MTF annual report 2015

Contents

	2015 $m	2014 $m
Operating result		
New loans	386.4	415.5
Profit after tax	6.9	6.1
Profit before commission and other gain (loss)	45.2	42.3
Underlying profit after tax [1]	8.1	6.7
Total assets	566.5	540.9
Total assets under management [2]	581.9	571.1
Capital	82.6	80.7
Performance indicators		
Net interest income/average finance receivables	9.9%	10.3%
Expense/average total assets under management	2.7%	3.0%
Impaired asset expense/average finance receivables	0.1%	0.2%
Capital percentage	14.6%	14.9%
Shareholder value (per ordinary share)		
Adjusted net asset backing [3]	$1.89	$1.81
Underlying profit after tax [4]	$0.27	$0.22
Dividend for the year (net)	$0.136	$0.112

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

	2015 $000	2014 $000
Profit after tax	6,942	6,143
Adjustments:		
Finance receivables designated at fair value (note 5)	(6,236)	853
Interest rate swaps derivatives at fair value (note 5)	7,832	(69)
Total adjustments before tax	1,596	784
Tax on adjustments	(447)	(220)
Underlying profit after tax	8,091	$6,707

[2] Assets under management includes finance receivables managed under an arrangement with Honda New Zealand, that are not recognised on the MTF balance sheet
[3] Adjusted net assets comprises net assets less perpetual preference shares
[4] Excludes dividends paid to perpetual preference shareholders

Financial performance:

Profit before commission and fair value movements is up 6.9%, to $45.2m, a consequence of strong asset growth in recent years. Commission paid to shareholder originators increased 6% to $33.4m. Total amounts paid to MTF originators, including commission, fees and payment waiver, increased 3.3% to $51.7m.

Underlying profit after tax, which removes the volatility of unrealised fair value movements, and provides a more consistent measure of company performance, increased 21% to $8.1m (2014: $6.7m), largely due to insurance proceeds received during the period.

Unrealised loss on fair value of financial instruments totalled $1.8m, compared to $1.7m last year, giving net profit after tax of $6.9m (2014: $6.1m)

Sales decreased 7.3% in 2015, after a record year in 2014. MTF's traditional market of used car finance has come under pressure with the high NZ dollar making new cars an attainable proposition for consumers. The car lending market generally remains very competitive, reflected in the market share for the period, measured by PPSR registrations, which reduced to 11.9% (30 September 2014: 12.5%).

Operating expense, excluding bad debt, as a percentage of assets under administration, dropped to 2.7% (2014: 3.0%). We continue to focus on strong cost management, while investing in areas that will ensure the business' future success.

Administration expense dropped 19% due to the 2014 costs associated with defending proceedings brought by the Commerce Commission and costs relating to last year's approach from Heartland.

Communication and processing expense increased 34%, due mainly to the launch of a national multimedia brand awareness campaign.

Depreciation and amortisation dropped 11%, as MTF invested in a more structured development programme using internal capabilities, replacing the reliance on costly third parties to deliver major technology developments.

Bad debt of $0.1m (2014: ($0.2m)) is satisfyingly low, and is a result of the continued wash up of several originator ledgers where MTF assumed management.

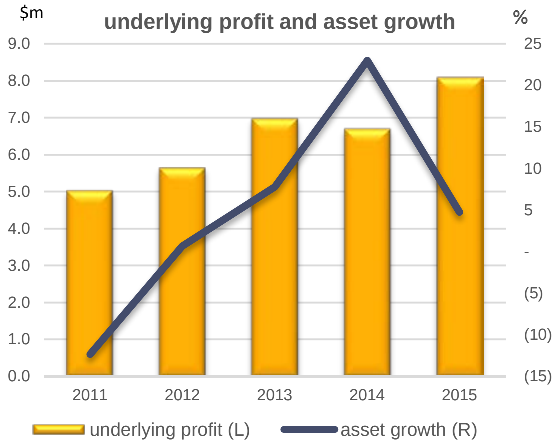
Financial position and liquidity:

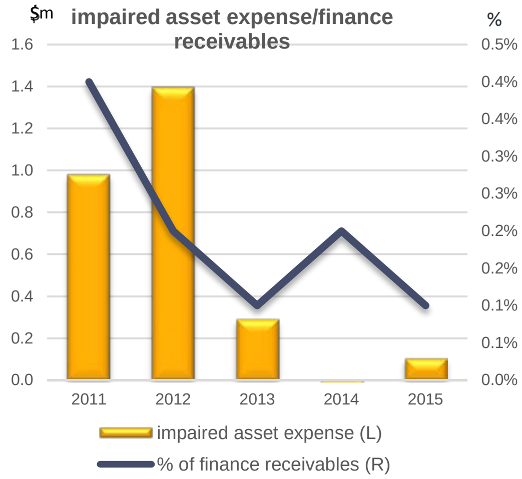
Total assets increased $25.6m (4.7%), on the back of strong first quarter sales, with finance receivables accounting for the increase, up $27.7m. Assets under management totalled $582m at 30 September 2015 (2014: $571m).

Net interest income, as a percentage of finance receivables, of 9.5% (2014: 10.3%), whilst lower than last year, 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 $13.9m to $446.4m. Securitisation facilities have sufficient capacity to fund forecast growth with $50.5m undrawn at year end.

MTF's securitisation programme continues to perform well and lead the New Zealand market. The Zephyr Trust, our first medium term note issuance from 2012, will reach maturity in the first half of the 2016 financial year and we intend to return to the capital markets early next year for a potential third issuance.





Capital, as a percentage of total assets, has reduced to 14.7% (2014: 14.9%), due to growth in assets and increased dividends paid to ordinary shareholders, and remains sufficient to underpin projected growth over the medium term.

Credit quality:

At the date of this report, 31+ day arrears stood at 0.44% (2014: 0.43%), below internal benchmarks and well below industry averages.

Provisions total 1.0% of net receivables and are considered by management and the board as appropriate, given the economic outlook and based on actual experience.

Contingent liability:

MTF has a contingent liability arising from a civil proceeding brought by the Commerce Commission for alleged breaches of the Credit Contracts & Consumer Finance Act 2003 (CCCFA), in respect of various fees charged in 39 Sportzone credit contracts (Sportzone case).

The initial High Court proceedings were held in November 2012, followed by a Quantum hearing in June 2014, with the subsequent Court of Appeal hearing held in November 2014. The judgment was delivered on 30 March 2015. The Court of Appeal dismissed the appeal by Sportzone Motorcycles Ltd and MTF.

The Court of Appeal upheld both the High Court's 'Liability Judgment', that some establishment and credit fees charged under 39 Sportzone loan contracts were unreasonable in terms of the Credit Contracts and Consumer Finance Act 2003 (CCCFA), and the 'Quantum Judgment', which detailed specific costs that could be recovered by way of fees.

Both the Quantum Judgment and 2006 – 2008 MTF fee models provide for a mix of interest rates and fees, as allowed for in the CCCFA. Both models include an analysis of recoverable costs and the Courts agreed that all of the MTF costs were recoverable through a mix of interest rate and fees.

