Motor Trade Finance Ltd

Annual Report 2017

mtf finance

Contents

mtf finance

Financial highlights

	2017 $m	2016 $m
Operating result		
New loans	567.4	418.0
Profit after tax	7.5	7.2
Profit before commission and other gain (loss)	48.8	45.4
Underlying profit after tax [1]	7.3	7.9
Total assets	670.2	596.5
Total assets under management [2]	721.0	599.6
Capital	88.3	85.2
Performance indicators		
Net interest income/average finance receivables	9.3%	9.4%
Expense/average total assets under management [3]	2.6%	2.8%
Impaired asset expense/average finance receivables	0.1%	0.1%
Capital percentage	13.2%	14.3%
Shareholder value (per ordinary share)		
Adjusted net asset backing [4]	$2.13	$2.00
Underlying profit after tax [5]	$0.26	$0.28
Dividend for the year (net)	$0.1337	$0.1396

[1] Underlying profit removes the volatility of unrealised fair value movements, and provides a more consistent measure of company performance.

	2017 $000	2016 $000
Profit after tax	7,528	7,168
Adjustments:		
Finance receivables designated at fair value (note 5)	3,443	1,087
Interest rate swap derivatives at fair value (note 5)	(3,756)	(67)
Total adjustments before tax	(313)	1,020
Tax on adjustments	88	(286)
Underlying profit after tax	7,302	7,902

[2] Assets under management includes finance receivables managed under an arrangement with Honda New Zealand and Dorchester Finance Ltd (Turners), that are not recognised on the MTF balance sheet
[3] Expense excludes commission and bad debt
[4] Adjusted net assets comprises net assets less perpetual preference shares
[5] Excludes dividends paid to perpetual preference shareholders

Review of operations

Financial performance:

Profit before commission and fair value movement is up 7.5%, to $48.8m, a consequence of record sales growth in 2017. Commission paid to shareholder originators increased 10.5% to $37.6m.

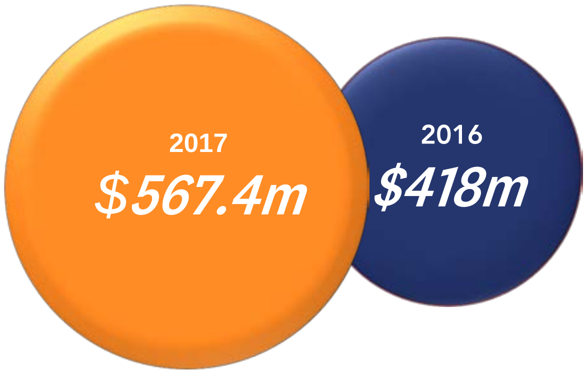
Total amounts paid to shareholder originators, including commission, fees and payment waiver, increased 29.3% to $69.9m, as originators have benefited from strong sales growth and a change in our product offering to include a non-recourse option.

Underlying profit after tax, which removes the volatility of unrealised fair value movements, and provides a more consistent measure of company performance, decreased 7.6% to $7.3m (2016: $7.9m).

Unrealised loss on fair value of financial instruments totalled $0.4m, compared to $1.2m last year, giving net profit after tax of $7.5m (2016: $7.2m).

Sales growth of 35.7%

from $418m in 2016 to $567.4m for 2017



Sales throughout the year grew an impressive 35.7%, or $149.4m, to $567.4m. This large increase was the result of the completion of several initiatives, on top of a very buoyant year for vehicle sales. The introduction of non-recourse in late 2016 contributed $58.6m in sales and has proved a popular supplement to our traditional recourse offering with both dealers and franchises. We have included non-recourse in our sales and market share figures as they have been generated through our business channel, with our customers. Under the arrangement, non-recourse receivables are assigned to and funded by Turners on creation, with MTF receiving a fee for administration, and consequently they are not included on our balance sheet.

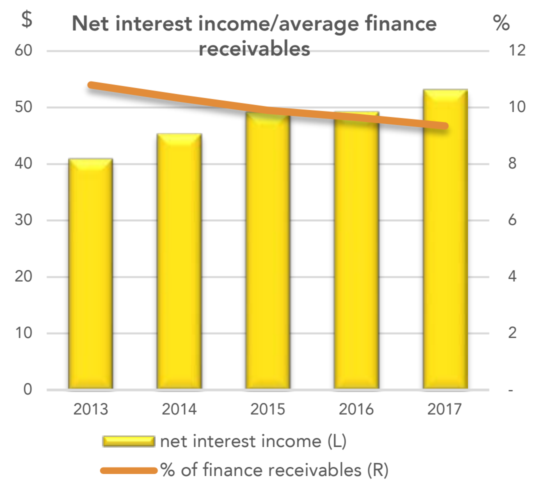
The vehicle lending market generally remains very competitive with record PPSR registrations in 2017. The fact that we have grown our market share 17%, to 13.6% (2016: 11.6%), in a very bullish market, reflects the success of our strategic positioning and strength in our distribution model.

Operating expense, excluding bad debt, as a percentage of assets under administration dropped to 2.6% (2016: 2.8%). We continue to focus on robust cost management, while investing in areas that will ensure the business' future success.

Staff expense increased as we have invested in the necessary resource in response to, and in preparation for, substantial volume growth. Administration expense held steady and we will continue to ensure a strong cost management focus in this area.

Communication and processing expense increased 7.1%, due mainly to increased software licensing costs incurred, as we begin to expand our origination and sales tools through partnership with smart and innovate technology companies. This change in approach has contributed to a drop in depreciation and amortisation of 6%. Bad debt of $0.1m (2016: $0.1m) continues to be minimal.

mtf finance



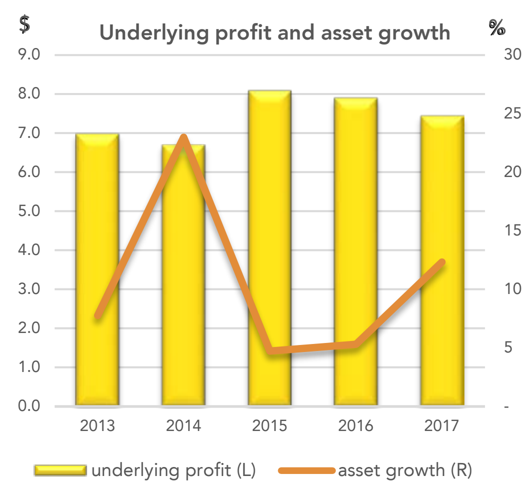
Financial position and liquidity:

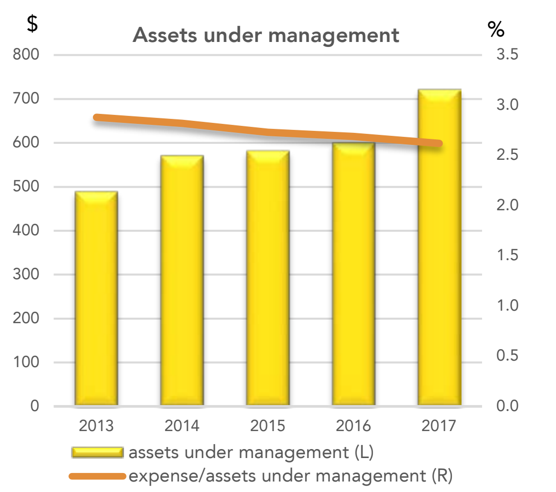
Total assets increased $73.6m (12.3%), on the back of excellent sales, with finance receivables accounting for the increase, up $65.7m. Assets under management totalled $721m at 30 September 2017 (2016: $596.6m) and include the non-recourse receivables under the arrangement with Turners.

Net interest income, as a percentage of average finance receivables, of 9.3% (2016: 9.4%) is consistent with expectations and reflects the competitive pressures of the current lending market.

Growth in finance receivables was funded through securitised borrowings, which increased $86.1m to $552.6m. Securitisation facilities have sufficient capacity to fund forecast growth with $25.3m undrawn at year end.

In September we completed the launch of the MTF Sierra Trust with the issue of $220m of medium term notes to institutional investors. This deal was out of MTF's traditional two-year cycle, with strong sales and high investor demand for our product enabling us to launch relatively quickly after our last issue in late 2016.





A new brand:

The MTF brand is changing to reflect the local, customer-centric New Zealand-owned business we want to be.

We chose design and colours to be more friendly and welcoming, and dropped references to vehicles to reflect and encourage broader asset lending. This new direction in the image is more energetic and future-focussed, and we're hoping to pass on that energy to our stakeholders and customers.

