts.

Principle 5: Remuneration

The remuneration of Directors and executives should be transparent, fair and reasonable.

Director remuneration

The level of remuneration paid to Directors is approved by Shareholders. Directors also receive reimbursement for reasonable travelling, accommodation and other expenses incurred in the course of performing their duties.

The annual fees were last approved by Shareholders at the Annual Shareholder Meeting in March 2019. Any proposed increases in Director remuneration will be put to Shareholders for approval. Director fees are reviewed by the full Board using relevant market data with Directors having access to independent advice as necessary. Where independent advice is used by the Board, it will be disclosed to Shareholders as part of the approval process.

Board role	Approved remuneration
Board Chair	$95,000
Director	$53,000

Details of individual Directors' remuneration are detailed on page 80 of this report.

CEO remuneration

The review of the CEO's remuneration is the responsibility of the Remuneration Committee. The Committee has access to independent advice to assess CEO remuneration against the New Zealand market. The CEO's remuneration comprises a fixed base salary and a variable short term bonus. The short term bonus is paid against key performance targets agreed at the commencement of the financial year.

Principle 6: Risk management

Directors should have a sound understanding of the material risks faced by the entity and how to manage them. The Board should regularly verify that the entity has appropriate processes that identify and manage potential and material risks.

MTF Finance is committed to proactively managing risk and this is the responsibility of the entire Board. The Board provides oversight of the risk management framework and monitoring compliance with that framework.

The Board delegates day to day management of the risk management framework to the Chief Executive. Senior Management are required to regularly identify major risks affecting the business and develop structures, practices and processes to manage and monitor these risks. The Board is satisfied that risk management processes effectively identify, manage and monitor the principal risks of MTF Finance.

Health and safety

The Board recognises the need to provide employees with a safe and healthy workplace. MTF Finance will make every reasonable effort in accident prevention, injury protection and promotion of the health, safety and welfare of all employees and, where appropriate, to contractors and visitors.

The Board of MTF Finance has overall responsibility for the effective management of health and safety. MTF Finance has a Health and Safety Policy which is monitored and implemented by the Human Resources Committee and reviewed annually by the Board. Health and Safety reports, including incident reports and Committee minutes are reported monthly to the Board.

Principle 7: Auditors

The Board should ensure the quality and independence of the external audit process.

The Board's approach to the appointment and oversight of the external auditor ensures that audit independence is maintained, both in fact and appearance, such that MTF Finance's external financial reporting is viewed as being highly reliable and credible.

The Audit Committee provides additional oversight of the external auditor, reviews the quality and cost of the audit undertaken by the Company's external auditors and provides a formal channel of communication between the Board, Senior Management and external auditors. The Committee also assesses the auditor's independence on an annual basis.

For the financial year ended 30 September 2021, Deloitte Limited was the external auditor for MTF Finance. Deloitte Limited were automatically re-appointed under the Companies Act 1993 at the 2020 MTF Finance Annual Shareholder Meeting. Deloitte Limited are subject to regular partner rotations and cool off periods.

All audit work at MTF Finance is fully separated from non-audit services, to ensure that appropriate independence is maintained. The amount of fees paid to Deloitte Limited for audit and other services is disclosed in Note 6 of this report.

Deloitte Limited has provided the Board with written confirmation that, in their view, they were able to operate independently during the year.

Deloitte Limited attends the Annual Shareholder Meeting, and the lead audit partner is available to answer any questions from Shareholders at that meeting.

Principle 8: Shareholder relations and stakeholder interests

The Board should respect the rights of shareholders and foster constructive relationships with shareholders that encourage them to engage with the entity.

The Board is committed to open dialogue and to facilitating engagement with Shareholders.

MTF Finance has a calendar of key dates and events for Shareholders and maintains a comprehensive website which provides access to key corporate governance documents, copies of all major announcements, Company reports and presentations.

Shareholders are encouraged to attend the Annual Shareholder Meeting and may raise matters for discussion at this event. Shareholders have the ultimate control in corporate governance by voting Shareholder Directors on or off the Board.