The Quantum Judgment allows the recovery of many of the fixed and indirect costs the Commission originally sought to exclude as an unreasonable recovery through fees. In applying the Quantum Judgment there are significant increases from the single figure fees that formed the Commission's original position in the High Court. That original position was that each of MTF's establishment fees, for example, for the 2006 – 2008 period ought to have been less than $10 per loan.

Consequently the total amount by which the fees have been held to be unreasonable, and is to be repaid to 39 Sportzone borrowers, is less than $10,000, which has been fully provided for in these accounts. MTF was granted application for leave to appeal to the Supreme Court with this hearing taking place on 10-11 November 2015.

The contingent liability arises from the pending Supreme Court decision, expected in early 2016, that may require MTF to amend its quantification of any liability in respect of the 39 Sportzone loans. Consequently, MTF is not in a position to quantify any further the liability in relation to those loans, or any other loans originated by MTF shareholders.

Business development:

Our internal development focus continues to be driven by consumer laws and regulations. The Responsible Lending Code (RLC) and lender responsibility principles came into force on 6 June 2015. This has had a wide ranging impact on our origination, arrears management and compliance processes. Our future development is now heavily focused on creating simple and effective ways for our originator network to meet their compliance responsibilities, with smart electronic document capture and best practice customer affordability assessment the key components in the pipeline.

MTF is committed to supporting its originators so they can provide a highly customer focused, compliant and market leading service. To further facilitate this, MTF has appointed a training specialist to deliver modern training tools, using multiple delivery mediums, to our originators and their staff. Successful compliance training initiatives around anti-money laundering and RLC have already been released and are to be followed with sales and customer lifecycle training.

In July, MTF launched a national multimedia advertising campaign designed to increase brand awareness of MTF across our key demographic market. The campaign has produced good results demonstrated by an increase in website traffic, particularly from new customers, and online enquiries from potential customers. Future advertising will continue with the implementation of targeted regional advertising, complementing the ongoing national campaign.

Aside from the day-to-day business there has been corporate interest in the company, with Turners Limited (Turners) and Heartland New Zealand Limited (Heartland) showing interest in acquiring ordinary shares.

The initial offer from Turners, an existing MTF shareholder, closed on 17 October 2015 and resulted in the company acquiring 6.67% of our ordinary shares, taking its current holding to 7.62% of the ordinary shares.

In response to Heartland's initial approach the Board stated it would not approve Heartland holding 10-20% of the ordinary shares. Heartland signed a confidentiality agreement on 22 October 2015 and has since started initial limited due diligence, to help it decide whether it will make a full takeover offer. Whether Heartland will make a takeover offer remains to be seen, but the Board notes that whilst it is not actively seeking a buyer, it is obliged to consider whether any offer is in the best interests of the company and its shareholders. The approval of the Board and a special resolution of MTF shareholders would be required before a party could hold more than 10% of MTF's shares. A shareholding by Heartland could also require amendments to the MTF constitution.

These approaches reflect the fact that MTF is in good health and is operating well in an extremely competitive environment. Both Turners and Heartland see benefits in working with MTF and/or owning shares in the company, and there is potential for some of those benefits to flow through to originators and shareholders. The company continues to have competitive, low cost funding, with strong investor demand on the wholesale funding side of the business. MTF has a strong focus on providing leading technology and systems to meet customer and originator demands. In an economic environment where consumer confidence has flattened, MTF maintains good market share and continues to produce excellent profit for originators. Shareholder return on equity and dividend returns are superior to many in the industry, at a time when competition has never been stronger.

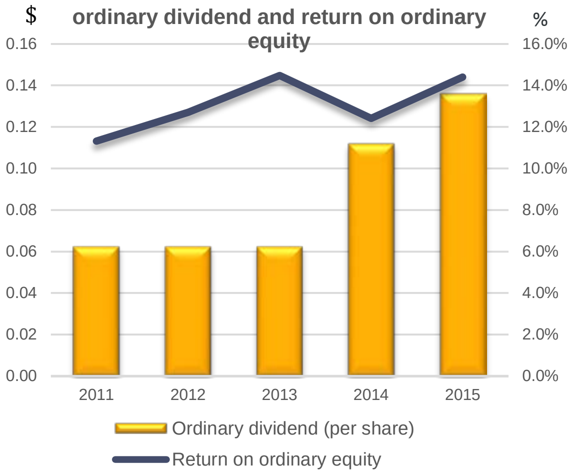
Shareholder returns:

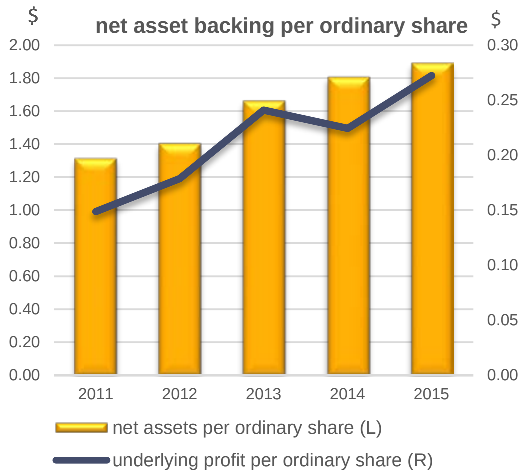
Return on ordinary equity, using underlying profit after tax, was 14.4%, up from 12.4% in 2014. Underlying profit per ordinary share is $0.27, up from $0.22 for the same period last year.

The company set its dividend policy to a target of 50% of underlying profit after tax in mid-2014. The current dividend policy provides an improved return to shareholders while maintaining sufficient capital to fund future growth.

On 13 November 2015, the directors approved a final dividend of 7.65 cents per ordinary share for payment on 30 November 2015. Total distribution relevant to the period will be 13.65 cents per share (2014: 11.2 cents per share) or $3.1m (2014: $2.6m), representing 50% of underlying profit.

Perpetual preference share dividends totalling $1.8m (2014: $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 5.11% (2014: 6.26%) on 30 September 2015, for the twelve months to 30 September 2016.





People:

Long serving Managing Director, Angus Bradshaw, retired on 1 December 2014. Angus successfully led MTF from 1997, during which time MTF has been at the forefront of online origination in the industry, converted from a cooperative to an investor owned company, launched the successful franchise business and navigated through the global financial crisis. The board and management thank Angus for his significant contribution.

On 4 December 2014 the Board appointed Glen Todd as Chief Executive Officer. Glen has been with MTF since 1999, and has been a key member of the senior management team. Glen was heavily involved in implementing the current securitisation programme and leading MTF's defence of the Sportzone case.

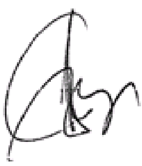
The board and management are extremely appreciative of the commitment and contribution of our staff and support from originators. This year has been one full of change and challenge, as we position the company to tackle the demands ahead.

