mtf finance

Annual Report

YEAR ENDED 30 SEPTEMBER 2019

Helping 58,500 New Zealanders to do more

46,249 Passenger Vehicles	7,608 Utility Vehicles	6,222 Motorcycles
3,492 Vans	1,230 Caravans	1,148 Boats
898 Trucks	895 Machines	844 Trailers
510 Jet Skis	392 Buses	56 Tractors
3 Aircraft		

Contents


mtf finance
mtf.co.nz/manukau

Highlights

NEW LOANS $M

515.3

TOTAL PAID TO ORIGINATORS $M

66.5

TOTAL ASSETS $M

784.0

ORDINARY DIVIDEND CENTS

14.51

LAUNCH OF 5TH SECURITISATION TRANSACTION, BRINGING TOTAL ISSUED INTO CAPITAL MARKETS TO OVER $1 BILLION

DIGITAL LENDING CHANNEL LAUNCHED IN CONJUNCTION WITH TRADE ME MOTORS

	2019 $m	2018* $m (Restated)
Operating result		
New loans	515.3	598.6
Profit after tax	11.1	8.0
Underlying profit after tax [1]	7.9	8.7
Total assets	784.0	748.0
Total assets under management [2]	807.5	797.1
Total paid to originators	66.5	68.3
Performance indicators		
Net interest income/average finance receivables	2.9%	3.0%
Expense/average total assets under management [3]	2.6%	2.8%
Impaired asset expense/average finance receivables	0.04%	0.03%
Capital percentage	12.1%	12.0%
Shareholder value (per ordinary share)		
Adjusted net asset backing [4]	$2.58	$2.47
Underlying profit after tax [5]	$0.29	$0.31
Dividend for the year (net)	$0.145	$0.153

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

	$000	$000 (Restated)
Profit after tax	11,143	8,059
Adjustments:		
Finance receivables at fair value (Note 7)	(10,398)	878
Interest rate swap derivatives at fair value (Note 7)	5,962	6
Total adjustments before tax	(4,436)	884
Tax on adjustments	1,242	(248)
Underlying profit after tax	7,949	8,695

* The prior year comparative numbers have been restated as set out in Note 1.

[2] Assets under management includes finance receivables managed under an arrangement with Oxford Finance Ltd (Turners), that are not recognised on the MTF Finance balance sheet

[3] Expense excludes bad debt

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

[5] Excludes dividends paid to perpetual preference shareholders

Financial performance

Profit after tax has increased 38% to $11.1m on the back of an unrealised gain on fair value of financial instruments. The gain on fair value was driven by a change in accounting treatment, totalling $4.4m, compared to a $0.9m loss last year. Commission paid to shareholder originators increased 6% to $42.5m.

Underlying profit after tax, which removes the volatility of unrealised fair value movements, to provide a more consistent measure of company performance, decreased 8.6% to $8.0m (30 September 2018: $8.7m) largely due to the loss of administration fees earned through the non-recourse venture with Oxford Finance (Turners).

Total amounts paid to shareholder originators, including commission, fees and payment waiver, decreased 2.5% to $66.5m.

The 2019 financial year saw a reduction in sales of $83.3m (13.9%), of which $71.3m is attributable to two events.

Firstly, the non-recourse product offered in conjunction with Turners was discontinued. Non-recourse created record breaking sales volumes in 2017 and early 2018. Demand for the product dropped after tighter underwriting criteria was introduced, having a negative impact on sales, which ultimately led to the termination of the product.

Secondly, key shareholder Turners Finance continued their integration strategy into their automotive group, diverting their recourse finance business away from MTF Finance with sales for the year dwindling to $0.6m (30 September 2018: $42.4m).

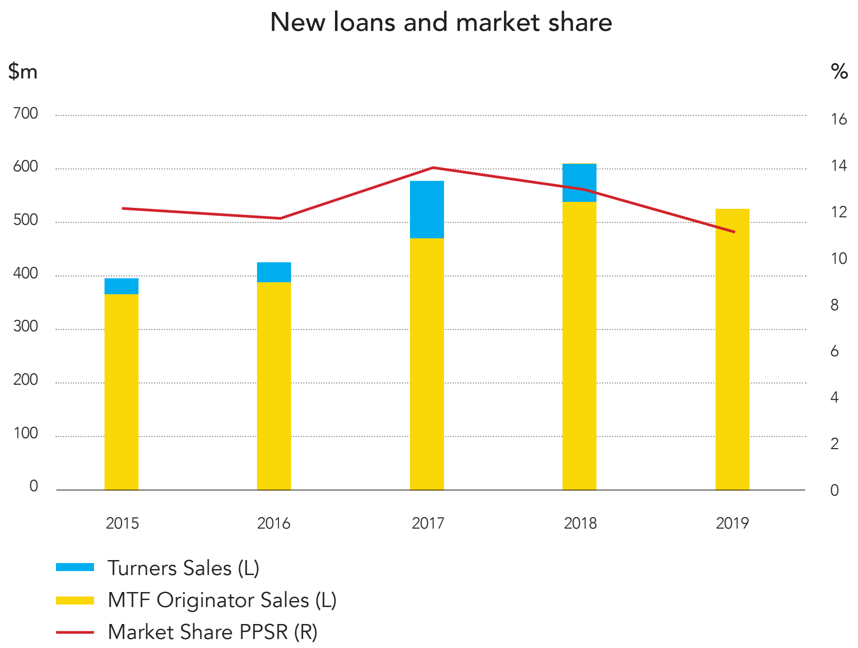
Replacing this lost business channel has been a priority for the company this year. In November 2018 MTF Finance teamed up with Trade Me Motors to enable buyers to easily engage with a finance option on consumer vehicle listings. This initiative was rolled out in January 2019 and has now transitioned to a nationwide collaboration, delivering sales of $12.6m and creating a complementary digital channel for future growth of the business.