In the past year we've grown to 64,000 customers

mtf finance

Our strategic focus:

MTF is a commercial enterprise with a co-operative spirit. Our future success depends on continuing to do things smarter, delivering superior cost effective finance and insurance services to originators so that they can best service the needs of their customers, and providing a good return to shareholders.

The automotive and finance industries are changing, with the key elements of car-sharing, autonomous vehicles, new technologies and customer expectations combining for significant impact. In the near-future, changing consumer behaviour, enabled by the internet and mobility, are expected to drive changes in financial services. Time-consuming paperwork will need to be replaced with information digitised and customised.

To gain and retain customers MTF must meet and exceed their needs and expectations at every interaction. To achieve this it is important that the 'customer-centric' model is embedded within the culture of MTF. MTF will focus on delivering exceptional support and service to all our customers and stakeholders through a programme of continuous improvement and innovative solutions that incorporate the strength of the local, human relationships between customers and our originating network.

Due to our low cost operating base and rapidly changing consumer landscape, we must think outside the traditional design and build model we used successfully in the past. Partnerships with companies at the leading edge of technological innovation will be a key strategy in delivering transformational change to our customer and originator offerings. The first projects to deliver on this direction are underway with a customer management tool and a smart online application platform currently in pilot phase.

In 2016 MTF launched digital signature capture via iPad. The uptake of this was encouraging and in October we began piloting the next evolution that will allow full loan origination to be done via the iPad. We anticipate this will have significant impact on how our originators can interact with customers though offering a fully mobile and paperless service.

In November 2016 we informed you of a partnership with Turners to provide a non-recourse offering to our originators. This partnership allows all MTF shareholders to benefit from Turners' ledger management experience, without exposure to the credit risk or MTF needing to resource a new team to manage this ledger.

The uptake has significantly exceeded all parties' expectations with sales in excess of $58m since roll out in late 2016. The addition of a non-recourse product to supplement our traditional recourse offering presents MTF with exciting opportunities for the future.

The product was introduced primarily to provide motor vehicle dealer originators an alternative way of supporting the company they own and reflects the changing appetite this market channel is developing towards credit risk. It will also provide franchise originators a product to supplement their recourse ledger and provide a mechanism to balance out the risk of their portfolio in line with their individual risk appetites.

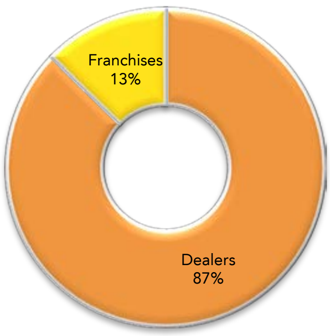
Our shareholders:

During a year where market competitive pressure has been intense, MTF has continued to produce excellent returns to both our originators and shareholders, which is something we actively look to balance. Return on ordinary equity, using underlying profit after tax, was 12.2%, down from 13.9% in 2016, still a very competitive return. Ordinary shares have continued to trade strongly and the share price is now in line with the net tangible asset value of $2.13.

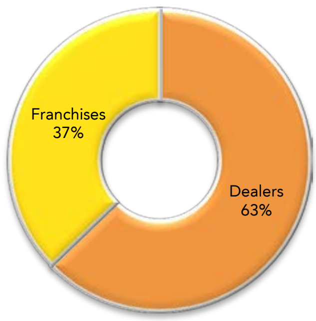
On 16 November 2017, the directors approved a final dividend of 7.37 cents per ordinary share for payment on 30 November 2017. Total distribution relevant to the period will be 13.37 cents per share (2016: 13.96 cents per share) or $3.1m (2016: $3.2m).

Perpetual preference share dividends totalling $1.3m (30 September 2016: $1.5m) were paid during the period. The dividend rate is set annually at 2.40% over the one-year swap rate, and was reset at 4.43% (2016: 4.47%) on 2 October 2017, for the twelve months to 30 September 2018.

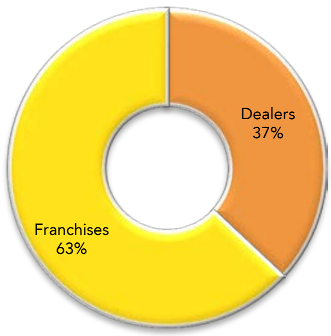
Originator number

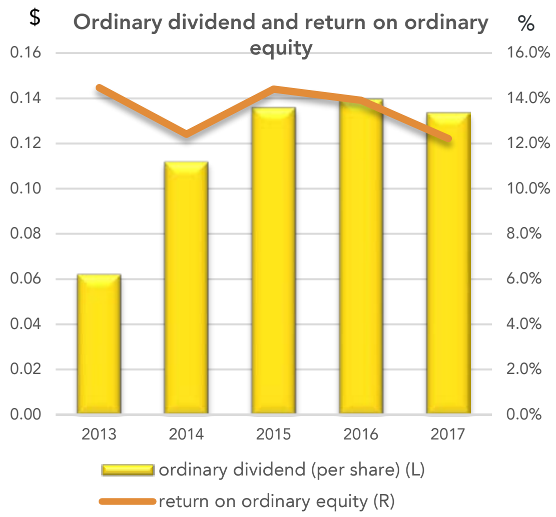


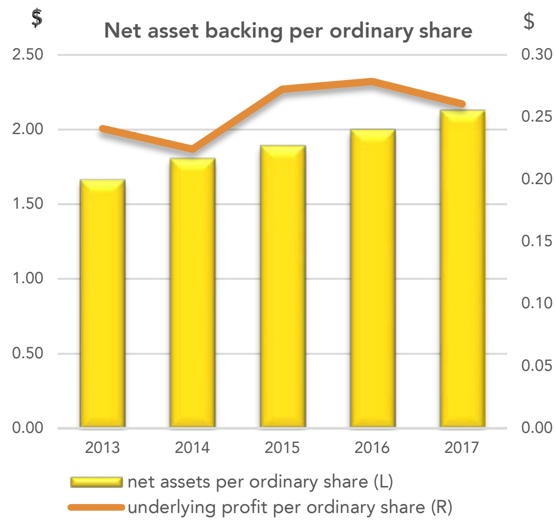
Shareholding



Net receivables







Our people:

$69.9m paid to originators

(up 29.2% from $54.1m in 2016)

Our success has come with significant commitment and effort from our staff and management team. The dedication and performance of our team throughout a year of intense growth and change deserves to be acknowledged and puts us in a great position for the future. Our staff numbers have grown in recent years as we have geared up to address the increase in business and the demands of regulatory compliance, and have put in place the extra resource we need to deliver on our long term objectives.

The support of our originators has also been a key driver of our success. The reward for our originators has been record income from MTF in 2017 of $69.9m, up from $54m last year, coupled with good dividends and growth in company value. They will also get to play a vital part in the building of a progressive and agile company, where we will listen to feedback to ensure that together we deliver the tools and products that will enable them to exceed customers' expectations.

Outlook:

Vehicle sales were at unprecedented levels over 2017 and reflect a well performing and confident economy. Economic growth is forecast to continue at a modest pace, but some of the previous drivers of growth are waning. The building boom has stalled, housing has cooled, and net immigration may have passed its peak.

The worldwide speculation surrounding disruption in the areas where we operate, being the automotive and financial markets, has intensified over the past year. What we do know is that our markets are set for change, and while the extent and pace of this change remains unclear, we know we must position ourselves to adapt early and not wait to react. The board and management are confident that because we are agile, adaptive and put the customer at the centre of everything we do, we can look for new opportunities to support sustainable growth and profitability.

Stephen Higgs
Chairman

Glen Todd
Chief Executive Officer

Five year financial review

	2017 $000	2016 $000	2015 $000	2014 $000	2013 $000
Financial performance					
Total income	92,926	88,687	90,182	81,340	73,295
Operating expense (excluding bad debt)	17,332	16,288	15,735	15,761	13,303
Bad debt	112	95	105	(180)	293
Profit before commission and other gain or loss	48,781	45,389	45,221	42,314	39,316
Commission	37,610	34,031	33,399	31,636	29,374
Profit (loss) after tax	7,528	7,169	6,942	6,143	8,171
Underlying profit after tax[1]	7,302	7,902	8,091	6,707	6,989
Financial position					
Assets	670,157	596,520	566,501	540,910	439,996
Liabilities	581,958	511,346	483,880	460,234	362,895
Capital	88,199	85,174	82,617	80,676	77,101
Finance receivables	600,961	535,237	512,151	484,421	393,408
Performance indicators					
Net interest income/average finance receivables	9.35%	9.40%	9.87%	10.33%	10.80%
Operating expense (excluding bad debt)/average total assets under management	2.62%	2.76%	2.73%	2.98%	2.89%
Return on assets (underlying profit after tax)	1.20%	1.39%	1.46%	1.37%	1.65%
Capital percentage	13.16%	14.28%	14.58%	14.91%	17.52%

[1] Underlying profit after tax removes the volatility of unrealised fair value movement and provides a more consistent measure of company performance. A reconciliation of profit after, to underlying profit after tax is shown on page 3.

mtf finance

Governance

Framework:

The board of directors is responsible for the governance of the Company.