Outlook:

Generally, the outlook for New Zealand economy remains soft and we have entered a more challenging period. Elevated global risks, Auckland's housing market, and a slowing Canterbury rebuild will all weigh heavily on consumer and business confidence. Some key positives still exist, such as strong migration, a weaker New Zealand dollar, and the likely continued easing of the Official Cash Rate (OCR), which should mean that the economy will remain relatively stable and deliver steady growth over the medium term.

Demand for consumer credit has come off its 2014 peak and competition for market share continues to be aggressive. New market participants, with a focus on gaining online presence, reflect the anticipated change in consumer behaviour towards transacting through digital means. MTF will continue to focus on its core strengths, delivering smart digital solutions and making finance simpler for originators and their customers, to achieve continued growth.

The board and management are confident that investment in market leading technology and a focus on outstanding service to customers and originating shareholders, will enable MTF to maintain its share of an increasingly competitive market.



Stephen Higgs
Chairman

Glen Todd
Chief Executive Officer

	2015 $000	2014 $000	2013 $000	2012 $000	2011 $000
Financial performance					
Total income	90,182	81,340	73,295	70,247	72,702
Operating expense (excluding bad debt)	15,735	15,761	13,303	12,561	10,382
Bad debt	105	(180)	293	1,396	980
Profit before commission and other gain or loss	45,221	42,314	39,316	34,890	33,261
Commission	33,399	31,636	29,374	27,375	25,390
Profit (loss) after tax	6,942	6,143	8,171	4,648	5,653
Underlying profit after tax[1]	8,091	6,707	6,989	5,659	5,047
Financial position					
Assets	566,501	540,910	439,996	407,124	405,320
Liabilities	483,880	460,234	362,895	336,678	336,038
Capital	82,617	80,676	77,101	71,382	69,281
Finance receivables	512,151	484,421	393,408	364,904	371,885
Performance indicators					
Net interest income/average finance receivables	9.87%	10.33%	10.80%	10.29%	8.92%
Operating expense (excluding bad debt)/average total assets under management	2.73%	2.98%	2.89%	3.00%	2.39%
Return on assets (underlying profit after tax)	1.46%	1.37%	1.65%	1.39%	1.17%
Capital percentage	14.58%	14.91%	17.52%	17.49%	17.09%

[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.

Framework:

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

Motor Trade Finances 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:

- number of directors will be no fewer than six, and no greater than seven
- 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 2015, the board consisted of four transacting shareholder directors, two independent directors. Information about directors is set out on page 45 of this report. The board met eleven times during the year ended 30 September 2015.

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:

	2015	**2014**
Angus Bradshaw (retired 30 November 2014)	259,991	599,226
Scott Creahan	47,500	44,750
Graeme Gibbons	47,500	46,500
Stephen Higgs	85,500	80,500
Geoffrey Kenny	47,500	46,500
Mike King	47,500	46,500
Stephen McKewen (retired 15 October 2013)	-	1,750
Brent Robertson	47,500	46,500
	$582,991	**$912,226**

Year ended 30 September 2015

	Note	2015 $000	2014 $000
Interest income	2	78,285	68,802
Interest expense	3	29,121	23,445
Net interest income		49,164	45,357
Payment waiver net income	6	2,000	2,072
Fees		9,897	10,466
Net interest income and fees		61,061	57,895
Expense			
Employee		6,574	6,404
Communication and processing		3,476	2,582
Depreciation and amortisation		2,133	2,396
Administration		3,552	4,379
Bad debt		105	(180)
Operating expense	4	15,840	15,581
Profit before commission and other gain (loss)		**45,221**	**42,314**
Commission	4	33,399	31,636
Profit before net gain (loss) from financial instruments at fair value		**11,822**	**10,678**
Net gain (loss) from financial instruments at fair value	5	(1,823)	(1,683)
Profit before tax		**9,999**	**8,995**
Tax	7	3,057	2,852
Profit after tax		**6,942**	**6,143**
Other comprehensive income		-	-
Total comprehensive income		**$6,942**	**$6,143**

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

Year ended 30 September 2015

	Note	Ordinary shares $000	Retained earnings $000	Perpetual preference shares $000	Total equity $000
Year ended 30 September 2015					
Balance at 1 October 2014		23,073	18,637	38,966	80,676
Total comprehensive income for the year:					
Profit after tax		-	6,942	-	6,942
Total comprehensive income for year		-	6,942	-	6,942
Transactions with shareholders:					
Ordinary share dividends	8	-	(3,194)	-	(3,194)
Perpetual preference share dividends	8	-	(1,803)	-	(1,803)
Total transactions with shareholders:		-	(4,997)	-	(4,997)
Balance at 30 September 2015		**$23,073**	**$20,582**	**$38,966**	**$82,621**
Year ended 30 September 2014					
Balance at 1 October 2013		23,073	15,062	38,966	77,101
Total comprehensive income for the year:					
Profit after tax		-	6,143	-	6,143
Total comprehensive income for the year		-	6,143	-	6,143
Transactions with shareholders:					
Ordinary share dividends	8	-	(1,036)	-	(1,036)
Perpetual preference share dividends	8	-	(1,532)	-	(1,532)
Total transactions with shareholders:		-	(2,568)	-	(2,568)
Balance at 30 September 2014		**$23,073**	**$18,637**	**$38,966**	**$80,676**

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

30 September 2015

	Note	2015 $000	2014 $000
Funds employed			
Ordinary shares	8	23,073	23,073
Retained earnings		20,582	18,637
Perpetual preference shares	8	38,966	38,966
Total shareholder equity		**82,621**	**80,676**
Liabilities			
Bank overdraft		122	604
Accounts payable and accrued expense	14	4,883	5,009
Unearned payment waiver fees		5,170	5,574
Committed cash advance	9	19,800	16,400
Senior notes – secured	9	446,352	432,478
Derivative financial instruments	21	7,553	169
Total liabilities		**$483,880**	**$460,234**
Total funds employed		**$566,501**	**$540,910**
Employment of funds			
Cash in restricted bank accounts	20	44,467	44,320
Provision for taxation		54	83
Accounts receivable		1,876	2,437
Payment waiver indemnity prepayment		1,572	2,331
Finance receivables	11	512,151	484,421
Deferred tax	7	222	635
Property, plant and equipment	12	615	753
Intangible assets	13	5,544	5,482
Derivative financial instruments	21	-	448
Total assets		**$566,501**	**$540,910**