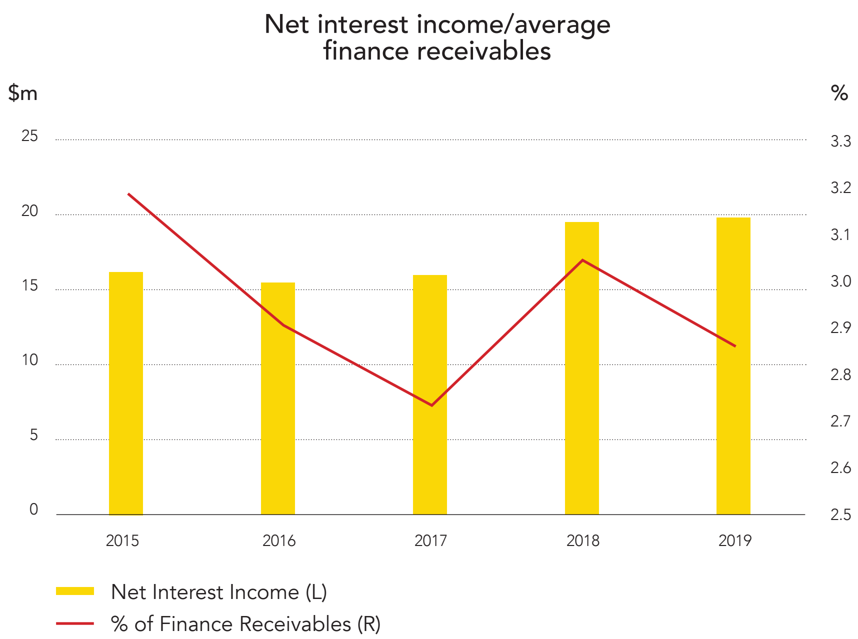
Sales for the second half of the year increased by 4% on the first half, showing encouraging signs of performance recovery following the termination of the non-recourse product mentioned above.

Our finance referral initiative in conjunction with Trade Me Motors has delivered sales of $12.6m since launching nationwide in January 2019

Operational expenses were well controlled decreasing 2% on last year as well as being under budget with a ratio against average total assets under management of 2.6% (30 September 2018: 2.8%).

Other than a small increase in bad debts, the only area to have increased in the current year is Administration. During the year, MTF Finance began a transition to more agile work methods, in order to ultimately deliver our strategic plan in a more timely and efficient manner. This has required additional resource investment from the company. The Board of Directors and Management are committed to this change and expect further investment over the coming year to fully embed this new approach across the business, which will result in business growth, greater efficiency and improved profitability in the future.


New loans and market share
$m
%
700
600
500
400
300
200
100
0
16
14
12
10
8
6
4
2
0
2015
2016
2017
2018
2019
Turners Sales (L)
MTF Originator Sales (L)
Market Share PPSR (R)


Net interest income/average finance receivables
$m
%
25
20
15
10
5
0
3.3
3.2
3.1
3.0
2.9
2.8
2.7
2.6
2.5
2015
2016
2017
2018
2019
Net Interest Income (L)
% of Finance Receivables (R)

Financial position and liquidity

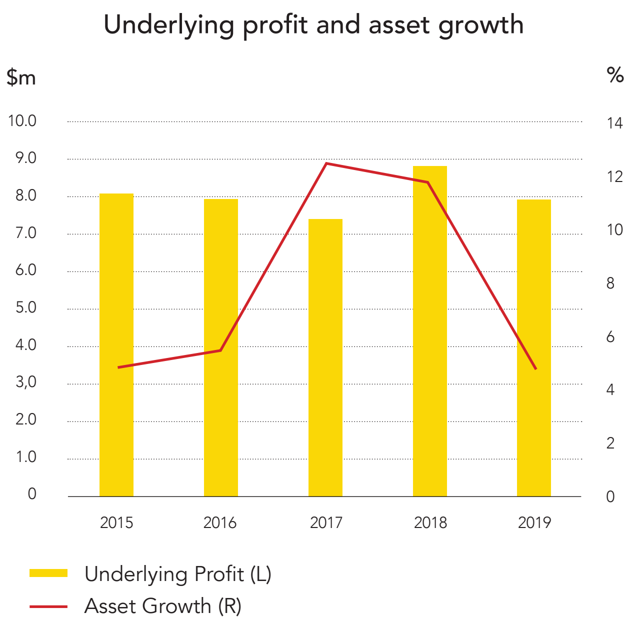
Total assets increased $36.0m (4.8%) to $784.0m, of which $14.7m relates to finance receivables and $22.6m to a temporary rise in cash in restricted bank accounts as a result of the timing of the new securitisation trust issuance. Change in accounting standards led to the reassessment of assumptions for determining credit risk. This resulted in a $5m reduction in credit risk. The result of this has seen the fair value of finance receivables and net profit before tax increase accordingly. Further detail regarding this change is set out in Note 1 and Note 13.

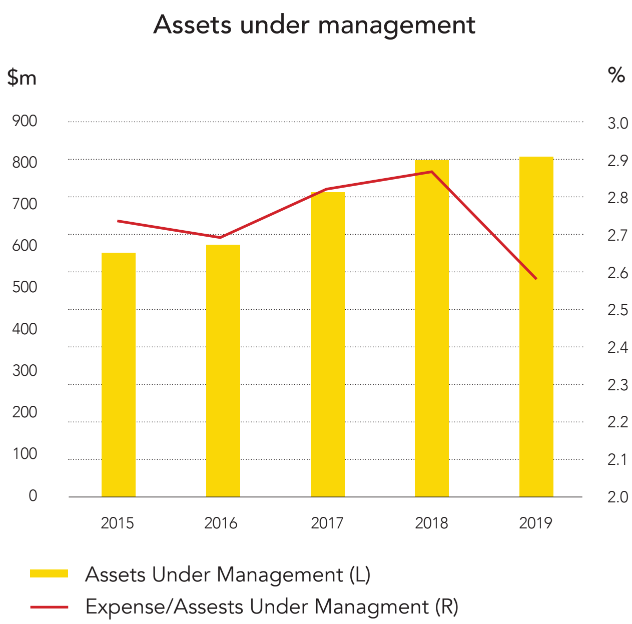
Assets under management totalled $808.7m (30 September 2018: $797m) and include the non-recourse receivables under the arrangement with Oxford Finance Ltd (Turners).

Net interest income, as a percentage of average finance receivables, of 2.9% (30 September 2018: 3.0%) is consistent with expectations and reflects the competitive pressures of the current lending market.

Securitisation funding facilities have sufficient capacity to fund forecast growth with $61.7m undrawn at year end.

In August we completed the launch of our fifth securitisation transaction (the MTF Rambler Trust) with the issue of $280m of medium-term notes to institutional investors. We have now successfully issued over $1 billion into the capital markets, consistently accommodating our core base of supporters, while introducing a number of new investors into our programme. The success of our capital markets programme has led to increased demand in both New Zealand and abroad, highlighting the underlying strength of our business model.





Our strategic focus

The new environment has challenged us to rethink our strategic objectives for the upcoming 2020 financial year (and beyond). Our focus will be on outcomes rather than output, aligning the business to objectives with key measurable results to ensure greater execution. Our customer centric outlook will continue to underpin everything we do in order to achieve our vision to be recognised and trusted by New Zealanders as their preferred finance company.