Motor Trade Finance Limited (MTF) is incorporated under the Companies Act 1993, with equity shares held by ordinary and perpetual preference shareholders.

Board:

The Company expects its employees and directors to act ethically, legally and with integrity, in line with the Company principles and values. A Code of Ethics sets out clear expectations of ethical decision making and behaviour by directors. The code deals with the Company's responsibilities to shareholders, staff and other stakeholders and sets out procedures for reporting any concerns regarding breach of the code.

The primary responsibilities of the directors include:

- working with management to create shareholder value
- setting the long-term goals of the Company and the strategic plans to achieve those goals
- approving budgets for the financial performance of the Company, and monitoring results
- managing risk by ensuring that the Company has appropriate systems of internal control
- ensuring preparation of annual and half-yearly financial statements

The board carries out its responsibilities according to the following principles:

- the number of directors will be no fewer than six, and no greater than seven
- a director may not simultaneously hold the positions of Managing Director and Chairman
- directors meet regularly throughout the financial year
- all available information to be discussed at a meeting of the board is provided to each director prior to that meeting

At 30 September 2017, the board consisted of four transacting shareholder directors, two independent directors. Information about directors is set out on page 46 of this report. The board met fourteen times during the year ended 30 September 2017.

Board committees:

Committees enhance board effectiveness, while preserving overall board responsibility. Committees have terms of reference for the roles performed by the board, and report to the board on their deliberations, together with any decisions requiring board ratification.

The board regularly reviews the roles, membership and effectiveness of committees. Committees may be formed for specific purposes and disbanded, as required. The permanent committees are:

Audit : Scott Creahan, Graeme Gibbons (Chair), Stephen Higgs

The audit committee provides a forum for communication between the board and the external auditor. The committee reviews:

- annual and half-yearly financial statements prior to approval by the board
- effectiveness of management information systems and systems of internal control
- efficiency, effectiveness and independence of the external audit function
- adviser business statement required by the Financial Markets Authority

Remuneration: Graeme Gibbons, Stephen Higgs (Chair)

The remuneration committee reviews the remuneration of directors and the Chief Executive Officer, annually.

Credit: Scott Creahan, Geoffrey Kenny, Mike King (Chair), Brent Robertson

The credit committee reviews credit risk, recommends credit policy and approves large exposures.

Nomination: full board

The committee convenes to fill a board vacancy.

Risk management:

The board is responsible for the system of internal control and regularly monitors the operational and financial aspects of Company activities and, through the audit committee, considers the recommendations and advice of external auditors.

A cycle of internal risk reviews covers treasury, finance, credit, compliance and information technology. The board ensures that recommendations arising from external or internal audit risk reviews are investigated and, where considered necessary, suitable action is taken to ensure that the Company has an appropriate environment in place to manage the risks identified.

The board requires that management investigates ways of enhancing risk management strategies, including appropriate segregation of duties and the employment and training of suitably qualified and experienced personnel.

An asset and liability committee, consisting of the Chief Executive Officer, Chief Financial Officer, Manager-Credit and Compliance, Trust Manager and Treasury Manager, meets regularly to consider balance sheet risk and management, within the framework of board approved treasury management and credit policy.

Remuneration of directors:

Remuneration and benefits paid to directors:

	2017	**2016**
Scott Creahan	50,000	47,500
Graeme Gibbons	50,000	47,500
Stephen Higgs	90,000	88,000
Geoffrey Kenny	50,000	47,500
Mike King	50,000	47,500
Brent Robertson	50,000	47,500
	$340,000	**$325,500**

Consolidated statement of comprehensive income

Year ended 30 September 2017

	Note	2017 $000	2016 $000
Interest income	2	79,807	76,120
Interest expense	3	26,701	26,915
Net interest income		53,106	49,205
Payment waiver net income	6	2,386	3,288
Fees		10,733	9,279
Net interest income and fees		66,225	61,772
Expense			
Employee		7,657	6,710
Communication and processing		3,908	3,648
Depreciation and amortisation		2,337	2,479
Administration		3,430	3,451
Bad debt		112	95
	4	17,444	16,383
Profit before commission and other gain (loss)		**48,781**	**45,389**
Commission	4	37,610	34,031
Profit before net gain (loss) from financial instruments at fair value		**11,171**	**11,358**
Net gain (loss) from financial instruments at fair value	5	(426)	(1,249)
Profit before tax		**10,745**	**10,109**
Tax	7	3,217	2,940
Profit after tax		**7,528**	**7,169**
Other comprehensive income		-	-
Total comprehensive income		**$7,528**	**$7,169**

The 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 2017

	Note	Ordinary shares $000	Retained earnings $000	Perpetual preference shares $000	Total equity $000
Year ended 30 September 2017					
Balance at 1 October 2016		23,073	23,135	38,966	85,174
Total comprehensive income for the year:					
Profit after tax		-	7,528	-	7,528
Total comprehensive income for year		-	7,528	-	7,528
Transactions with shareholders:					
Ordinary share dividends	8	-	(3,216)	-	(3,216)
Perpetual preference share dividends	8	-	(1,287)	-	(1,287)
Total transactions with shareholders:		-	(4,503)	-	(4,503)
Balance at 30 September 2017		**$23,073**	**$26,160**	**$38,966**	**$88,199**
Year ended 30 September 2016					
Balance at 1 October 2015		23,073	20,582	38,966	82,621
Total comprehensive income for the year:					
Profit after tax		-	7,169	-	7,169
Total comprehensive income for the year		-	7,169	-	7,169
Transactions with shareholders:					
Ordinary share dividends	8	-	(3,144)	-	(3,144)
Perpetual preference share dividends	8	-	(1,472)	-	(1,472)
Total transactions with shareholders:		-	(4,616)	-	(4,616)
Balance at 30 September 2016		**$23,073**	**$23,135**	**$38,966**	**$85,174**

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

Consolidated balance sheet

As at 30 September 2017

	Note	2017 $000	2016 $000
Funds employed			
Ordinary shares	8	23,073	23,073
Retained earnings		26,160	23,135
Perpetual preference shares	8	38,966	38,966
Total shareholder equity		**88,199**	**85,174**
Liabilities			
Bank overdraft		337	554
Provision for taxation		1,925	626
Accounts payable and accrued expense	15	6,933	5,053
Unearned payment waiver administration fees		5,996	5,005
Committed cash advance	9	10,399	26,000
Senior notes – secured	9	552,638	466,492
Deferred tax	7	-	130
Derivative financial instruments	22	3,730	7,486
Total liabilities		**$581,958**	**$511,346**
Total funds employed		**$670,157**	**$596,520**
Employment of funds			
Cash in restricted bank accounts	21	59,067	50,972
Provision for taxation		-	-
Accounts receivable		2,545	2,257
Payment waiver indemnity prepayment		1,826	1,804
Finance receivables	10,11	600,961	535,237
Deferred tax	7	648	-
Property, plant and equipment	13	1,625	1,626
Intangible assets	14	3,485	4,624
Total assets		**$670,157**	**$596,520**

Stephen Higgs
Chairman

Graeme Gibbons
Director

16 November 2017

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

Consolidated statement of cash flow

Year ended 30 September 2017

	Note	2017 $000	2016 $000
Cash flow from operating activities			
Interest income		79,807	76,120
Fee income		10,713	9,256
Interest expense		(22,724)	(22,984)
Other funding and securitisation costs		(3,736)	(2,970)
Income tax paid		(2,696)	(1,907)
Commission		(37,237)	(34,005)
Payment waiver		481	294
Operating expense		(13,654)	(14,680)
Net cash flow from operating activities before changes in operating assets and liabilities		10,954	9,124
Changes in operating assets and liabilities			
Finance receivable instalments		439,253	393,476
Increase (decrease) in committed cash advance – net		(15,601)	6,200
Increase in senior notes – net		86,370	20,332
Finance receivable advances		(506,352)	(415,329)
		3,670	4,679
Net cash flow from operating activities	27	**14,624**	**13,803**
Cash flow from investing activities			
Sale of property, plant and equipment		58	32
Purchase of property, plant and equipment		(588)	(1,481)
Purchase of intangible assets		(667)	(1,121)
Net cash flow from investing activities		**(1,197)**	**(2,570)**
Cash flow from financing activities			
Proceeds from unpaid shares		4	9
Trust establishment costs		(616)	(553)
Dividend to perpetual preference shareholders	8	(1,287)	(1,472)
Dividend to ordinary shareholders	8	(3,216)	(3,144)
Net cash flow from financing activities		**(5,115)**	**(5,160)**
Net increase (decrease) in cash		8,312	6,073
Cash on hand at beginning of period		50,418	44,345
Cash on hand at end of period		**$58,730**	**$50,418**
Represented by:			
Cash at bank (overdraft)		(337)	(554)
Cash in restricted bank accounts		59,067	50,972
		$58,730	**$50,418**

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

Note 1: Basis of reporting

Reporting entity:

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

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

The registered office of MTF 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 financial statements were approved by the Board of Directors on 16 November 2017.