Stephen Higgs
Chairman

Graeme Gibbons
Director

16 November 2015

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

Year ended 30 September 2015

	Note	2015 $000	2014 $000
Cash flow from operating activities			
Interest income		78,285	68,801
Fee income		9,886	10,528
Interest expense		(24,489)	(20,042)
Other funding and securitisation costs		(3,604)	(2,458)
Income tax paid		(2,616)	(3,151)
Commission		(33,409)	(31,548)
Operating expense		(14,017)	(16,286)
Net cash flow from operating activities before changes in operating assets and liabilities		10,036	5,844
Changes in operating assets and liabilities:			
Finance receivable instalments		364,531	322,935
Increase in committed cash advance – net		3,400	16,400
Increase (decrease) in senior notes – net		12,988	82,394
Finance receivable advances		(383,271)	(410,595)
		(2,352)	11,134
Net cash flow from operating activities	28	**7,684**	**16,978**
Cash flow from investing activities			
Sale of property, plant and equipment		42	33
Purchase of property, plant and equipment		(405)	(358)
Purchase of intangible assets		(1,695)	(1,115)
Net cash flow from investing activities		**(2,058)**	**(1,440)**
Cash flow from financing activities			
Proceeds from share issue		-	10
Trust establishment costs		-	(831)
Dividend to perpetual preference shareholders	8	(1,803)	(1,532)
Dividend to ordinary shareholders	8	(3,194)	(1,036)
Net cash flow from financing activities		**(4,997)**	**(3,389)**
Net increase (decrease) in cash		629	12,149
Cash on hand at beginning of period		43,716	31,567
Cash on hand at end of period		**$44,345**	**$43,716**
Represented by:			
Cash at bank (overdraft)		(122)	(604)
Cash in restricted bank accounts		44,467	44,320
		$44,345	**$43,716**

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 Finances 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 193 Princes Street, Dunedin.

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

The financial statements were approved by the Board of Directors on 16 November 2015.

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: Accounting Standard Framework (For-profit Entities Update).

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.

MTF has restructured its financial statements in 2015, including aggregation of some items on the face of the balance sheet and statement of cash flow. Previously disclosed information is still available within the notes of 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 judgements, estimates and assumptions:

In the application of NZ IFRS, the Directors make judgements, 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 judgements, 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 21)
- Consolidation of controlled entities (note 22)
- Determination of fair value of finance receivables (note 24)

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; and
- NZ IFRS 15 Revenue from Contracts with Customers

Both standards will be effective from the 2019 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 are 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.

	2015 $000	2014 $000
Interest income:		
Finance receivables designated at FVTPL	76,727	67,719
Cash in restricted bank accounts	1,558	1,083
	$78,285	**$68,802**
Interest income includes income from:		
Non-impaired assets	78,270	68,722
Impaired assets	15	80
	$78,285	**$68,802**

Note 3: Interest expense

Policy:

Interest expense is represented by the interest cost on senior notes issued to fund the securitisation programmes, the 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.

	2015 $000	2014 $000
Committed cash advance	613	336
Senior notes	23,553	19,223
Interest rate swaps - net	1,785	1,475
Securitisation programme	2,160	1,660
Other	1,010	751
	$29,121	**$23,445**

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:		2015 $000	2014 $000
Auditor			
	- Audit of group financial statements	162	146
	- Audit of Trust financial statements	98	96
	- Tax compliance	55	110
	- Other assurance fees	79	103
	- Other advisory fees	26	-
Depreciation			
	- Computer hardware	388	600
	- Office equipment, fixtures and fittings	60	61
	- Motor vehicles	52	48
Amortisation			
	- Intangible assets – software and websites	1,633	1,687
Directors fees		323	313
Rental and lease		510	488
Employee expense includes:			
Defined contribution scheme payments		97	120
Key management remuneration of:			
	- short term employee benefits	1,961	2,200
	- post employment benefits	50	36

Auditor: The auditor of the group is Deloitte. Other assurance fees includes work in relation to anti money laundering compliance, 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 $557,000 (2014: $402,000).
Non-cancellable operating leases payable between one and two years from balance date are estimated to be $522,000 (2014: $Nil).
Non-cancellable operating leases payable between three and five years from balance date are estimated to be $250,000 (2014: $Nil).

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.

	2015 $000	2014 $000
Net gain (loss) arising on:		
Finance receivables	6,236	(853)
Credit risk	(227)	(899)
Interest rate swap derivatives	(7,832)	69
	($1,823)	**($1,683)**

Note 6: Payment waiver programme

	2015 $000	2014 $000
Payment waiver fees earned	1,651	4,548
Administration fees earned	1,433	377
Indemnity expense	(1,042)	(2,887)
Indemnity performance payment	865	841
Administration expense	(907)	(807)
Payment waiver net income	**$2,000**	**$2,072**

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.

	2015 $000	2014 $000
Profit before tax	9,999	8,995
Income tax expense calculated at 28% (2014: 28%)	2,800	2,519
Non-deductible expense	13	116
Other permanent adjustments	248	217
(Over) under provision of income tax in previous year	(4)	-
	$3,057	**$2,852**
Represented by:		
Current tax	2,644	2,158
Deferred tax	413	694
	$3,057	**$2,852**

Tax rate:

The tax rate used in the reconciliation is the corporate tax rate of 28% (2014: 28%) payable by New Zealand corporate entities on taxable profits under New Zealand tax law for the 2015 income tax year.

Imputation credits:

There were $12,668,000 imputation credits available for use as at 30 September 2015 (2014: $12,176,000).

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 2015 are represented by:

	Opening balance $000	Charged to income $000	Closing balance $000
Deferred tax assets:			
Accounts payable and accrued expense	856	(12)	844
Property, plant and equipment	41	4	45
Derivative financial instruments	(103)	1,863	1,760
	794	**1,855**	**2,649**
Deferred tax liabilities:			
Intangible assets	(522)	(110)	(632)
Finance and other receivables	363	(2,158)	(1,795)
	(159)	**(2,268)**	**(2,427)**
Total deferred tax	**$635**	**($413)**	**$222**

The deferred tax balances at 30 September 2014 are represented by:

	Opening balance $000	Charged to income $000	Closing balance $000
Deferred tax assets:			
Accounts payable and accrued expense	810	46	856
Property, plant and equipment	(16)	57	41
Finance and other receivables	807	(444)	363
	1,601	**(341)**	**1,260**
Deferred tax liabilities:			
Intangible assets	(213)	(309)	(522)
Derivative financial instruments	(59)	(44)	(103)
	(272)	**(353)**	**(625)**
Total deferred tax	**$1,329**	**($694)**	**$635**

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 2015, there were 23,073,000 shares authorised and issued (2014: 23,073,000) of which 46,000 are due for payment (2014: 46,000). All fully paid ordinary shares have equal voting rights and share equally in dividends and surplus on winding up.

Ordinary share dividend:

	2015 $000	2014 $000
Fully imputed dividend declared and paid during the year:		
Interim dividend paid 1 December 2014 at 7.87 cents per share (2014: 1.13)	1,811	261
Interim dividend paid 30 January 2015 at 2 cents per share (2014: 1.13)	461	261
Interim dividend paid 30 April 2015 at 2 cents per share (2014: 1.11)	461	256
Interim dividend paid 31 July 2015 at 2 cents per share (2014: 1.12)	461	258
	$3,194	**$1,036**

Dividend: On 13 November 2015, the directors declared a final dividend on paid-up ordinary shares of 7.65 cents per share amounting to $1,762,000 (fully imputed), for the period 1 October 2014 to 30 September 2015. The dividend is due for payment on 30 November 2015.