Disruption is a constant threat to MTF Finance, and also provides an opportunity to approach our business differently. Global shifts, changing consumer behaviour and rapidly evolving technology, are all set to impact MTF Finance. We will need to be agile, adaptive, and put the originators, and their customers, at the centre of everything we do if we are to respond to the changes, evolve our business, and create new opportunities for growth.

The vehicle finance landscape has changed since MTF Finance was conceived "by dealers for dealers". There are more players in the market and our dealer channels are steadily declining. New business models are emerging and government regulation continues to make lending harder for dealers. Nevertheless, dealerships remain a key point of sale for vehicle finance. In order to understand the dealer opportunity for MTF Finance this year we undertook research to understand their needs and motivations when it comes to consumer finance. The research revealed a number of actions and opportunities for MTF Finance.

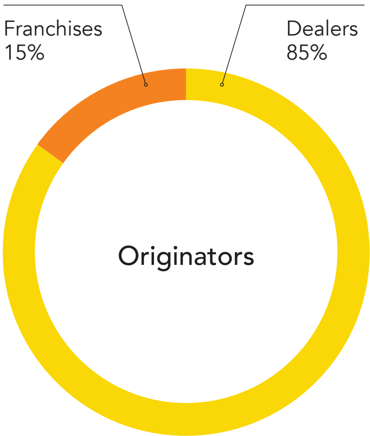
Our strategic roadmap is our blue print for future success. This centres on our originators, their customers and our people. Investing in all three is important to ensure future growth aspirations of the company are realised.

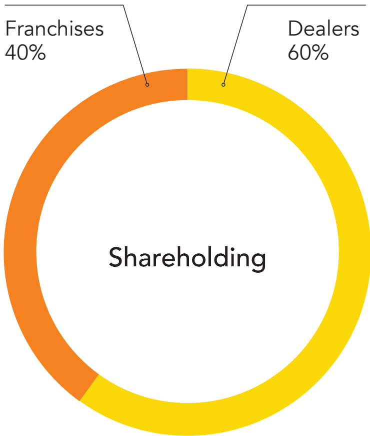
Our shareholders

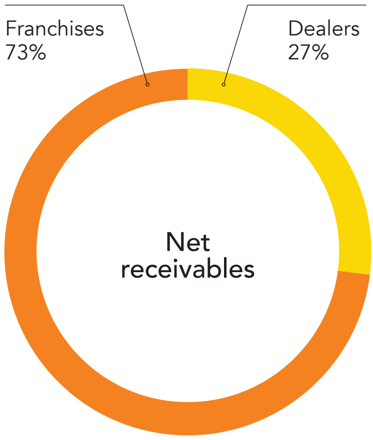
Return on ordinary equity, using underlying profit after tax, was 11.9%, down from 14.9% for the same period last year as a result of the factors outlined earlier.

On 21 November 2019, the directors approved a final dividend of 8.51 cents per ordinary share for payment on 2 December 2019. Total distribution relevant to the period will be 14.51 cents per share (2018: 15.32 cents per share) or $3.3m (2018: $3.5m).

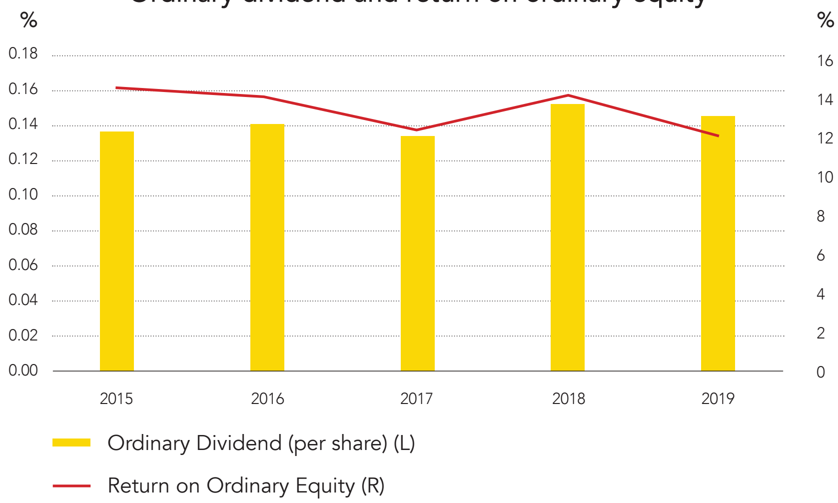
Perpetual preference share dividends totalling $1.3m (30 September 2018: $1.3m) were paid during the period. The dividend rate is set annually at 2.40% over the one-year swap rate, and was reset at 3.42% (2018: 4.38%) on 1 October 2019, for the twelve months to 30 September 2020.



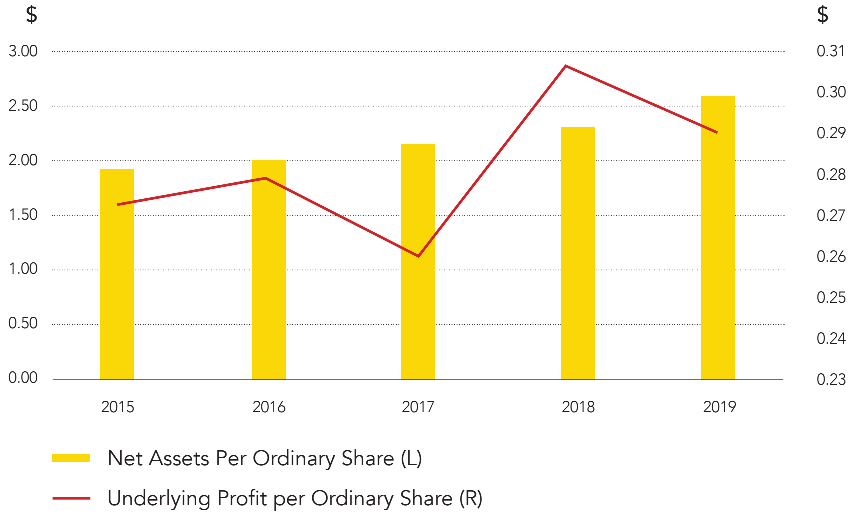




Ordinary dividend and return on ordinary equity



Net asset backing per ordinary share



Our originators

$66.5m PAID TO ORIGINATORS (down 2.6% from $68.3m last year)

We exist to support our shareholder originators to deliver on our purpose, to help New Zealanders get the things they want through, responsible, accessible lending. Our engagement with originators is imperative to ensuring we deliver the tools and products that enable them to meet and exceed customers' expectations.