Basis of preparation:

The 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 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 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 adopted have been applied consistently throughout the periods presented in the financial statements.

The 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 judgments, estimates and assumptions:

In the application of NZ IFRS, the Directors make judgments, 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 judgments, estimates and assumptions that have had a significant effect on the amounts recognised in the financial statements are disclosed in the relevant notes as follows:

- Determination of fair value of derivative financial instruments (note 22)
- Consolidation of controlled entities (note 23)
- Determination of fair value of finance receivables (note 12)

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. The significant accounting policies which are pervasive to the financial statements are set out below.

Basis of consolidation:

The consolidated financial statements are prepared by combining the financial statements of MTF and its subsidiaries. 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.

Adoption of new or amended standards and interpretations:

All mandatory new or amended accounting standards or interpretations were adopted in the current year. None had a material impact on these financial statements.

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 9 Financial Instruments (effective from 2019 financial year);
- NZ IFRS 15 Revenue from Contracts with Customers (effective from 2019 financial year); and
- NZ IFRS 16 Leases (effective from 2020 financial year).

Note 2: Interest income

Policy:

Interest income on financial instruments measured at FVTPL is reported within interest income using the effective interest method and is not included with the net gain/(loss) from financial instruments at fair value.

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.

	2017 $000	2016 $000
Interest income:		
Finance receivables designated at FVTPL	78,838	74,993
Cash in restricted bank accounts	969	1,127
	$79,807	**$76,120**
Interest income includes income from:		
Non-impaired assets	79,807	76,106
Impaired assets	-	14
	$79,807	**$76,120**

Note 3: Interest expense

Policy:

Interest expense is represented by the interest cost on the committed cash advance, the senior notes issued 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.

	2017 $000	2016 $000
Committed cash advance	776	439
Senior notes	17,854	18,883
Interest rate swaps - net	5,598	5,246
Securitisation programme	1,360	1,387
Other	1,113	960
	$26,701	**$26,915**

Note 4: Expense

Policy:

Operating lease expense is recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are derived.

Commission is recognised as an expense when approved by the directors.

Includes:		2017 $000	2016 $000
Auditor			
	- Audit of group financial statements	169	165
	- Audit of Trust financial statements	68	64
	- Tax compliance	57	98
	- Other assurance fees	81	40
	- Other advisory fees	-	28
Commission		37,610	34,031
Depreciation			
	- Computer hardware	417	275
	- Office equipment, fixtures and fittings	86	106
	- Motor vehicles	29	57
Amortisation			
	- Intangible assets – software and websites	1,805	1,761
Directors fees		340	326
Rental and lease		632	543
Employee expense includes:			
Defined contribution scheme payments (Kiwisaver)		123	108
Key management remuneration of:			
	- Short term employee benefits	1,957	1,785
	- Post employment benefits (Kiwisaver)	57	53

Auditor:	The auditor of the group is Deloitte Limited. Other assurance fees includes work in relation to AML CFT assurance reporting, fraud control assessments and service organisation controls reporting. Other advisory fees relates to work in relation to franchise policy compliance review.
Operating leases:	Non-cancellable operating leases payable within one year from balance date are estimated to be $558,000 (2016: $536,000). Non-cancellable operating leases payable between one and two years from balance date are estimated to be $558,000 (2016: $536,000).' Non-cancellable operating leases payable between three and ten years from balance date are estimated to be $2,405,000 (2016: $2,439,000).
Promotion expenses:	Non-cancellable promotion expenses payable within one year from balance date are estimated to be $165,000 (2016: $219,000).

Note 5: Net gain (loss) from financial instruments at fair value

Policy:

Net gain (loss) on financial instruments at FVTPL comprises unrealised fair value gains and losses.

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 fair value assessment.

	2017 $000	2016 $000
Net gain (loss) arising on:		
Finance receivables	(3,443)	(1,087)
Credit risk	(739)	(229)
Interest rate swap derivatives	3,756	67
	($426)	**($1,249)**

Note 6: Payment waiver programme

	2017 $000	2016 $000
Payment waiver fees earned	29	389
Administration fees earned	2,891	2,256
Indemnity expense	(24)	(244)
Indemnity performance receipt	504	1,186
Administration expense	(1,014)	(299)
Payment waiver net income	**$2,386**	**$3,288**

Programme details:

In December 2013, MTF introduced a payment waiver that enables each transacting shareholder to operate an independent payment waiver programme. Under the arrangement, the transacting shareholder may enter into a waiver agreement with the customer. The transacting shareholder, as part of the waiver agreement, establishes a reserve account and holds funds to a specified level to meet any waiver obligations. Reserve accounts are managed by MTF, under arrangement with Trustees Executors Ltd (TEL). These reserve accounts do not form part of the financial statements of MTF.

If a customer has a waiver request accepted, the transacting shareholder, as creditor, waives the customer payment obligation. Under MTF recourse, transacting shareholders are still required to make the payment to MTF. Cash held in the reserve account is used to meet the transacting shareholders payment obligation to MTF. If an approved waiver exceeds the amount held in the transacting shareholder reserve account MTF may, at its discretion, fund the shortfall and the transacting shareholder remains liable to reimburse MTF.

MTF charges an administration fee to manage the programme on behalf of transacting shareholders. Administration fees are recognised over the life of the credit contract, on a basis that reflects the underlying pattern of risk.

Note 7: Tax

7.1 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.

	2017 $000	2016 $000
Profit before tax	10,745	10,109
Income tax expense calculated at 28% (2016: 28%)	3,009	2,831
Non-deductible expense	25	15
Other temporary adjustments	110	101
(Over) under provision of income tax in previous year	73	(7)
	$3,217	**$2,940**
Represented by:		
Current tax	3,995	2,588
Deferred tax	(778)	352
	$3,217	**$2,940**

Tax rate:

The tax rate used in the reconciliation is the corporate tax rate of 28% (2016: 28%) payable by New Zealand corporate entities on taxable profits under New Zealand tax law for the 2017 income tax year.

Imputation credits:

There were $12,553,000 imputation credits available for use as at 30 September 2017 (2016: $13,412,000).

7.2 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 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 2017 are represented by:

	Opening balance $000	Charged to income $000	Closing balance $000
Deferred tax assets:			
Accounts payable and accrued expense	759	(80)	679
Property, plant and equipment	1	(13)	(12)
Derivative financial instruments	1,552	(828)	724
	2,312	**(921)**	**1,391**
Deferred tax liabilities:			
Intangible assets	(583)	72	(511)
Finance and other receivables	(1,859)	1,627	(232)
	(2,442)	**1,699**	**(743)**
Total deferred tax	**($130)**	**$778**	**$648**

The deferred tax balances at 30 September 2016 are represented by:

	Opening balance $000	Charged to income $000	Closing balance $000
Deferred tax assets:			
Accounts payable and accrued expense	844	(85)	759
Property, plant and equipment	45	(44)	1
Derivative financial instruments	1,760	(208)	1,552
	2,649	**(337)**	**2,312**
Deferred tax liabilities:			
Intangible assets	(632)	49	(583)
Finance and other receivables	(1,795)	(64)	(1,859)
	(2,427)	**(15)**	**(2,442)**
Total deferred tax	**$222**	**($352)**	**($130)**

Note 8: Equity

8.1 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 2017, there were 23,073,000 shares authorised and issued (2016: 23,073,000) of which 33,000 are unpaid (2016: 37,000). All fully paid ordinary shares have equal voting rights and share equally in dividends and surplus on winding up.