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 2015, there were 40,000,000 perpetual preference shares (2014: 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

	2015 $000	2014 $000
Face value	40,000	40,000
Issue fees and expenses	(1,034)	(1,034)
	$38,966	**$38,966**

Perpetual preference share dividend:

	2015 $000	2014 $000
Fully imputed dividend declared and paid during the year (net) at 4.51 cents per share (2014: 3.83)	1,803	1,532
	$1,803	**$1,532**

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.

30 September 2015	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	5.15	31/12/2016	45,000	25,200	19,800	-	19,800
Securitisation:							
Senior Settlement notes	4.61	31/07/2017	40,000	17,407	22,593	-	22,593
Senior Warehouse notes	4.61	31/07/2017	250,000	32,515	217,485	(47)	217,438
Senior Zephyr notes	5.22	15/06/2020	11,601	-	11,601	(51)	11,550
Senior Valiant notes	4.39	15/07/2022	195,260	-	195,260	(491)	194,769
Total			**$541,861**	**$75,122**	**$466,739**	**($589)**	**$466,150**

30 September 2014	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	5.90	31/12/2016	45,000	28,600	16,400	-	16,400
Securitisation:							
Senior Settlement notes	5.49	30/08/2015	40,000	8,791	31,209	-	31,209
Senior Warehouse notes	5.52	30/08/2015	200,000	58,790	141,210	(465)	140,745
Senior Zephyr notes	5.77	15/06/2020	66,273	-	66,273	(226)	66,047
Senior Valiant notes	5.20	15/07/2022	195,260	-	195,260	(783)	194,477
Total			**$546,533**	**$96,181**	**$450,352**	**($1,474)**	**$448,878**

Judgements: 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 22.

Committed bank facilities: MTF has committed bank facilities with BNZ 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 created under the master trust structure are the Warehouse Trust, the Settlement Trust, the Zephyr Trust and the Valiant Trust (Trusts).

The principal components of the securitisation programme are:

The Settlement Trust funds newly originated qualifying receivables, prior to being purchased by the Warehouse Trust. Senior Settlement notes are issued for periods of up to 60 days and are secured by a first ranking mortgage debenture over the assets of the Settlement Trust.

The Warehouse Trust funds the purchase of qualifying finance receivables from the Settlement Trust. Senior Warehouse notes are issued for periods of up to 72 months past the facility expiry of 31 July 2017. 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 Zephyr Trust funds qualifying finance receivables purchased from the Warehouse Trust prior to 15 June 2014. The Trust has entered amortisation. No new qualifying finance receivables can be acquired. Senior Zephyr notes consist of Class A notes $8,801,000 (2014: $63,473,000) and Class B notes $2,800,000 (2014: $2,800,000), both are rated AAA(sf) (Standard and Poor's long-term, structured finance rating, 11 December 2014) and are secured by a first ranking mortgage debenture over the assets of the Zephyr Trust.

The Valiant Trust funds the purchase of qualifying finance receivables from the Warehouse Trust. Senior Valiant notes are issued for periods of up to 96 months past the issue date 15 July 2014. The Valiant Trust has a revolving period of 24 months from issue date, during which the Trust may continue to acquire qualifying finance receivables from the Warehouse Trust. At the end of the revolving period, no new receivables may be acquired and the facility will run-off.

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

Senior Valiant notes on issue	Fitch rating	2015 $000	2014 $000
Class A	AAA(sf)	176,400	176,400
Class B	AA(sf)	6,660	6,660
Class C	A(sf)	5,840	5,840
Class D	BBB(sf)	2,660	2,660
Class E	BB(sf)	2,500	2,500
Class F	B(sf)	1,200	1,200
		$195,260	**$195,260**

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 the Trusts on the termination of the Trusts.

Finance receivables securitised at balance date with the Trusts:

	2015 $000	2014 $000
Warehouse Trust	232,574	149,039
Valiant Trust	179,223	183,492
Zephyr Trust	17,969	64,724
Settlement Trust	23,823	32,977
	$453,589	**$430,232**

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 2015, $885,000 (2014: $776,000) 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.

	2015 $000	2014 $000
(a) Asset quality - finance receivables		
Neither past due nor impaired	517,118	488,982
Individually impaired	55	243
Past due but not impaired	77	68
Specific credit risk	(10)	(2)
Collective credit risk	(5,089)	(4,870)
Total carrying amount	**$512,151**	**$484,421**
(b) Aging of past due but not impaired assets		
Past due 90 -120 days	77	30
Past due 120+ days	-	38
Carrying amount of past due assets	**$77**	**$68**
(c) 90 day past due assets (including impaired assets)		
Balance at beginning of year	102	245
Net movement in past due assets	(25)	(143)
Carrying amount at end of year	**$77**	**$102**
(d) Individually impaired assets – managed transaction shareholder		
Finance receivables	55	243
Balances available for offset, including collateral	(45)	(241)
Specific impairment allowance	**$10**	**$2**

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.

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 2015, 0.02% (2014: 0.02%) 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 (2014: 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.

	2015 $000	2014 $000
Receivable within 12 months	206,300	188,764
Receivable beyond 12 months	305,851	295,657
Total finance receivables	**$512,151**	**$484,421**

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

	2015 $000	2014 $000
Finance receivables at FVTPL - loss	227	899
	$227	**$899**

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 2015 reflects $5,099,000 (2014: $4,872,000) 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: 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:

	2015 $000	2014 $000
Computer hardware	1,989	1,849
Less accumulated depreciation	(1,664)	(1,454)
Total carrying amount	**325**	**395**
Office equipment, fixtures and fittings	789	765
Less accumulated depreciation	(627)	(575)
Total carrying amount	**162**	**190**
Motor vehicles	221	252
Less accumulated depreciation	(93)	(84)
Total carrying amount	**128**	**168**
Total property, plant and equipment	**$615**	**$753**

Capital commitments: The estimated capital expenditure contracted for at balance date but not provided for is $466,000 (2014: $Nil).

Note 13: 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.

	2015 $000	2014 $000
Cost		
Balance at beginning of year	20,078	18,963
Additions	1,695	1,115
Disposals	-	-
Balance at end of year	**21,773**	**20,078**
Amortisation and impairment		
Balance at beginning of year	14,596	12,909
Amortisation	1,633	1,687
Impairment	-	-
Balance at end of year	**16,229**	**14,596**
Total intangible assets	**$5,544**	**$5,482**

Capital commitments: The estimated capital expenditure contracted for at balance date but not provided for is $79,000 (2014: $279,000).

Note 14: 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.

	2015 $000	2014 $000
Trade creditors	977	558
Sundry creditors and accruals	2,342	2,801
Unpaid commission	255	241
Employee entitlements	1,309	1,409
	$4,883	**$5,009**

Note 15: Related party transactions

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

	2015 $000	2014 $000
Graeme Gibbons	922	1,118
Geoffrey Kenny	1,090	953
Mike King	1,547	1,321
Brent Robertson	1,589	1,296
	$5,148	**$4,688**

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

	2015 $000	2014 $000
Graeme Gibbons	14,305	16,616
Geoffrey Kenny	13,799	12,626
Mike King	22,904	19,839
Brent Robertson	20,510	16,625
	$71,518	**$65,706**

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.