Originators have received income from MTF Finance of $66.5m for the period, down from $68.3m last year, coupled with consistent dividends. This is a modest decrease, given the lost business in the current period, demonstrating a commitment to deliver value and results to our originators.

Our people

We would like to take this opportunity to acknowledge the continued commitment and significant effort from our staff during the year. There has been a degree of uncertainty as a result of the change to adopting more agile ways of working. The team have embraced this with a positive and professional attitude, which will continue to go a long way to the success of this transition.

Further we would like to thank our originators and shareholders for their continued support.

Outlook

The weakening global economic outlook and reduced momentum in domestic spending has led to the Reserve Bank reducing the Official Cash Rate twice this year. Business confidence continues to wane and is in negative territory with analysts continuing to forecast some challenging times ahead as uncertainty surrounds the business environment.

Regulatory scrutiny on lending institutions has been, and will continue to be, a hot topic next year as a result of the Australian Banking Royal Commission and the New Zealand government's proposed amendments to the consumer finance legislation. These regulations, due out this month, are expected to come into force progressively by April 2021.

The growth MTF Finance has experienced in recent times has been unprecedented and we are now experiencing a decline as a result of specific factors mentioned and as the heat has come off the vehicle market. We have made progress on replacing lost non-recourse business through the partnership with Trade Me and are investigating some exciting opportunities in other areas of the dealer market. Transitioning ourselves to a new way of working will ensure we are adaptable, with rapidly changing consumer behaviour, swift technological change and increased regulatory responsibility set to disrupt our business. Our ability to be innovative is imperative in allowing us to continue to balance our focus on retaining market share while looking to achieve future sustainable growth.

Stephen Higgs
Chairman

Glen Todd
Chief Executive Officer

Financial Statements

YEAR ENDED 30 SEPTEMBER 2019

Five year financial review

	2019 $000	2018* $000 (Restated)	2017* $000 (Restated)	2016* $000 (Restated)	2015* $000 (Restated)
Financial performance					
Net interest income and fees	32,337	33,793	28,615	27,741	27,662
Commission	(42,519)	(40,089)	(37,610)	(34,031)	(33,399)
Operating expense (excluding bad debt)	(20,767)	(21,314)	(17,332)	(16,288)	(15,735)
Bad debt	(305)	(181)	(112)	(95)	105
Profit (loss) after tax	11,143	8,059	7,528	7,169	6,942
Underlying profit after tax[1]	7,949	8,696	7,835	8,068	8,255
Financial position					
Assets	783,408	748,036	670,157	596,520	566,501
Liabilities	688,444	658,458	581,958	511,346	483,880
Capital	94,964	89,578	88,199	85,174	82,617
Finance receivables	692,194	677,549	600,961	535,237	512,151
Performance indicators					
Net interest income/average finance receivables	2.86%	3.04%	2.73%	2.90%	3.16%
Operating expense (excluding bad debt) /average total assets under management	2.59%	2.81%	2.62%	2.76%	2.73%
Return on assets (underlying profit after tax)	1.04%	1.23%	1.24%	1.39%	1.49%
Capital percentage	12.12%	11.98%	13.16%	14.28%	14.58%

* The prior year comparative numbers have been restated as set out in Note 1.

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

Consolidated statement of comprehensive income

Year ended 30 September 2019	Note	2019 $000	2018* $000 (Restated)
Gross interest income from finance receivables	2	88,957	87,044
Commission	4	(42,519)	(40,089)
Net interest income from finance receivables		**46,438**	**46,955**
Interest income from assets measured at amortised cost	3	999	1,110
Interest expense	5	(27,854)	(28,611)
Net interest income		**19,583**	**19,454**
Payment waiver		3,878	4,108
Fees		8,876	10,231
Net interest income and fees		**32,337**	**33,793**
Expense			
Employee		(8,267)	(8,543)
Communication and processing		(4,854)	(5,206)
Depreciation and amortisation		(2,028)	(2,485)
Administration		(5,618)	(5,080)
Bad debt		(305)	(181)
	6	(21,072)	(21,495)
Profit before net gain (loss) from financial instruments at fair value		**11,265**	**12,298**
Net gain (loss) from financial instruments at fair value	7	4,436	(884)
Profit before tax		**15,701**	**11,414**
Tax	8	(4,558)	(3,355)
Profit after tax		**11,143**	**8,059**
Other comprehensive income		-	-
Total comprehensive income		**$11,143**	**$8,059**

* The prior year comparative numbers have been restated as set out in Note 1.

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

Consolidated statement of changes in equity

Year ended 30 September 2019

	Note	Ordinary shares $000	Retained earnings $000	Perpetual preference shares $000	Total equity $000
Year ended 30 September 2019					
Balance at 1 October 2018		23,073	27,539	38,966	89,578
Total comprehensive income for the period:					
Profit after tax		-	11,143	-	11,143
Total comprehensive income for period		-	11,143	-	11,143
Transactions with shareholders:					
Ordinary share dividends	9	-	(3,531)	-	(3,531)
Perpetual preference share dividends	9	-	(1,261)	-	(1,261)
Total transactions with shareholders:		-	(4,792)	-	(4,792)
Balance at 30 September 2019		**$23,073**	**$33,890**	**$38,966**	**$95,929**
Year ended 30 September 2018* (Restated)					
Balance at 1 October 2017		23,073	23,837	38,966	85,876
Total comprehensive income for the period:					
Profit after tax		-	8,059	-	8,059
Total comprehensive income for the period		-	8,059	-	8,059
Transactions with shareholders:					
Ordinary share dividends	9	-	(3,081)	-	(3,081)
Perpetual preference share dividends	9	-	(1,276)	-	(1,276)
Total transactions with shareholders:		-	(4,357)	-	(4,357)
Balance at 30 September 2018		**$23,073**	**$27,539**	**$38,966**	**$89,578**

* The prior year comparative numbers have been restated as set out in Note 1.

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

Consolidated balance sheet

As at 30 September 2019	Note	2019 $000	2018* $000 (Restated)
Funds employed			
Ordinary shares	9	23,073	23,073
Retained earnings		33,890	27,539
Perpetual preference shares	9	38,966	38,966
Total shareholder equity		**95,929**	**89,578**
Liabilities			
Bank overdraft		80	348
Provision for taxation		-	532
Accounts payable and accrued expense	16	10,388	10,384
Unearned payment waiver administration fees		6,270	6,583
Committed cash advance	10	32,300	27,300
Securitised funding	10	629,353	609,576
Derivative financial instruments	23	9,697	3,735
Total liabilities		**688,088**	**658,458**
Total funds employed		**$784,017**	**$748,036**
Employment of funds			
Cash in restricted bank accounts	22	83,908	61,285
Tax receivable		609	-
Accounts receivable		1,792	2,043
Payment waiver indemnity prepayment		1,304	1,736
Finance receivables	12,13	692,194	677,549
Deferred tax	8	684	1,720
Property, plant and equipment	14	1,665	1,403
Intangible assets	15	1,861	2,300
Total assets		**$784,017**	**$748,036**

Stephen Higgs
Chairman

Scott Creahan
Director

* The prior year comparative numbers have been restated as set out in Note 1.