In accordance with the Companies Act 1993 and MTF Finance's Constitution, MTF Finance refers major decisions which may change the nature of MTF Finance to Ordinary Shareholders for approval.

All Shareholders are given the option to elect to receive electronic communications from the Company. In addition to Shareholders, MTF Finance has a wide range of stakeholders and maintains open channels of communication for all audiences, including Shareholders, Originators and Investors.

Statutory information

Reporting entity

Motor Trade Finance Limited (MTF Finance) is a finance company whose principal activity is the provision of motor vehicle finance facilities to its transacting shareholders.

MTF Finance is incorporated under the Companies Act 1993, with its equity shares held by ordinary and perpetual preference shareholders.

Regulatory environment

The Company is regulated by the Financial Reporting Act 2013. The Company is an issuer for the purposes of the Financial Markets Conduct Act 2013.

The Company is obliged to comply with Financial Reporting (information disclosure) Regulations.

Auditor

Deloitte Limited has continued to act as auditor of the Company, and has undertaken the audit of the consolidated financial statements for the 2021 financial year.

Director indemnity and insurance

The Company has arranged policies of Directors and Officers liability insurance that, together with an indemnity provided under the Company constitution, ensures that generally Directors will incur no monetary loss as a result of actions taken by them as Directors. Certain actions are excluded, for example, penalties and fines, which may be imposed in respect of breaches of law.

Information by Directors

There were no notices from Directors requesting the use of Company information received in their capacity as Directors that would not otherwise be available to them.

Donations

The Company made a donation of $5,000 to the Orokonui Ecosanctuary during the year.

Director remuneration, holdings and disclosure of interest

Remuneration and benefits paid to Directors:

	2021	2020
Scott Creahan[1]	-	37,640
Mark Darrow	86,098	6,085
Stephen Higgs	20,136	78,375
Noel Johnston	53,000	43,725
Geoffrey Kenny	53,000	43,725
Stu Myles[2]	53,000	18,972
Brent Robertson[3]	-	24,753
Grant Woolford	53,000	43,725
Melanie Templeton[4]	41,766	-
	$360,000	**$297,000**

[1] Scott Creahan ceased to be a Director on 27 July 2020.

[2] Stu Myles was appointed Director on 19 March 2020.

[3] Brent Robertson ceased to be a Director on 19 March 2020.

[4] Melanie Templeton was appointed Director on 18 December 2020.

The following entries are recorded in the Director interests register of the Company and its subsidiaries.

Director shareholdings

No Director owns ordinary shares in the Company. Noel Johnston, Geoffrey Kenny, Stu Myles and Grant Woolford are Directors of companies with shareholdings in MTF Finance and all four declared their interest in material matters affecting transacting shareholders of MTF Finance.

Shares held by associated companies of Directors:

	Ordinary shares	%
Noel Johnston	787,555	3.82
Geoffrey Kenny	346,376	1.68
Stu Myles	176,359	0.86
Grant Woolford	62,962	0.31
	1,373,252	6.67
Total shares on issue	**20,590,913**	**100.00**

Director holdings and disclosure of interest:

Disclosure of interest by Directors

In accordance with Section 140(2) of the Companies Act 1993, the Directors named below have made a general disclosure of interest by notice entered in the Company interest register.

Mark Darrow is also Chair of Leighs Construction, Invivo and Co, Armstrong's Group and Stratford Farms, and a Director of Balle Brothers Group Limited and Auckland Transport where he chairs the Finance and Audit Committee. He is a member of the Risk & Assurance Committee of the Inland Revenue Department.

Melanie Templeton is a Director of Xerra Earth Observation Institute Limited, Holmes Group Trustee, Pledgeme Limited and Booster Investment Management Limited. She is also a member of the Audit & Risk Committee of the Inland Revenue Department.

Noel Johnston is a Director of Noel Johnston Limited, Johnston Hall Limited, Johnston Bentley Limited and Direct 2 U Cars Limited.