Note 16: Credit risk

Maximum exposures to credit risk:

	2015 $000	2014 $000
Cash at bank	-	-
Cash in restricted bank accounts	44,467	44,320
Accounts receivable	1,876	2,437
Warehouse Trust securitised finance receivables	232,574	149,039
Valiant Trust securitised finance receivables	179,223	183,492
Settlement Trust securitised finance receivables	23,823	32,977
Zephyr Trust securitised finance receivables	17,969	64,724
Non securitised finance receivables	58,562	54,189

Finance receivables credit risk by geographical location:

	2015 $000	2014 $000
Canterbury	64,853	63,358
Auckland	64,230	60,532
Waikato	60,513	55,611
Bay of Plenty	55,456	51,092
Wellington/Wairarapa	46,830	41,079
South Auckland	42,035	41,353
Otago	40,113	37,822
Manawatu/Wanganui	31,157	30,015
Southland	19,293	20,593
Hawkes Bay	18,462	17,431
Nelson/Marlborough	,14,753	13,248
South Canterbury	13,180	13,205
Northland	12,930	11,734
Gisborne	11,889	10,922
Taranaki	11,135	11,525
West Coast	5,322	4,901
Finance receivables by geographical location	**$512,151**	**$484,421**

Finance receivables credit risk by security type:

	2015 $000	2014 $000
Passenger vehicle	343,804	331,772
Commercial vehicle	111,304	99,190
Motorcycle	36,374	36,912
Caravans	10,712	8,642
Marine	8,507	5,423
Equipment	1,450	2,482
Finance receivables by security type	**$512,151**	**$484,421**

Finance receivables credit risk by transacting shareholder:

	2015 $000	2014 $000
0 - $5,000,000	173,512	152,805
$5,000,000 - $10,000,000	134,298	117,945
$10,000,000 - $20,000,000	115,225	132,891
$20,000,000+	89,116	80,780
Finance receivables by transacting shareholder	**$512,151**	**$484,421**

Finance receivables credit risk by individual contract size:

	2015 $000	2014 $000
0 - $5,000	58,040	38,079
$5,001 - $10,000	144,769	100,057
$10,001 - $20,000	182,305	173,634
$20,001 - $30,000	75,973	82,292
$30,001 - $40,000	33,060	45,573
$40,001- $50,000	11,636	24,919
$50,001+	6,368	19,867
Finance receivables by contract size	**$512,151**	**$484,421**

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.

Maximum 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 in support of the credit enhancement of the securitisation programme (refer note 9). 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	
	2015 %	2014 %	2015 $000	2014 $000
Warehouse Trust	9.15	9.50	21,913	14,774
Settlement Trust	9.17	9.50	2,281	3,255
Zephyr Trust	44.21	12.54	9,500	9,500
Valiant Trust	2.37	2.37	4,740	4,740
			$38,434	**$32,269**

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.

Note 17: Liquidity risk

Financial assets matched against financial liabilities at 30 September 2015 (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	44,467	-	-	-	-	44,467
Accounts receivable	-	1,876	-	-	-	1,876
Finance receivables	-	137,010	128,379	199,191	150,697	615,277
	44,467	138,886	128,379	199,191	150,697	661,620
Monetary liabilities						
Bank overdraft	122	-	-	-	-	122
Committed cash advance	-	-	20,345	-	-	20,345
Accounts payable and accrued expense	-	4,883	-	-	-	4,883
Senior notes - secured	-	117,560	99,223	149,116	104,522	470,421
	122	122,443	119,568	149,116	104,522	495,771
Net liquidity gap	**$44,345**	**$16,443**	**$8,811**	**$50,075**	**$46,175**	**$165,849**
Net liquidity gap - cumulative	**$44,345**	**$60,788**	**$69,599**	**$119,675**	**$165,849**	

Financial assets matched against financial liabilities at 30 September 2014 (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	44,320	-	-	-	-	44,320
Accounts receivable	-	2,437	-	-	-	2,437
Finance receivables	-	124,611	121,844	189,474	150,826	586,755
	44,320	127,048	121,844	189,474	150,826	633,512
Monetary liabilities						
Bank overdraft	604	-	-	-	-	604
Committed cash advance	-	-	16,851	-	-	16,851
Accounts payable and accrued expense	-	5,009	-	-	-	5,009
Senior notes - secured	-	120,504	91,492	152,042	96,072	460,109
	604	125,513	108,343	152,042	96,072	482,573
Net liquidity gap	**$43,716**	**$1,535**	**$13,501**	**$37,432**	**$54,754**	**$150,939**
Net liquidity gap - cumulative	**$43,716**	**$45,251**	**$58,752**	**$96,184**	**$150,939**	

Liquidity risk management:

	Limit $000	Drawn $000	Undrawn $000	Facility expiry date
2015				
Committed cash advance facility	45,000	19,800	25,200	31/12/2016
Warehouse Trust	250,000	217,485	32,515	31/07/2017
Settlement Trust	40,000	22,593	17,407	31/07/2017
Valiant Trust	195,260	195,260	-	15/07/2022
Zephyr Trust	11,601	11,601	-	15/06/2020
Total	**$541,861**	**$466,739**	**$75,121**	
2014				
Committed cash advance facility	45,000	16,400	28,600	31/12/2016
Warehouse Trust	200,000	141,210	58,790	30/08/2015
Settlement Trust	40,000	31,209	8,791	30/08/2015
Valiant Trust	195,260	195,260	-	15/07/2022
Zephyr Trust	66,273	66,273	-	15/06/2020
Total	**$546,533**	**$450,352**	**$96,181**	

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 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 and Zephyr notes issued are subject to a credit rating by Standard and Poor's Rating Services. Valiant notes are subject to a credit rating by Fitch Ratings.

Senior Warehouse and Settlement note maturity dates are a maximum of 72 months after the expiry date of the facility. The next facility review is 31 July 2017. Senior Zephyr notes have a maturity date of 96 months after the issue date of 15 June 2012. Senior Valiant notes have a maturity date of 96 months after the issue date of 15 July 2014. Details of this 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 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 2015, MTF complies with all covenants of the MTF securitisation programme.

Note 18: 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, Treasury Manager and Financial Controller 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, Settlement, Zephyr and Valiant 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 2015, 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 2015 was 14.51% (2014: 14.60%).

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 2015 was 2.75% (2014: 3.5%).