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

Consolidated statement of cash flow

Year ended 30 September 2019	Note	2019 $000	2018* $000 (Restated)
Cash flow from operating activities			
Interest income		89,956	88,154
Fee income		8,776	10,157
Interest expense		(23,200)	(24,018)
Other funding and securitisation costs		(3,744)	(4,061)
Income tax paid		(4,663)	(4,921)
Commission		(42,572)	(39,433)
Payment waiver		3,679	4,756
Operating expense		(18,526)	(18,652)
Net cash flow from operating activities before changes in operating assets and liabilities		9,706	11,982
Changes in operating assets and liabilities			
Finance receivable instalments		510,695	492,023
Increase (decrease) in committed cash advance – net		5,000	16,901
Increase in securitised funding – net		19,936	56,511
Finance receivable advances		(515,258)	(569,675)
		20,373	(4,240)
Net cash flow from operating activities	28	**30,079**	**7,742**
Cash flow from investing activities			
Sale of property, plant and equipment		26	3
Purchase of property, plant and equipment		(865)	(432)
Purchase of intangible assets		(1,014)	(648)
Net cash flow from investing activities		**(1,853)**	**(1,077)**
Cash flow from financing activities			
Proceeds from unpaid shares		-	6
Trust establishment costs		(543)	(107)
Dividend to perpetual preference shareholders	9	(1,261)	(1,276)
Dividend to ordinary shareholders	9	(3,531)	(3,081)
Net cash flow from financing activities		**(5,335)**	**(4,458)**
Net increase (decrease) in cash		22,891	2,207
Cash on hand at beginning of period		60,937	58,730
Cash on hand at end of period		**$83,828**	**$60,937**
Represented by:			
Cash at bank (overdraft)		(80)	(348)
Cash in restricted bank accounts		83,908	61,285
		$83,828	**$60,937**

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

Notes to consolidated financial statements

Note 1: Basis of reporting

Reporting entity

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

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

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

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

The consolidated financial statements were approved by the Board of Directors on 21 November 2019.

Basis of preparation

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

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

This is the first financial year where NZ IFRS 9 *Financial Instruments* (NZ IFRS 9) and NZ IFRS 15 *Revenue from Contracts with Customers* (NZ IFRS 15) have been applied. Changes to significant accounting policies are described below.

Basis of measurement

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

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

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

Other than the first time adoption of NZ IFRS 15 and NZ IFRS 9, the accounting policies and computation methods used in the preparation of the consolidated financial statements have been applied consistently throughout the periods presented in the consolidated financial statements.

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

Functional and presentation currency

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

Critical judgments, estimates and assumptions

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

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

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

- Adoption of NZ IFRS 9 Financial instruments (Note 1)
- Determination of fair value of derivative financial instruments (Note 23)
- Consolidation of controlled entities (Note 24)
- Determination of fair value of finance receivables (Note 13)

Significant accounting policies

Significant accounting policies which are specific to certain transactions or balances are set out within the particular note to which they relate. The significant accounting policies which are pervasive to the consolidated financial statements are set out below.

Basis of consolidation

The consolidated financial statements are prepared by combining the financial statements of MTF Finance 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.

New standards, interpretations and amendments adopted by the Group

The Group adopted NZ IFRS 9 and NZ IFRS 15 during the current reporting period. As a result of the adoption, the Group had to change certain accounting policies, the presentation of gross interest income and commissions (previously separately disclosed) to a net interest income presentation in the statement of comprehensive income and recognise an adjustment in opening retained earnings and accounts payable and accrued expense

The impact of the adoption of these standards as at 1 October 2018 and the new accounting policies are disclosed below.

NZ IFRS 9 Financial instruments

NZ IFRS 9 Financial Instruments addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in NZ IAS 39 Financial Instruments: Recognition and Measurement that relates to the classification and measurement of financial instruments.

Classification of financial assets

The basis of classification depends upon MTF Finance's business model and the contractual cash flow characteristics of the financial asset.

There are new measurement categories under NZ IFRS 9 for each class of the Group's financial assets.

These changes are:

- Financial assets measured at amortised cost:

  The Group's cash at bank, cash in restricted bank accounts and accounts receivable are held to collect contractual cash flows that are expected to represent solely payments of principal and interest. On transition to NZ IFRS 9 these financial assets continue to be measured at amortised cost and are now classified as "financial assets measured at amortised cost".

- Financial assets measured at fair value through the profit and loss:

  The Group's finance receivables are held to collect contractual cash flows however these cash flows do not represent solely payments of principal and interest. The discretionary element in the Group's agreements with originators regarding commission payments, which forms part of the terms of the finance receivable agreements, is not consistent with the terms of a basic lending arrangement. Finance receivables therefore cannot be measure at amortised cost or at fair value through other comprehensive income. On transition to NZ IFRS 9, finance receivables continue to be measure at fair value through profit or loss ('FVTPL') and classified as "financial assets mandatorily measured at fair value through profit and loss".

Classification of financial liabilities

There is no significant impact on the Group's accounting for financial liabilities.

NZ IFRS 9 Financial instruments cont...

Key judgements

Measurement of Finance Receivables and associated Interest Income

The unique nature of MTF Finance's recourse arrangements with its originators, and the back-to-back lending arrangement each originator has with MTF Finance for lending it provides to its own customers, means finance receivables held on MTF Finance's balance sheet are owed to MTF Finance by the originators. Gross interest income receipts recognised in the statement of comprehensive income are received from customers, on behalf of the originators, and commission payments associated with those finance receivables and gross interest income receipts are paid to the same originators.

Authoritative support provided by the new standard NZ IFRS 15 Revenue from Contracts with Customers requires payments to customers including rebates to be netted off against any revenue recognised. Further applying the measurement requirements of NZ IFRS 9, commission payments made to originators are considered to form an integral part of the interest cash flows for finance receivable contracts, resulting in interest income recognition and presentation in the statement of comprehensive income being net of commission payments.