Ordinary share dividend:

	2017 $000	2016 $000
Fully imputed dividend declared and paid during the year:		
Final dividend paid 30 November 2016 at 7.96 cents per share (2016: 7.65 cents)	1,833	1,761
Interim dividend paid 31 January 2017 at 2 cents per share (2016: 2 cents)	461	461
Interim dividend paid 1 May 2017 at 2 cents per share (2016: 2 cents)	461	461
Interim dividend paid 31 July 2017 at 2 cents per share (2016: 2 cents)	461	461
	$3,216	**$3,144**

Dividend: On 16 November 2017, the directors declared a final dividend on paid-up ordinary shares of 7.37 cents per share amounting to $1,698,000 (fully imputed), for the period 1 October 2016 to 30 September 2017. The dividend is due for payment on 30 November 2017.

8.2 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 may redeem or repurchase all or part of the perpetual preference shares.

Perpetual preference shares: At 30 September 2017, there were 40,000,000 perpetual preference shares (2016: 40,000,000).

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

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

	2017 $000	2016 $000
Face value	40,000	40,000
Issue fees and expenses	(1,034)	(1,034)
	$38,966	$38,966

Perpetual preference share dividend:

	2017 $000	2016 $000
Fully imputed dividend declared and paid during the year at 3.22 cents per share (2016: 3.68 cents)	1,287	1,472
	$1,287	$1,472

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 9: Funding (secured)

Policy:

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

MTF 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 measured at amortised cost using the effective interest method.

30 September 2017	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	3.42	31/08/2018	80,000	69,601	10,399	-	10,399
Securitisation:							
Senior Warehouse notes	3.25	15/02/2018	110,000	25,267	84,733	-	84,733
Senior Valiant notes	3.95	15/07/2022	41,977	-	41,977	(66)	41,911
Senior Torana notes	3.57	15/09/2024	213,466	-	213,466	(421)	213,045
Senior Sierra notes	3.29	15/09/2025	213,466	-	213,466	(517)	212,949
Total senior notes			578,909	25,267	553,642	(1,004)	552,638
Total			**$658,909**	**$94,868**	**$564,041**	**($1,004)**	**$563,037**

30 September 2016	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	3.58	31/08/2018	80,000	54,000	26,000	-	26,000
Securitisation:							
Senior Warehouse notes	3.92	31/07/2017	150,000	59,118	90,882	-	90,882
Senior Valiant notes	3.76	15/07/2022	162,924	-	162,924	(227)	162,697
Senior Torana notes	3.96	15/09/2024	213,466	-	213,466	(553)	212,913
Total senior notes			526,390	59,118	467,272	(780)	466,492
Total			**$606,390**	**$113,118**	**$493,272**	**($780)**	**$492,492**

Judgments:

Under the MTF securitisation programme, entities are created to purchase eligible finance receivables. Securitisation entities are consolidated where the Group has control. Control is assessed in note 23.

Committed bank facilities:

MTF has committed bank facilities provided by a syndication with 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 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 Valiant Trust, the Torana Trust, and the Sierra Trust (Trusts). The senior notes are funded externally by banks and other investors.

The principal components of the securitisation programme are:

The Warehouse Trust funds the purchase of qualifying finance receivables from MTF. Senior Warehouse notes are issued for periods of up to 72 months past the facility expiry of 15 February 2018. The notes 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 Valiant Trust funds qualifying finance receivables purchased from the Warehouse Trust prior to 15 August 2016. The Trust has now entered amortisation. No new qualifying finance receivables can be acquired.

The Torana Trust and Sierra Trust fund the purchase of qualifying finance receivables from the Warehouse Trust. Senior Torana and Senior Sierra notes are issued for periods of up to 96 months past the issue date 15 September 2016 and 15

September 2017, respectively. The Torana and Sierra Trusts have a revolving period of 24 months from issue date, during which the Torana and Sierra Trusts may continue to acquire qualifying finance receivables from the Warehouse Trust. At the end of each Trust's revolving period, no new receivables may be acquired and the facility will amortise.

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

Senior Valiant notes on issue	Fitch rating	2017 $000	2016 $000
Class A	AAA(sf)	29,124	144,064
Class B	AA(sf)	4,539	6,660
Class C	A(sf)	3,980	5,840
Class D	BBB(sf)	1,813	2,660
Class E	BB(sf)	1,704	2,500
Class F	B(sf)	817	1,200
		$41,977	**$162,924**

Senior Torana notes on issue	Fitch rating	2017 $000	2016 $000
Class A	AAA(sf)	194,040	194,040
Class B	AA(sf)	7,326	7,326
Class C	A(sf)	6,424	6,424
Class D	BBB(sf)	2,926	2,926
Class E	BB(sf)	2,750	2,750
		$213,466	**$213,466**

Senior Sierra notes on issue	Fitch rating	2017 $000	2016 $000
Class A	AAA(sf)	194,040	-
Class B	AA(sf)	7,326	-
Class C	A(sf)	6,424	-
Class D	BBB(sf)	2,926	-
Class E	BB(sf)	2,750	-
		$213,466	**-**

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

Under contracts with transacting shareholders, MTF 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 is given a security interest over transacting shareholder rights under the customer contract and the underlying asset. MTF 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 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. 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:

	2017 $000	2016 $000
Sierra Trust	204,587	-
Torana Trust	197,507	204,537
Warehouse Trust	90,441	96,799
Valiant Trust	39,271	148,750
	$531,806	**$450,086**

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 2017, $393,000 (2016: $362,000) of amortisation is included in interest expense in the Statement of Comprehensive Income.

Note 10: Asset quality disclosures

Policy:

Impaired assets consist of restructured assets, assets acquired through the enforcement of security and individually impaired assets.

Restructured asset means any credit exposure for which:

- original terms have been changed to grant the counterparty a concession that would not have otherwise been available, due to the counterparty's difficulty in complying with the original terms
- terms of an arrangement are not comparable with the terms of new arrangements with comparable risks
- yield on the asset following restructuring is equal to or greater than the Group average cost of funds, or a loss is not otherwise expected to be incurred

Financial assets acquired through enforcement of security are those assets acquired through foreclosure in full or partial settlement of a debt.

Other individually impaired assets are financial assets where components of transacting shareholder contracts are in arrears and the Group is unable to obtain, or anticipates future difficulties in obtaining recovery but do not include restructured assets or financial assets acquired through the enforcement of security.

The Group holds 90 day past due assets where components of transacting shareholders contracts are in arrears for 90 days or more and the transacting shareholder has not been placed in the managed transacting shareholder category.

	2017 $000	2016 $000
(a) Asset quality - finance receivables		
Neither past due nor impaired	606,625	540,304
Individually impaired	13	216
Past due but not impaired	391	45
Specific credit risk	(37)	-
Collective credit risk	(6,031)	(5,328)
Total carrying amount	**$600,961**	**$535,237**
(b) Aging of past due but not impaired assets		
Past due 90 -120 days	391	45
Past due 120+ days	-	-
Carrying amount of past due assets	**$391**	**$45**
(c) 90 day past due assets (including impaired assets)		
Balance at beginning of year	45	77
Net movement in past due assets	346	(32)
Carrying amount at end of year	**$391**	**$45**
(d) Individually impaired assets – managed transaction shareholder		
Finance receivables	13	216
Balances available for offset, including collateral	24	(216)
Specific impairment allowance	**$37**	-

Credit risk:	In assessing fair value a credit risk allowance is taken in relation to the assets of managed transacting shareholders and takes into account the value of collateral held as part of the recourse obligation including, but not limited to, future commission and dividends, value of the goods subject to each contract, bank guarantees and personal guarantees (refer to note 24).
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, from the transacting shareholder, when a customer account has been in arrears for 91 days or more. All contracts that remain unpaid past this point are classified as past due but not impaired. The inclusion of past due finance receivables in the above table do not necessarily indicate that such finance receivables are doubtful. Past due but not impaired finance receivables excludes finance receivables of managed transacting shareholders.
Past due > 90 days:	Of total finance receivables at 30 September 2017, 0.07% (2016: 0.01%) had repayments that are past due more than 90 days.
Material restructured assets:	The Group does not have any material restructured assets or assets acquired through the enforcement of security (2016: Nil).

Note 11: Finance receivables

Policy:	Finance receivables are designated at fair value through profit or loss (FVTPL), as doing so reduces any accounting mismatch that may arise from measuring such assets on a different basis.

	2017 $000	2016 $000
Receivable within 12 months	212,396	212,759
Receivable beyond 12 months	388,565	322,478
Total finance receivables	**$600,961**	**$535,237**

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

	2017 $000	2016 $000
Finance receivables at FVTPL - loss	739	229
	$739	$229

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. An accounting mismatch would arise if the finance receivables were accounted for at amortised cost, because the related derivatives (interest rate swaps) are measured at fair value, with movements in fair value recognised in profit or loss in the Statement of Comprehensive Income.
Fair value:	The fair value at 30 September 2017 reflects $6,068,000 (2016: $5,328,000) for credit risk for the Group. The impact is included in the overall fair value movement.
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 Statement of Comprehensive Income.