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:

	2015 $000	2014 $000
100 bp increase in interest rates	1,283	310
100 bp decrease in interest rates	(1,345)	(129)

Impact on equity:

	2015 $000	2014 $000
100 bp increase in interest rates	1,283	310
100 bp decrease in interest rates	(1,345)	(129)

Note 19: Capital risk management

Capital structure:

	2015 $000	2014 $000
Ordinary shares	23,073	23,073
Retained earnings	20,582	18,637
Perpetual preference shares	38,966	38,966
Total capital for capital management purposes	**$82,621**	**$80,676**

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. At balance date, the Group complies 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 20: 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 21: 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:

	2015 $000	2014 $000
Interest rate swaps	(7,553)	279
	($7,553)	**$279**

Interest rate swaps:

	Average contracted interest rate		Notional principal amount		Fair value	
	2015 %	**2014 %**	**2015 $000**	**2014 $000**	**2015 $000**	**2014 $000**
Less than 1 year	3.73	3.93	240,475	188,466	(3,134)	183
1 to 2 years	3.67	4.05	199,770	148,691	(2,436)	87
2 to 3 years	3.67	4.16	131,977	88,780	(1,442)	16
3 to 4 years	3.96	4.21	67,967	29,204	(515)	(6)
4 to 5 years	3.00	4.26	2,139	2,572	(26)	(1)
			$642,328	**$457,713**	**($7,553)**	**$279**

Judgements:

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 instruments concerned. The Group does not require collateral or other security to support these financial instruments.

Note 22: 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	
		2015	2014
MTF Leasing Ltd	Leasing	100%	100%
MTF Securities Ltd	Financial services	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 Settlement Trust No.1	Securitisation	-	-
MTF Zephyr Trust 2012	Securitisation	-	-
MTF Valiant Trust 2014	Securitisation	-	-

Judgements:

The Group consolidates the securitisation entities, MTF Warehouse Trust No.1 (Warehouse Trust), MTF Settlement Trust No.1 (Settlement Trust), MTF Zephyr Trust 2012 (Zephyr Trust) and MTF Valiant Trust 2014 (Valiant Trust) on its balance sheet.

Management make judgements 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 incorporated in New Zealand.

Note 23: 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, accounts receivable and other receivables 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 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 2015:

	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	-	44,467	-	44,467
Accounts receivable	-	1,876	-	1,876
Finance receivables (designated)	512,151	-	-	512,151
	$512,151	**$46,343**	**-**	**$558,494**
Liabilities				
Bank overdraft	-	-	122	122
Committed cash advance	-	-	19,800	19,800
Accounts payable and accrued expense	-	-	4,883	4,883
Senior notes - secured	-	-	446,352	446,352
Derivative financial instruments (held for trading)	7,553	-	-	7,553
	$7,553	**-**	**$471,157**	**$478,710**

Categorisation of financial instruments at 30 September 2014:

	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	-	44,320	-	44,320
Accounts receivable	-	2,437	-	2,437
Finance receivables (designated)	484,421	-	-	484,421
Derivative financial instruments (held for trading)	448	-	-	448
	$484,869	**$46,757**	**-**	**$531,626**
Liabilities				
Bank overdraft	-	-	604	604
Committed cash advance	-	-	16,400	16,400
Accounts payable and accrued expense	-	-	5,009	5,009
Senior notes - secured	-	-	432,478	432,478
Derivative financial instruments (held for trading)	169	-	-	169
	$169	**-**	**$454,491**	**$454,660**

Note 24: 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.

Valuation techniques include the discounted cash flow method.

The value produced by a model or other valuation technique reflects all factors market participants take into account when entering a transaction. The model takes into account market risk, liquidity risk and credit risk as well as other factors.

Fair value measurements recognised in the statement of financial position:

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
2015				
Financial assets at FVTPL				
Finance receivables	-	-	512,151	512,151
	-	**-**	**$512,151**	**$512,151**
Financial liabilities at FVTPL				
Derivative financial liabilities	-	7,553	-	7,553
	-	**$7,553**	**-**	**$7,553**
2014				
Financial assets at FVTPL				
Finance receivables	-	-	484,421	484,421
Derivative financial assets	-	448	-	448
	-	**$279**	**$484,421**	**$484,700**
Financial liabilities at FVTPL				
Derivative financial liabilities	-	169	-	169
	-	**$169**	**-**	**$169**

Judgements:

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 only observable data. Inputs to the valuation model, such as credit risk, volatility and correlation, require management to make judgements and estimates. Changes in the assumptions in these models 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

The following valuation techniques and inputs were used to estimate the fair value of each financial asset and financial liability measured at fair value on a recurring basis in the Balance Sheet.

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

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 future cash flows, estimated and discounted based on a zero rate yield curve derived from a series of observable market interest rates.

Fair value measurements recognised in the Statement of financial position

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 9 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:

	2015 $000	2014 $000
Balance at beginning of the year	484,421	393,408
Gain/(loss) recognised in net gain (loss) from financial instruments at fair value	6,009	(1,752)
Sales	386,356	415,520
Settlements	(364,635)	(322,755)
Balance at end of the year	**$512,151**	**$484,421**
Changes in unrealised gain (loss) for the year included in profit or loss for finance receivables held at the end of the year	6,009	(1,752)

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

Fair value of finance receivables is determined by applying zero rates generated from a series of current market data. The zero rates are the implied continuously-compounded interest rate on an investment starting today. The zero rates and associated discount factors are developed using a mathematical technique called cubic spline interpolation, which calculates a theoretical yield curve from the live money market and semi-annual swap rates and the implied forward swap 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 zero rate 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 $5,089,000 (2014: $4,870,000) 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 2015 was based on cash flows discounted using a weighted average interest rate of 14.51% (2014: 14.60%).

Refer to Note 18 for details of sensitivity analysis.

Note 25: Events after balance date

Dividend:

On 13 November 2015, the directors declared a final dividend on paid-up ordinary shares of 7.65 cents per share amounting to $1,762,000 (fully imputed), for the period 1 October 2014 to 30 September 2015. The dividend is due for payment on 30 November 2015.

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: Contingent liabilities

Commerce commission:

MTF has a contingent liability arising from civil proceeding brought by the Commerce Commission for alleged breaches of the Credit Contracts & Consumer Finance Act 2003 (CCCFA), in respect of various fees charged in credit contracts (Sportzone case).

The initial High Court proceedings were held in November 2012, followed by a Quantum hearing in June 2014, with the subsequent Court of Appeal hearing held in November 2014. The judgment was delivered on 30 March 2015. The Court of Appeal dismissed the appeal by Sportzone Motorcycles Ltd and MTF.

The Court of Appeal upheld both the High Court's 'Liability Judgment', that some establishment and credit fees charged under the loan contracts were unreasonable in terms of the Credit Contracts and Consumer Finance Act 2003 (CCCFA), and the 'Quantum Judgment', which detailed specific costs that could be recovered by way of fees.

Both the Quantum Judgment and 2006 – 2008 MTF fee models provide for a mix of interest rates and fees, as allowed for in the CCCFA. Both models include an analysis of recoverable costs and the Courts agreed that all of the MTF costs were recoverable through a mix of interest rate and fees.

The Quantum Judgment allows the recovery of many of the fixed and indirect costs the Commission originally sought to exclude as an unreasonable recovery through fees. In applying the Quantum Judgment there are significant increases from the single figure fees that formed the Commission's original position in the High Court. That original position was that each of MTF's establishment fees, for example, for the 2006 – 2008 period, ought to have been less than $10 per loan.