As a result of commission being assessed as forming part of the cash flows of the individual finance receivable agreements:

- the fair value of finance receivables was reassessed using the cash flows for finance receivables net of commissions and a lower discount rate that reflects the credit enhancement of the commission structure (refer Note 13 for further details). This did not result in a material impact on the fair value of finance receivables.
- commissions previously recognised as an expense when approved by the Directors, are now recognised on an accrual basis in line with gross interest income from finance receivables. Refer to tables below for the impact of this change.

Financial Assets Measured at Amortised Cost

The adoption of the Expected Credit Loss (ECL) requirements of NZ IFRS 9 for financial assets measured at amortised cost (being cash at bank, cash in restricted bank accounts and accounts receivable) has not resulted in material change for these financial statements.

NZ IFRS 9 Financial instruments cont...

Impact of the adoption of NZ IFRS 9 on the Group's financial statements

The Group has applied the transition requirements of NZ IFRS 9, as allowed comparative information has been restated. The impact of adopting the new standard is reflected as follows:

Impact on Comprehensive Income 12 months to 30 September 2018	As previously reported $000	NZ IFRS 9 adjustments $000	Restated $000
Commission[1]	39,858	231	40,089
Net interest income	59,543	(40,089)	19,454
Net interest income and fees	73,882	(40,089)	33,793
Profit before other gains/(loss)	12,529	(231)	12,298
Profit before tax	11,645	(231)	11,414
Tax	3,420	(65)	3,355
Profit after tax	8,225	(166)	8,059

1 Increase/decrease due to recognition of commission on an accruals basis, previously recognised when approved by Directors

In addition, previously reported interest income is now reported as gross interest income from finance receivables and interest income from assets measured at amortised cost.

All other balances noted changed as a result of the adjustment at (1) and the presentation of commission as part of 'net interest income'.

Impact on Balance Sheet 1 October 2017	As previously reported $000	NZ IFRS 9 adjustments $000	Restated $000
Accounts payable and accrued expense	6,933	3,221	10,154
Provision for taxation	1,925	(902)	1,023
Retained earnings	26,156	(2,319)	23,837

Impact on Balance Sheet 30 September 2018	As previously reported $000	NZ IFRS 9 adjustments $000	Restated $000
Accounts payable and accrued expense	6,931	3,453	10,384
Provision for taxation	1,497	(965)	532
Retained earnings	30,027	(2,488)	27,539

NZ IFRS 9 Financial instruments cont...

New or Changed Accounting Policies

The gain or loss on finance receivables measured at fair value through profit or loss (FVTPL) is recognised in the statement of comprehensive income via the following line items:

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

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

NZ IFRS 15 Revenue from contracts with customers

NZ IFRS 15 provides a principles-based five step model for revenue recognition, and introduces the concept of recognising revenue for performance obligations as they are satisfied.

Fees that are not integral to the effective interest rate of the financial assets at FVTPL, and are accounted for in accordance with NZ IFRS 15 include:

- Payment waiver income is recognised over time as the services are provided.
- Fees charged to third parties for servicing non MTF Finance owned, finance receivable assets under management are recognised over time as the services are provided.
- Other fees including origination, administration, arrears and settlement fees are recognised at a point in time when the service is provided.

The Group has applied the modified retrospective method, with the effect of initially applying this standard recognised at the date of initial application at 1 October 2018. Accordingly, the information presented for 2018 has not been restated.

The Group's revenue recognition policies remain largely the same with the adoption of NZ IFRS 15. There has been no material impact to current period figures.

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

The following relevant standards and interpretations have been issued at the reporting date but are not yet effective.

NZ IFRS 16 Leases

NZ IFRS 16 Leases is effective for annual periods beginning on or after 1 January 2019. The standard deals with the recognition, measurement, presentation and disclosure of leases and replaces current guidance in NZ IAS 17 Leases. The new standard introduces a single model for lessees which recognises all leases on the balance through an asset representing the right to use the leased item during the lease term and a liability for the obligation to make lease payments. This eliminates the distinction between operating and finance leases for lessees and will result in lessees bringing most leases onto their balance sheets.

At 30 September 2019, the Group had one non-cancellable operating lease commitment of $2.4m.

A preliminary assessment indicates that the Group will recognise a right-of-use asset of $2.0m and a corresponding lease liability of $2.0m in respect of this lease as at 1 October 2019.

The Group will adopt NZ IFRS 16 for the year ended 30 September 2020.

Other New Standards and Interpretations

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

- NZ IFRS 17 Insurance Contracts (effective from 2022 financial year)

Note 2: Gross interest income from finance receivables

Policy

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

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

	2019 $000	2018 $000 (Restated)
Gross interest income from finance receivables:		
Finance receivables designated at FVTPL	88,957	87,044
	$88,957	**$87,044**
Gross interest income from finance receivables includes income from:		
Non-impaired assets	88,895	87,022
Impaired assets	62	22
	$88,957	**$87,044**

Note 3: Interest income from assets measured at amortised cost

Policy

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

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

	2019 $000	2018 $000 (Restated)
Interest income from assets measured at amortised cost:		
Cash in restricted bank accounts	999	1,110
	$999	**$1,110**

Note 4: Commission

Policy

Commission is recognised as an expense on an accrual basis in line with the recognition of gross interest income from finance receivables.

	2019 $000	2018 $000 (Restated)
Commission	42,519	40,089
	$42,519	**$40,089**

Note 5: Interest expense

Policy

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

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

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

	2019 $000	2018 $000
Committed cash advance	638	606
Senior notes	19,266	19,436
Interest rate swaps - net	4,694	5,358
Securitisation programme	1,449	1,595
Other	1,807	1,616
	$27,854	**$28,611**

Note 6: 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.

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

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

Includes:		2019 $000	2018 $000 (Restated)
Auditor			
	- Audit of Group financial statements	175	172
	- Audit of Trust financial statements	80	82
	- Tax compliance	63	59
	- Other assurance fees	35	39
	- Other services	-	35
Depreciation			
	- Computer hardware	406	478
	- Office equipment, fixtures and fittings	91	95
	- Motor vehicles	78	78
Amortisation			
	- Intangible assets (software and websites)	1,453	1,834
Directors fees		360	340
Payment waiver		1,514	1,577
Rental and lease		651	655
Employee expense includes:			
Defined contribution scheme payments (Kiwisaver)		144	143
Key management remuneration of:			
	- Short term employee benefits	2,014	2,010
	- Post employment benefits (Kiwisaver)	57	60

Auditor

The auditor of the group is Deloitte Limited. Other assurance fees comprise work in relation to Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) Risk Assessment and Programme assurance reporting.

Operating leases

Non-cancellable operating leases payable within one year from balance date are estimated to be $337,000 (2018: $336,000).