Note 12: 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 statement of financial position:

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
2017				
Financial assets at FVTPL				
Finance receivables	-	-	600,961	600,961
	-	-	$600,961	$600,961
Financial liabilities at FVTPL				
Derivative financial liabilities	-	3,730	-	3,730
	-	$3,730	-	$3,730
2016				
Financial assets at FVTPL				
Finance receivables	-	-	535,237	535,237
	-	-	$535,237	$535,237
Financial liabilities at FVTPL				
Derivative financial liabilities	-	7,486	-	7,486
	-	$7,486	-	$7,486

Judgments:

Finance receivables are designated at 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 judgments and estimates. Changes in the assumptions in the model and projections of future cash flows may affect the reported fair value of finance receivables.

Fair value of financial assets and liabilities:

The carrying amount of all 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, discounted based on a theoretical yield curve derived from a series of observable market interest rates.

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 22 of these 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.

Reconciliation of level 3 fair value measurements of financial assets:

Gains and losses included in the statement of comprehensive income relate to finance receivables held at the end of the reporting period and are reported as a net gain (loss) from financial instruments at fair value.

Finance receivables:

	2017 $000	2016 $000
Balance at beginning of the year	535,237	512,151
Gain/(loss) recognised in net gain (loss) from financial instruments at fair value	(4,182)	(1,316)
Sales	509,271	417,972
Settlements	(439,365)	(393,570)
Balance at end of the year	**$600,961**	**$535,237**
Changes in unrealised gain (loss) for the year included in profit or loss for finance receivables held at the end of the year	(4,182)	(1,316)

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 retail 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. The change in the credit risk of the finance receivables is reflected in the fair value model as the movement in collective and specific credit risk assessment.

The collective credit risk of $6,031,000 (2016: $5,328,000) is based on long term past experience.

No assumption is made in regard to prepayment rates for the purpose of determining the fair value of finance receivables as these are deemed not to be material.

The fair value of the finance receivables at 30 September 2017 was based on cash flows discounted using a weighted average interest rate of 13.27% (2016: 13.84%).

Refer to note 19 for details of sensitivity analysis.

Note 13: 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:

	2017 $000	2016 $000
Computer hardware	2,563	2,306
Less accumulated depreciation	(1,940)	(1,559)
Total carrying amount	**623**	**747**
Office equipment, fixtures and fittings	1,079	1,009
Less accumulated depreciation	(307)	(236)
Total carrying amount	**772**	**773**
Motor vehicles	307	228
Less accumulated depreciation	(77)	(122)
Total carrying amount	**230**	**106**
Total property, plant and equipment	**$1,625**	**$1,626**

Capital commitments: The estimated capital expenditure contracted for at balance date but not provided for is $Nil (2016: $31,000).

Note 14: 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.

	2017 $000	2016 $000
Cost		
Balance at beginning of year	22,614	21,773
Additions	667	1,121
Disposals	-	(280)
Balance at end of year	**23,281**	**22,614**
Amortisation and impairment		
Balance at beginning of year	17,990	16,229
Amortisation	1,806	1,761
Impairment	-	-
Balance at end of year	**19,796**	**17,990**
Total intangible assets	**$3,485**	**$4,624**

Capital commitments: The estimated capital expenditure contracted for at balance date but not provided for is $Nil (2016: $66,000).

Note 15: 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.

	2017 $000	2016 $000
Trade creditors	740	760
Sundry creditors and accruals	4,238	2,731
Unpaid commission	642	269
Employee entitlements	1,313	1,293
	$6,933	**$5,053**

Note 16: Related party transactions

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

	2017 $000	2016 $000
Graeme Gibbons	443	664
Geoffrey Kenny	1,235	1,184
Mike King	885	1,577
Brent Robertson	1,965	1,782
	$4,528	**$5,207**

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

	2017 $000	2016 $000
Graeme Gibbons	1,200	1,758
Geoffrey Kenny	2,698	2,691
Mike King	2,166	3,803
Brent Robertson	4,445	4,030
	$10,509	**$12,282**

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

	2017 $000	2016 $000
Graeme Gibbons	7,281	10,959
Geoffrey Kenny	13,714	14,769
Mike King	12,100	22,914
Brent Robertson	26,900	22,112
	$59,995	**$70,754**

Related parties: Directors Graeme Gibbons, Geoffrey Kenny, Mike King and Brent Robertson are directors of companies with shareholdings in MTF that derive commission from the company on the same basis as all other transacting shareholders.

Revenue: Includes interest income, fee income and payment waiver admin fee income.

Note 17: Credit risk

Maximum exposures to credit risk:

	2017 $000	2016 $000
Cash in restricted bank accounts	59,067	50,972
Accounts receivable	2,545	2,257
Sierra Trust securitised finance receivables	204,587	-
Torana Trust securitised finance receivables	197,507	204,537
Warehouse Trust securitised finance receivables	90,441	96,799
Valiant Trust securitised finance receivables	39,271	148,750
Non securitised finance receivables	69,155	85,151

Finance receivables credit risk by geographical location:

	2017 $000	2016 $000
Northland	15,667	13,767
Auckland	73,772	66,986
South Auckland	49,514	42,146
Waikato	70,873	62,409
Bay of Plenty	70,354	61,269
Gisborne	15,490	13,377
Hawkes Bay	20,497	18,644
Taranaki	11,252	10,673
Manawatu/Wanganui	37,805	33,077
Wellington/Wairarapa	57,715	53,955
Nelson/Marlborough	22,129	17,719
West Coast	6,236	5,999
Canterbury	67,866	61,194
Mid/South Canterbury	12,746	13,245
Otago	48,311	40,785
Southland	20,734	19,992
Finance receivables by geographical location	**$600,961**	**$535,237**

Finance receivables credit risk by security type:

	2017 $000	2016 $000
Passenger vehicle	438,311	351,211
Commercial vehicle	92,465	123,858
Motorcycle	52,652	35,666
Caravans	8,109	13,042
Marine	8,552	10,651
Equipment	872	809
Finance receivables by security type	**$600,961**	**$535,237**

Finance receivables credit risk by transacting shareholder:

	2017 $000	2016 $000
0 - $5,000,000	167,022	168,332
$5,000,000 - $10,000,000	152,290	140,708
$10,000,000 - $20,000,000	227,030	180,300
$20,000,000+	54,619	45,897
Finance receivables by transacting shareholder	**$600,961**	**$535,237**

Finance receivables credit risk by individual contract size:

	2017 $000	2016 $000
0 - $5,000	60,293	59,679
$5,001 - $10,000	156,859	149,687
$10,001 - $20,000	212,419	188,934
$20,001 - $30,000	87,272	78,424
$30,001 - $40,000	39,327	33,615
$40,001- $50,000	20,447	11,583
$50,001+	24,344	13,315
Finance receivables by contract size	**$600,961**	**$535,237**

Credit risk:

Credit risk is the risk of financial loss to MTF 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 and finance receivables.

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 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 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 monthly to the credit committee.

Customer loss is for the account of the transacting shareholder. The credit risk assumed by MTF 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 contract, MTF 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 requires each transacting shareholder to indemnify MTF 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 may hold a range of additional credit enhancements against the transacting shareholder including, but not limited to, bank guarantees and personal guarantees.

MTF 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 against any potential loss. Transacting shareholders that are unable, or unwilling, to meet the credit and indemnity criteria have their MTF facilities cancelled.

Exposure to credit risk:

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

Subordinated notes on issue	**Effective credit enhancement**		**Carrying amount**	
	2017 %	**2016 %**	**2017 $000**	**2016 $000**
Warehouse Trust	9.21	9.21	8,580	9,189
Settlement Trust	- (i)	- (i)	-	416
Torana Trust	2.39	2.39	5,214	5,214
Valiant Trust	6.84	2.83	3,230	4,740
Sierra Trust	2.39	-	5,214	-
			$22,238	**$19,559**

(i) Settlement Trust was wound up in the current year.

Senior notes on issue	**Fitch rating**	**2017 $000**	**2016 $000**
Torana Trust - Class F	B(sf)	1,320	1,320
Sierra Trust - Class F	B(sf)	1,320	-
		$2,640	**$1,320**

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 Trusts and the Torana and Sierra senior notes issued to MTF.