Geoffrey Kenny is a Director of Geoff Kenny Limited and GBK Developments Limited.

Stu Myles is a Director of Myles and Fairhall Limited and Chair Trustee of Nova Trust.

Grant Woolford is a Director of Motorcycle Spot Limited, Motorcycles North Limited, 4Sale Group Limited, MTA Group Investments Limited, Motor Trade Association Incorporated and Garage Café Limited.

Shareholding

Twenty largest ordinary shareholders at 30 September 2021:

Shareholder rank and name		Holding	% Total ordinary shares
1	Motor Trade Finance Limited (treasury stock)	1,153,661	5.60
2	Honda New Zealand Limited	906,623	4.40
3	Douglas Rushbrooke Limited	729,503	3.54
4	Cheryl Renouf Limited	500,805	2.43
5	Paul A Robinson Limited	407,352	1.98
6	Noel Johnston Limited	383,564	1.86
7	Hamilton Parker Limited	350,941	1.70
8	Geoff Kenny Limited	346,376	1.68
9	Richard S Scott Limited	333,655	1.62
10	Mark and Joy Diggelmann Limited	317,269	1.54
11	Ferguson Robertson Limited	280,079	1.36
12	Tony Gow Limited	278,762	1.35
13	Johnston Hall Limited	271,785	1.32
14	Neil Wolfgram Limited	269,536	1.31
15	John Davidson Limited	267,389	1.30
16	Collier Sendall Limited	266,812	1.30
17	Patterson & Patterson Limited	236,784	1.15
18	Bill & Tim Hintz Limited	225,628	1.10
19	Grant Cashmore Limited	224,608	1.09
20	Cartown Great Wall Limited	217,315	1.06
Total shares on issue		**20,590,913**	**100.00**

Employee remuneration

Remuneration and benefits of $100,000 p.a. or more received by employees as employees:

Range	Number of employees	
	2021	2020
$100,000 - $109,999	8	6
$110,000 - $119,999	8	6
$120,000 - $129,999	3	4
$130,000 - $139,999	3	2
$140,000 - $149,999	3	4
$150,000 - $159,999	3	3
$160,000 - $169,999	1	2
$170,000 - $179,999	1	-
$180,000 - $189,999	-	2
$190,000 - $199,999	1	-
$200,000 - $209,999	1	2
$210,000 - $219,999	-	1
$220,000 - $229,999	1	1
$230,000 - $239,999	1	-
$240,000 - $249,999	-	1
$330,000 - $339,999	1	-
$360,000 - $359,999	-	1
$510,000 - $519,999	1	-
$610,000 - $619,999	-	1

No remuneration is paid by subsidiaries.

Directory

Directors

Mark Darrow (Chair)
Melanie Templeton
Noel Johnston
Geoffrey Kenny
Stu Myles
Grant Woolford

Management

Glen Todd (Chief Executive Officer)
Kyle Cameron (Chief Financial Officer)
Brent Dunshea (National Franchise Manager)
Ron Frater (National Dealer Manager)
Angus Geary (Marketing & Communications Manager)
Yoel George (Credit Manager)
Hayley Guest (Legal, Risk & Compliance Manager)
Ashley Ross (Chief Information Officer)
Jane Stumbles (People & Culture Manager)

Perpetual preference share registrar

Computershare Investor Services Limited
+ 64 9 488 8777
enquiry@computershare.co.nz

Ordinary share registrar

Computershare Investor Services Limited
+64 9 488 8777
enquiry@computershare.co.nz

Trustee for securitisation programme

Trustees Executors Limited

Bankers

Bank of New Zealand
Commonwealth Bank of Australia
Mitsubishi UFJ Financial Group (MUFG)
Westpac New Zealand

Solicitors

Bell Gully
Gallaway Cook Allan

Auditor

Deloitte Limited

Registered office

Level 1, 98 Great King Street, Dunedin
PO Box 885, Dunedin 9054

Enquiries

+64 3 477 0530
info@mtf.co.nz
www.mtf.co.nz


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