Non-cancellable operating leases payable between one and two years from balance date are estimated to be $337,000 (2018: $336,000).

Non-cancellable operating leases payable between three and ten years from balance date are estimated to be $1,486,000 (2018: $1,821,000).

Promotion expenses

Non-cancellable promotion expenses payable within one year from balance date are estimated to be $395,000 (2018: $230,000).

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

Policy

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

Assessment of credit impairment on financial instruments at FVTPL is included in the net gain (loss) from financial instruments at fair value and forms part of the fair value assessment. Refer to Note 25 for full policy.

	2019 $000	2018 $000
Net gain (loss) arising on financial instruments mandatorily measured at FVTPL:		
Finance receivables	10,398	(878)
Interest rate swap derivatives	(5,962)	(6)
	$4,436	**($884)**

Note 8: Tax

8.1 Tax expense

Policy

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

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

	2019 $000	2018 $000 (Restated)
Profit before tax	15,701	11,414
Income tax expense calculated at 28% (2018: 28%)	4,396	3,196
Non-deductible expense	71	28
Other adjustments	109	149
(Over) under provision of income tax in previous year	(18)	(18)
	$4,558	**$3,355**
Represented by:		
Current tax	3,522	4,427
Deferred tax	1,036	(1,072)
	$4,558	**$3,355**

Tax rate

The tax rate used in the reconciliation is the corporate tax rate of 28% (2018: 28%) payable by New Zealand corporate entities on taxable profits under New Zealand tax law for the 2019 income tax year.

Imputation credits

There were $20,792,000 imputation credits available for use as at 30 September 2019 (2018: $18,278,000).

8.2 Deferred tax

Policy

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

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

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

The deferred tax balances at 30 September 2019 are represented by:

	Opening balance $000	Charged to income $000	Closing balance $000
Deferred tax assets:			
Accounts payable and accrued expense	718	(110)	608
Property, plant and equipment	14	-	14
Derivative financial instruments	847	1,741	2,588
	1,579	**1,631**	**3,210**
Deferred tax liabilities:			
Intangible assets	(175)	125	(50)
Finance and other receivables	316	(2,792)	(2,476)
	141	**(2,667)**	**(2,526)**
Total deferred tax	**$1,720**	**($1,036)**	**$684**

The deferred tax balances at 30 September 2018 are represented by:	Opening balance $000	Charged to income $000	Closing balance $000
Deferred tax assets:			
Accounts payable and accrued expense	679	39	718
Property, plant and equipment	(12)	26	14
Derivative financial instruments	724	123	847
	1,391	188	1,579
Deferred tax liabilities:			
Intangible assets	(511)	336	(175)
Finance and other receivables	(232)	548	316
	(743)	**884**	**141**
Total deferred tax	**$648**	**$1,072**	**$1,720**

Note 9: Equity

9.1 Ordinary shares

Policy

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

Ordinary shares:

At 30 September 2019, there were 23,073,000 shares authorised and issued (2018: 23,073,000) of which 27,000 are unpaid (2018: 27,000). All fully paid ordinary shares have equal voting rights and share equally in dividends and surplus on winding up.

Ordinary share dividend:

	2019 $000	2018 $000
Fully imputed dividend declared and paid during the year:		
Final dividend paid 30 November 2018 at 9.32 cents per share (2017: 7.37 cents)	2,148	1,698
Interim dividend paid 31 January 2019 at 2.00 cents per share (2018: 2.00 cents)	461	461
Interim dividend paid 30 April 2019 at 2.00 cents per share (2018: 2.00 cents)	461	461
Interim dividend paid 31 July 2019 at 2.00 cents per share (2018: 2.00 cents)	461	461
	$3,531	**$3,081**

Dividend

On 21 November 2019, the Directors declared a final dividend on paid-up ordinary shares of 8.51 cents per share amounting to $1,961,000 (fully imputed), for the period 1 October 2018 to 30 September 2019. The dividend is due for payment on 2 December 2019.

9.2 Perpetual preference shares

Policy

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

Perpetual preference shares

At 30 September 2019, there were 40,000,000 perpetual preference shares (2018: 40,000,000).

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

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

	2019 $000	2018 $000
Face value	40,000	40,000
Issue fees and expenses	(1,034)	(1,034)
	$38,966	**$38,966**

Perpetual preference share dividend:

	2019 $000	2018 $000
Fully imputed dividend declared and paid during the year at 3.15 cents per share (2018: 3.19 cents)	1,261	1,276

PPS dividend

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

Note 10: Funding (secured)

Policy

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

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

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

30 September 2019	Weighted average effective interest rate %	Facility expiry date	Limit $000	Undrawn $000	Drawn $000	Unamortised fees and expense $000	Carrying amount $000
Committed cash advance facility	2.73	31/08/2020	80,000	47,700	32,300	-	32,300
Securitisation:							
Senior Warehouse notes	2.79	15/02/2021	80,000	31,307	48,693	-	48,693
Senior Torana notes	3.19	15/09/2024	73,133	-	73,133	(32)	73,101
Senior Sierra notes	2.60	15/09/2025	213,466	-	213,466	(160)	213,306
Senior Rambler notes	2.59	15/08/2027	275,200	-	275,200	(543)	274,657
MUFG loan	2.59	17/01/2020	50,000	30,404	19,596	-	19,596
Total securitisation			691,799	61,711	630,088	(735)	629,353
Total			**$771,799**	**$109,411**	**$662,388**	**($735)**	**$661,653**

30 September 2018	Weighted average effective interest rate %	Facility expiry date	Limit $000	Undrawn $000	Drawn $000	Unamortised fees and expense $000	Carrying amount $000
Committed cash advance facility	3.44	31/08/2020	80,000	52,700	27,300	-	27,300
Securitisation:							
Senior Warehouse notes	3.21	15/02/2019	250,000	78,253	171,747	-	171,747
Senior Torana notes	3.56	15/09/2024	213,466	-	213,466	(178)	213,288
Senior Sierra notes	3.22	15/09/2025	213,466	-	213,466	(376)	213,090
MUFG loan	3.21	18/01/2019	50,000	38,526	11,474	(23)	11,451
Total securitisation			726,932	116,779	610,153	(577)	609,576
Total			**$806,932**	**$169,479**	**$637,453**	**($577)**	**$636,876**

Judgments

Under the MTF Finance securitisation programme, entities are created to purchase eligible finance receivables. Securitisation entities are consolidated where the Group has control. Control is assessed in Note 24.

Committed bank facilities

MTF Finance has committed bank facilities provided by a syndication with Bank of New Zealand and Westpac New Zealand Limited. The facility is secured by a general security agreement over all unsecuritised assets, including unsecuritised finance receivables.