Note 18: Liquidity risk

Financial assets matched against financial liabilities at 30 September 2017 (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	59,067	-	-	-	-	59,067
Accounts receivable	-	2,545	-	-	-	2,545
Finance receivables	-	168,496	145,456	224,262	180,497	718,711
	59,067	171,041	145,456	224,262	180,497	780,323
Monetary liabilities						
Bank overdraft	337	-	-	-	-	337
Committed cash advance	10,399	-	-	-	-	10,399
Accounts payable and accrued expense	-	6,933	-	-	-	6,933
Senior notes - secured	-	65,219	22,486	180,336	328,639	596,680
	10,736	72,152	22,486	180,336	328,639	614,349
Net liquidity gap	**$48,331**	**$98,889**	**$122,970**	**$43,926**	**($148,142)**	**$165,974**
Net liquidity gap - cumulative	**$48,331**	**$147,220**	**$270,190**	**$314,116**	**$165,974**	

Financial assets matched against financial liabilities at 30 September 2016 (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	50,972	-	-	-	-	50,972
Accounts receivable	-	2,257	-	-	-	2,257
Finance receivables	-	135,598	136,851	209,582	157,700	639,731
	50,972	137,855	136,851	209,582	157,700	692,960
Monetary liabilities						
Bank overdraft	554	-	-	-	-	554
Committed cash advance	10,001	16,023	-	-	-	26,024
Accounts payable and accrued expense	-	5,053	-	-	-	5,053
Senior notes - secured	-	94,553	74,232	75,523	254,756	499,064
	10,555	115,629	74,232	75,523	254,756	530,695
Net liquidity gap	**$40,417**	**$22,226**	**$62,619**	**$134,059**	**($97,056)**	**$162,265**
Net liquidity gap - cumulative	**$40,417**	**$62,643**	**$125,262**	**$259,321**	**$162,265**	

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 has unutilised facilities with its transacting shareholders at balance date; however as MTF 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 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 Valiant, Torana and Sierra 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 2018. Senior Valiant, Torana and Sierra notes have a maturity date of 96 months after the issue dates of 15 July 2014,15 September 2016 and 15 September 2017, respectively. Details of the securitisation programme are contained in note 9 of these financial statements. Other than the MTF 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 has concentration of funding risk to the MTF securitisation programme for the future legal sale of finance receivables, which may arise in the event that MTF 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. At 30 September 2017, MTF complies with all covenants of the MTF securitisation programme.

Note 19: 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.

An asset and liability committee consisting of the Chief Executive Officer, Chief Financial Officer, Manager – Credit, Trust Manager and Treasury and Strategy Manager meets regularly to consider 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, Valiant, Torana and Sierra Trust senior notes 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 9.

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 2017, the bank overdraft and committed cash advance facility had interest rate maturities of less than 90 days.

Bank overdraft and committed cash advances are 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 2017 was 13.27% (2016: 13.84%).

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 2017 was 1.75% (2016: 2.00%).

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 fair value of fixed rate assets and interest rate swaps. Fair value changes impact profit and loss only where the fixed rate assets are designated at FVTPL.

A 100 bp movement in interest rates based on the assets and liabilities held at balance date represents management's assessment of a reasonably probable change in interest rates.

Impact on profit (loss) after tax:

	2017 $000	2016 $000
100 bp increase in interest rates	575	821
100 bp decrease in interest rates	(601)	(859)

Impact on equity:

	2017 $000	2016 $000
100 bp increase in interest rates	575	821
100 bp decrease in interest rates	(601)	(859)

Note 20: Capital risk management

Capital structure:

	2017 $000	2016 $000
Ordinary shares	23,073	23,073
Retained earnings	26,160	23,135
Perpetual preference shares	38,966	38,966
Total capital for capital management purposes	**$88,199**	**$85,174**

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. The capital structure and objectives remains unchanged from the prior year.

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 the Asset and Liability Committee 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 21: 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 22: 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. 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 measured at fair value with any gains or losses included in net gain/(loss) from financial instruments at fair value in the profit before tax.

Fair value:

	2017 $000	2016 $000
Interest rate swaps	(3,730)	(7,486)
	($3,730)	**($7,486)**

Interest rate swaps:

	Average contracted interest rate		Notional principal amount		Fair value	
	2017 %	**2016 %**	**2017 $000**	**2016 $000**	**2017 $000**	**2016 $000**
Less than 1 year	2.68	3.00	260,710	241,802	(1,794)	(3,147)
1 to 2 years	2.80	2.96	214,914	197,039	(1,337)	(2,502)
2 to 3 years	2.49	3.30	105,207	129,159	(427)	(1,559)
3 to 4 years	2.48	2.45	39,091	28,641	(150)	(249)
4 to 5 years	2.35	2.25	5,899	3,485	(22)	(29)
			$625,821	**$600,126**	**($3,730)**	**($7,486)**

Judgments:

The fair value of derivative financial instruments is based on discounted cash flow using observable market data.

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 23: Investment in subsidiaries

Policy:

Subsidiaries are entities controlled by MTF. MTF 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 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	
		2017	2016
MTF Leasing Ltd	Leasing	100%	100%
MTF Securities Ltd	Non-trading	100%	100%
MTFS Holdings Ltd	Non-trading	100%	100%
MTF Direct Ltd	Non-trading	100%	100%
MTF Limited	Non-trading	100%	100%
MTF Treasury Ltd	Securitisation	100%	100%
MTF Warehouse Trust No.1	Securitisation	-	-
MTF Valiant Trust 2014	Securitisation	-	-
MTF Torana Trust 2016	Securitisation	-	-
MTF Sierra Trust 2017	Securitisation	-	-

Judgments:

The Group consolidates the securitisation entities, MTF Warehouse Trust No.1 (Warehouse Trust), MTF Valiant Trust 2014 (Valiant Trust), MTF Torana Trust 2016 (Torana Trust), MTF Sierra Trust 2017 (Sierra Trust) on its balance sheet.

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

Subsidiaries:

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

Note 24: Categories of financial instruments

Policy:

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

- loans and receivables
- fair value through profit or loss

All financial instruments designated at fair value are designated upon initial recognition.

The Group does not use available for sale or held to maturity financial instruments.

Loans and receivables

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.

Fair value through profit and loss

The Group designates all finance receivables at FVTPL, as doing so reduces any accounting mismatch that may arise from measuring such assets on a different basis.

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. An accounting inconsistency may arise if the corresponding finance receivables are measured at amortised cost. By designating finance receivables at FVTPL, the fair value movement included in profit before tax on the finance receivables will substantially offset the fair value movement on derivatives used to economically hedge these financial instruments.

Once a financial instrument has been designated at FVTPL, the Group may not change the designation.

Gains and losses arising from changes in the fair value of finance receivables are included in the net gain/(loss) from financial instruments at fair value in the 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, 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 Statement of Comprehensive Income over the period of borrowing, using the effective interest rate method. Interest expense is recognised in profit before tax using the effective interest method.

Offset financial instruments

The Group offsets financial assets and financial liabilities and reports the net balance in the 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.

Categorisation of financial instruments at 30 September 2017:

	Fair value through profit or loss $000	Loans and receivables $000	Financial liabilities at amortised cost $000	Total carrying amount $000
Assets				
Cash in restricted bank accounts	-	59,067	-	59,067
Accounts receivable	-	2,545	-	2,545
Finance receivables (designated)	600,961	-	-	600,961
	$600,961	**$61,612**	**-**	**$662,573**
Liabilities				
Bank overdraft	-	-	337	337
Committed cash advance	-	-	10,399	10,399
Accounts payable and accrued expense	-	-	6,933	6,933
Senior notes - secured	-	-	552,638	552,638
Derivative financial instruments (held for trading)	3,730	-	-	3,730
	$3,730	**-**	**$570,307**	**$574,037**

Categorisation of financial instruments at 30 September 2016:

	Fair value through profit or loss $000	Loans and receivables $000	Financial liabilities at amortised cost $000	Total carrying amount $000
Assets				
Cash in restricted bank accounts	-	50,972	-	50,972
Accounts receivable	-	2,257	-	2,257
Finance receivables (designated)	535,237	-	-	535,237
	$535,237	**$53,229**	**-**	**$588,466**
Liabilities				
Bank overdraft	-	-	554	554
Committed cash advance	-	-	26,000	26,000
Accounts payable and accrued expense	-	-	5,053	5,053
Senior notes - secured	-	-	466,492	466,492
Derivative financial instruments (held for trading)	7,486	-	-	7,486
	$7,486	**-**	**$498,099**	**$505,585**

Note 25: Events after balance date

Dividend:	On 16 November 2017, the directors declared a final dividend on paid-up ordinary shares of 7.37 cents per share amounting to $1,698,000 (fully imputed), for the period 1 October 2016 to 30 September 2017. The dividend is due for payment on 30 November 2017.

Note 26: 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 27: Statement of cash flow

Policy:

The Statement of Cash Flow has been prepared exclusive of GST, consistent with the method used in the 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.