Consequently the total amount by which the fees have been held to be unreasonable, and is to be repaid to 39 Sportzone borrowers, is less than $10,000, which has been fully provided for in these accounts. MTF was granted application for leave to appeal to the Supreme Court with this hearing taking place on 10-11 November 2015.
The contingent liability arises from the pending Supreme Court decision, expected in early 2016, that may require MTF to amend its quantification of any liability in respect of the 39 Sportzone loans. Consequently, MTF is not in a position to quantify any further the liability in relation to those loans, or any other loans originated by MTF shareholders.

Note 28: 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.

	2015 $000	**2014 $000**
Reconciliation of profit after tax to net cash flow from operating activities		
Profit after tax	6,942	6,143
Non-cash items	2,133	2,536
	9,075	**8,679**
Movement in other items		
(Increase) decrease in accounts receivable	561	(775)
Decrease in payment waiver indemnity prepayment	760	2,112
(Increase) in finance receivables	(27,729)	(91,012)
Increase in committed cash advance	3,400	16,400
Increase in deferred tax	412	694
Increase (decrease) in provision for tax	29	(993)
Increase (decrease) in accounts payable and accrued expense	(126)	767
(Decrease) in unearned payment waiver fees	(404)	(1,984)
Increase in senior notes	13,873	82,339
(Increase) decrease in derivative financial assets	448	(53)
Increase (decrease) in derivative financial liabilities	7,384	(17)
	(1,391)	**7,478**
Movement in working capital items classified as investing or financing activities	-	821
Net cash surplus from operating activities	**$7,684**	**$16,978**

Deloitte.

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF MOTOR TRADE FINANCES LIMITED

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Motor Trade Finances Limited and its subsidiaries ('the Group') on pages 11 to 42, which comprise the consolidated balance sheet as at 30 September 2015, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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.

Board of Directors' Responsibility for the Consolidated Financial Statements

The Board of Directors are responsible for the preparation and fair presentation of these consolidated financial statements, in accordance with New Zealand Equivalents to International Financial Reporting Standards, International Financial Reporting Standards and generally accepted accounting practice in New Zealand, and for such internal control as the Board of Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates, as well as the overall presentation of the consolidated financial statements.

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

Other than in our capacity as auditor, other assurance services and the provision of taxation compliance and advisory services, we have no relationship with or interests in Motor Trade Finances Limited or any of its subsidiaries. In addition to this, partners and employees of our firm deal with Motor Trade Finances Limited and its subsidiaries on normal terms within the ordinary course of trading activities of the business of Motor Trade Finances Limited and its subsidiaries. These services have not impaired our independence as auditor of the Company and Group.

Deloitte.

Opinion

In our opinion, the consolidated financial statements on pages 11 to 42 present fairly, in all material respects, the financial position of Motor Trade Finances Limited and its subsidiaries as at 30 September 2015, and their financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards, International Financial Reporting Standards and generally accepted accounting practice in New Zealand.

Deloitte

Chartered Accountants
13 November 2015
Dunedin, New Zealand

This audit report relates to the consolidated financial statements of Motor Trade Finances Limited for the year ended 30 September 2015 included on Motor Trade Finances Limited's website. The Board of Directors is responsible for the maintenance and integrity of the Motor Trade Finances Limited's website. We have not been engaged to report on the integrity of the Motor Trade Finances Limited's website. We accept no responsibility for any changes that may have occurred to the consolidated financial statements since they were initially presented on the website. The audit report refers only to the consolidated financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these consolidated financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited consolidated financial statements and related audit report dated 13 November 2015 to confirm the information included in the audited consolidated financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Reporting entity:

Motor Trade Finances 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 a reporting entity for the purposes of the Financial Markets Conduct Act 2013.

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

Auditor:

Deloitte has continued to act as auditor of the company, and has undertaken the audit of the financial statements for the 2015 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 and $2,000 to NZ Federation of Family Budgeting Services 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	325,376	1.41%
Mike King	699,880	3.03%
Brent Robertson	499,635	2.16%
	2,658,560	**11.51%**
Total shares on issue	**23,073,229**	**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 Motor Trade Finances Ltd, MTF Securities Ltd, MTF Direct Ltd, MTF Treasury Ltd, MTF Leasing Ltd, MTFS Holdings Ltd, MTF 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 Ltd and a director of CRT Ltd, Cumberland Property Group Ltd, Cumberland Rural Properties Ltd, Polson Higgs Administration Ltd and various other Polson Higgs companies, Incompass Ltd, Otago Innovation 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 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 and Wilcock & King Ltd.

Brent Robertson is a director of Brents Investments (2008) Ltd, Brents Ltd, Guinness Holdings Ltd, LLAR Ltd, Moorhouse City Ltd, O'Connell Robertson Ltd, Old Tai Tapu Ltd, Ferguson Roberston Ltd and Foster Robertson Ltd.

Shareholding:

Twenty largest ordinary shareholders at 31 October 2015:

Shareholder rank and name		Holding	% Total ordinary shares
1	Turners Finance Ltd	1,757,504	7.62
2	Honda New Zealand Ltd	906,623	3.94
3	Vehicle Logistics Ltd	680,097	2.95
4	Cheryl Renouf Ltd	399,333	1.73
5	Douglas Rushbrooke Ltd	388,147	1.68
6	The Colonial Motor Company Ltd	377,599	1.64
7	Geoff Kenny Ltd	325,376	1.41
8	Mike King Ltd	310,883	1.35
9	Stephen Parker Ltd	300,941	1.31
10	Richard S Scott Ltd	270,000	1.17
11	Neil Wolfgram Ltd	263,516	1.14
12	Wolfgram Ltd	259,723	1.13
13	John Davidson Ltd	244,478	1.06
14	Mark and Joy Diggleman Ltd	240,000	1.04
15	Paul A Robinson Ltd	233,819	1.02
16	Noel Johnston Ltd	230,000	1.00
17	O'Connell Robertson Ltd	229,635	1.00
18	Collier Sendall Ltd	222,984	0.97
19	Nippon Autos Ltd	220,917	0.96
20	Glover King Ltd	219,680	0.95
	Total shares on issue	**23,073,229**	**100.00**

Employee remuneration:

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

Range	Number of employees 2015	2014
$100,000 - $109,999	2	1
$110,000 - $119,999	3	3
$120,000 - $129,999	4	4
$130,000 - $139,999	1	1
$140,000 - $149,999	2	3
$150,000 - $159,999	3	1
$170,000 - $179,999	-	2
$180,000 - $189,999	1	-
$190,000 - $199,999	1	-
$200,000 - $209,999	1	2
$220,000 - $229,999	1	-
$230,000 - $239,999	-	1
$250,000 - $259,999	1	-
$270,000 - $289,999	-	1
$310,000 - $319,999	1	-
$320,000 - $329,999	-	1
$410,000 - $419,999	1	-

No remuneration is paid by subsidiaries.

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) Nigel Mathieson (Manager – Credit & Compliance) Jason Hughes, BCom (Trust Manager) Ashley Ross, BApMgt, PMP (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
Registered office:	193 Princes Street, Dunedin PO Box 885, Dunedin 9054
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