	2017 $000	2016 $000
Reconciliation of profit after tax to net cash flow from operating activities		
Profit after tax	7,528	7,169
Non-cash items	2,337	2,479
	9,865	**9,648**
Movement in other items		
(Increase) in accounts receivable	(288)	(381)
(Increase) in payment waiver indemnity prepayment	(22)	(233)
(Increase) in finance receivables	(65,724)	(23,087)
Increase (decrease) in committed cash advance	(15,601)	6,200
(Increase) decrease in deferred tax	(778)	353
Decrease in provision for tax	1,299	680
Increase accounts payable and accrued expense	1,880	170
Increase (decrease) in unearned payment waiver fees	991	(165)
Increase in senior notes	86,146	20,140
(Decrease) in derivative financial liabilities	(3,756)	(67)
	4,147	**3,610**
Movement in working capital items classified as investing or financing activities	612	545
Net cash surplus from operating activities	**$14,624**	**$13,803**

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 2017, and the consolidated balance sheet, statement of comprehensive income, statement of changes in equity and statement of cash flow 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 11 to 42, present fairly, in all material respects, the consolidated financial position of the Group as at 30 September 2017, 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 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other assignments for the Group in the area of taxation compliance, the audit of subsidiary financial statements, assurance services in respect of AML CFT assurance reporting, fraud control assessment and service organisation controls 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.

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 $2,395,000.

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.

mtf finance

Key audit matter	How our audit addressed the key audit matter

Valuation of Finance Receivables
 	
As disclosed in note 11, the Group has finance receivables of $601m at 30 September 2017.
 	
Finance receivables are designated as at fair value through profit or loss to eliminate an accounting mismatch which would otherwise arise because they are economically hedged by a combination of floating rate debt and interest rate swaps, and the interest rate swaps are also measured at fair value through profit or loss.
 	
Finance receivables are a key audit matter due to the size of the balance and the level of judgement applied by the Group in estimating fair value.
 	
The Group estimates fair value using a discounted cash flow (DCF) model. The model uses a combination of observable data (interest rates) and unobservable data (credit risk).
 	
A market based credit adjustment is estimated by using the actual weighted average credit margin charged, adjusted for movements in collective and specific credit risk.
 	
Disclosures about the fair value of finance receivables are included in note 12 of the financial statements.
	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, and testing the mathematical accuracy of the weighted average credit margin 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. 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 collective and specific credit risk movements by:
	
	    • Assessing the design and implementation of controls over credit risk;
	
	    • Assessing the internal process for credit monitoring and reviews of originator credit quality and performance; and
	
	    • Considering the reasonableness of the credit risk determined by the Group, by comparing the credit risk determined in the prior year to actual credit losses in the current year.

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

Mike Hawken, Partner
for Deloitte Limited
Dunedin, New Zealand
16 November 2017

Statutory information

Reporting entity:	Motor Trade Finance Ltd (MTF) is a finance company whose principal activity is the provision of motor vehicle finance facilities to its transacting shareholders. MTF 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 Ltd has continued to act as auditor of the company, and has undertaken the audit of the financial statements for the 2017 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, $2,000 to Queens High Pre-School, and $2,000 to Foster Hope Charitable Trust during the year.
Director holdings and disclosure of interest:	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. Graeme Gibbons, Geoffrey Kenny, Mike King and Brent Robertson are directors of companies with shareholdings in MTF and all four declared their interest in material matters affecting transacting shareholders of MTF. Shares held by associated companies of directors:

	Ordinary shares	%
Graeme Gibbons	1,133,669	4.91%
Geoffrey Kenny	346,376	1.50%
Mike King	355,971	1.54%
Brent Robertson	550,079	2.38%
	2,386,095	10.34%
Total shares on issue	**23,073,239**	**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.

Scott Creahan is a director of MTF Ltd, MTF Securities Ltd, MTF Direct Ltd, MTF Treasury Ltd, MTF Leasing Ltd, MTFS Holdings Ltd, Dr Maria Pearse Associates Ltd and South Head Capital Ltd.

Graeme Gibbons is a director of The Colonial Motor Company Ltd and its subsidiaries.

Stephen Higgs is Chairman of Mt Difficulty Wines Ltd, Polson Higgs Wealth Management Ltd, Immune Solutions Ltd, South Link Health Services Ltd, Vetlife Ltd, Cumberland Property Group Ltd, Cumberland Rural Properties Ltd, Disease Research Ltd, and a director of CRT Ltd, Otago Innovation Ltd, University of Otago Holdings Ltd, MTF Securities Ltd, MTFS Holdings Ltd, MTF Leasing Ltd, MTF Direct Ltd, MTF Treasury Ltd and MTF Ltd. He is a councillor on the University of Otago Council and trustee of two Otago Federated Farmers Trusts.

Geoffrey Kenny is a director of Airport Motors Ltd, Geoff Kenny Cars Ltd, Geoff Kenny Ltd, Karstan Finance Ltd and Pioneer Property Trust Ltd.

Mike King is a director of MD & JE King Ltd, Mike King Ltd, Glover King Ltd.

Brent Robertson is a director of Brents Investments (2008) Ltd, Brents Ltd, Guinness Holdings Ltd, Moorhouse City Ltd, O'Connell Robertson Ltd, Old Tai Tapu Ltd, Ferguson Roberston Ltd, Jackson Robertson Ltd and Brent Workshop Ltd. He is a trustee of Akaroa Area School.

Shareholding:

Twenty largest ordinary shareholders at 30 September 2017:

Shareholder rank and name		Holding	% Total ordinary shares
1	Turners Finance Limited	1,836,891	7.96
2	Honda New Zealand Limited	906,623	3.93
3	Vehicle Logistics Limited	680,097	2.95
4	Douglas Rushbrooke Limited	507,018	2.20
5	Cheryl Renouf Limited	478,805	2.08
6	The Colonial Motor Company Limited	377,599	1.64
7	Paul A Robinson Limited	357,352	1.55
8	Mike King Limited	355,971	1.54
9	Stephen Parker Limited	350,941	1.52
10	Geoff Kenny Limited	346,376	1.50
11	Richard S Scott Limited	333,655	1.45
12	Noel Johnston Limited	304,270	1.32
13	Mark And Joy Diggelmann Limited	280,000	1.21
14	Collier Sendall Limited	255,312	1.11
15	John Davidson Limited	244,478	1.06
16	Patterson & Patterson Limited	236,784	1.03
17	Neil Wolfgram Limited	234,943	1.02
18	Wolfgram Limited	231,147	1.00
19	O'Connell Robertson Limited	229,635	1.00
20	Tony Gow Limited	222,553	0.96
	Total shares on issue	**23,073,239**	**100.00**

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

Range	Number of employees 2017	2016
$100,000 - $109,999	3	4
$110,000 - $119,999	6	4
$120,000 - $129,999	2	3
$130,000 - $139,999	4	2
$140,000 - $149,999	1	3
$150,000 - $159,999	2	2
$160,000 - $169,999	1	-
$180,000 - $189,999	1	1
$190,000 - $199,999	2	1
$200,000 - $209,999	1	1
$220,000 - $229,999	1	-
$230,000 - $239,999	-	1
$240,000 - $249,999	-	1
$250,000 - $259,999	1	-
$320,000 - $329,999	-	1
$330,000 - $349,999	1	-
$450,000 - $459,999		1
$510,000 - $519,999	1	-

No remuneration is paid by subsidiaries.

Directory

Directors:	Scott Creahan, BCom (Hons) Graeme Gibbons, BCom, CA Stephen Higgs, BCom, FCA (Chair) Geoffrey Kenny Mike King Brent Robertson
Management:	Glen Todd, BCom, ACA, MInstD (Chief Executive Officer) Kyle Cameron, BCom, BPhEd, CA, MInstD (Chief Financial Officer) Rowena Davenport, BCom, MinstD (Treasury Manager) Yoel George, BApMgt (Manager – Credit & Compliance) Simon Hopkins (Manager – Solutions Team) Jason Hughes, BCom (Trust Manager) Ashley Ross, BApMgt, PMP, MinstD (Chief Information Officer)
Perpetual preference share registrar:	Computershare Investor Services Limited 09 488 8777 enquiry@computershare.co.nz
Ordinary share registrar:	Computershare Investor Services Limited 09 488 8777 enquiry@computershare.co.nz
Trustee for securitisation programme:	Trustees Executors Ltd
Bankers:	Bank of New Zealand Commonwealth Bank of Australia Westpac New Zealand
Solicitors:	Bell Gully DLA Piper Gallaway Cook Allan
Auditor:	Deloitte Ltd
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