Securitisation programme

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

The principal components of the securitisation programme are:

The Warehouse Trust funds the purchase of qualifying finance receivables from MTF Finance. Senior Warehouse notes are issued for periods of up to 72 months past the facility expiry of 15 February 2021. The notes are rated AA(sf) (Standard & Poor's long term, structured finance rating, 26 October 2011) and are secured by a first ranking mortgage debenture over the assets of the Warehouse Trust.

The Torana Trust funds qualifying finance receivables purchased from the Warehouse Trust prior to 15 September 2018. The Trust has now entered amortisation. No new qualifying finance receivables can be acquired.

The Sierra Trust funds qualifying finance receivables purchased from the Warehouse Trust prior to 15 September 2019. The Trust has now entered amortisation. No new qualifying finance receivables can be acquired.

The Rambler Trust funds the purchase of qualifying finance receivables from the Warehouse Trust. Senior Rambler notes are issued for periods of up to 96 months past the issue date 15 August 2019. The Rambler Trust has a revolving period of 24 months from issue date, during which the Trust may continue to acquire qualifying finance receivables from the Warehouse Trust. At the end of the Trust's revolving period, no new receivables may be acquired and the facility will amortise.

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

Senior Torana notes on issue	Fitch rating	2019 $000	2018 $000
Class A	AAA(sf)	58,596	194,040
Class B	AA(sf)	5,482	7,326
Class C	A(sf)	4,807	6,424
Class D	BBB(sf)	2,190	2,926
Class E	BB(sf)	2,058	2,750
		$73,133	**$213,466**

Senior Sierra notes on issue	Fitch rating	2019 $000	2018 $000
Class A	AAA(sf)	194,040	194,040
Class B	AA(sf)	7,326	7,326
Class C	A(sf)	6,424	6,424
Class D	BBB(sf)	2,926	2,926
Class E	BB(sf)	2,750	2,750
		$213,466	**$213,466**

Senior Rambler notes on issue	Fitch rating	2019 $000	2018 $000
Class A	AAA(sf)	249,000	-
Class B	AA(sf)	10,200	-
Class C	A(sf)	8,000	-
Class D	BBB(sf)	4,200	-
Class E	BB(sf)	3,800	-
		$275,200	**-**

Securitisation programme cont ...

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

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

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

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

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

Finance receivables securitised at balance date with the Trusts:

	2019 $000	2018 $000
Honda Trust	19,332	10,896
Rambler Trust	250,809	-
Sierra Trust	203,244	200,911
Torana Trust	72,935	198,326
Warehouse Trust	51,353	186,255
	$597,673	**$596,388**

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 2019, $384,000 (2018: $534,000) of amortisation is included in interest expense in the Consolidated statement of comprehensive income.

Note 11: Asset quality disclosures

	2019 $000	2018 $000 (Restated)
Asset quality - finance receivables		
Current	655,869	659,363
1-30 days past due	25,672	18,367
31-90 days past due	3,825	3,432
More than 90 days past due	1,334	1,299
Managed transacting shareholders	704	696
	687,404	683,157
Adjustments:		
Fair value adjustment	6,607	1,188
Credit risk adjustment	(1,817)	(6,796)
Total carrying amount	**$692,194**	**$677,549**

Credit risk adjustment

Credit risk is the risk of financial loss to MTF Finance if a transacting shareholder fails to meet its contractual obligations under an MTF Finance contract. MTF Finance has a range of credit enhancements against the transacting shareholder including, but not limited to, future commission payments (refer Notes 13 and 18).

Past due

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

Past due > 90 days

Of total finance receivables at 30 September 2019, 0.20% (2018: 0.19%) 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 (2018: Nil).

Note 12: Finance receivables

Policy

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

	2019 $000	2018 $000
Receivable within 12 months	207,871	216,071
Receivable beyond 12 months	484,323	461,478
Total finance receivables	**$692,194**	**$677,549**

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

	2019 $000	2018 $000
Finance receivables at FVTPL gain/(loss)	4,979	(728)
	$4,979	**($728)**

Finance receivables

Finance receivables include securitised and non-securitised finance receivables.

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

Fair value

Refer to Note 13 for disclosure on fair value of finance receivables as at 30 September 2019.

Impairment of financial assets

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

Note 13: Fair value

Policy

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

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

Fair value measurements recognised in the balance sheet:

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
2019				
Financial assets mandatorily measured at FVTPL				
Finance receivables	-	-	692,194	692,194
	-	**-**	**$692,194**	**$692,194**
Financial liabilities at FVTPL				
Derivative financial liabilities (held for trading)	-	9,697	-	9,697
	-	**$9,697**	**-**	**$9,697**
2018				
Financial assets mandatorily measured at FVTPL				
Finance receivables	-	-	677,549	677,549
	-	**-**	**$677,549**	**$677,549**
Financial liabilities at FVTPL				
Derivative financial liabilities (held for trading)	-	3,735	-	3,735
	-	**$3,735**	**-**	**$3,735**

Judgments

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

Note 13: Fair value cont ...

Fair value of financial assets and liabilities

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

Valuation techniques and assumptions for the purpose of measuring fair value

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

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

Fair value hierarchy levels

Level 2 fair value measurements are derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly, i.e. as prices, or indirectly, i.e. derived from prices. Financial assets and financial liabilities fair valued based on Level 2 inputs in the Group are the interest rate swaps detailed in Note 23 of these consolidated financial statements.

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

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

Finance receivables:

	2019 $000	2018 $000
Balance at beginning of the year	677,549	600,961
Gain/(loss) recognised in net gain (loss) from financial instruments at fair value	10,398	(878)
Sales	515,258	569,674
Settlements	(511,011)	(492,208)
Balance at end of the year	**$692,194**	**$677,549**

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

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

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

A credit risk adjustment of $1,817,000 (2018: $6,796,000) is determined in line with the assumptions set out below.

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

The fair value of the finance receivables at 30 September 2019 was based on cash flows discounted using a weighted average interest rate of 6.58% (2018: 6.76%). Refer Note 1 for changes made in the current year.

Refer to Note 20 for details of sensitivity analysis.

Changes in accounting estimate

The implementation of IFRS 9 in the current period has led management to critically review and challenge the basis of determining credit risk of finance receivables. Historically a measure of 1% of net receivables was used to represent credit risk on the basis of historical losses from originators and loss rates of other market participants.

Credit risk is the risk of financial loss to MTF Finance if a transacting shareholder fails to meet its contractual obligations under an MTF Finance contract. MTF Finance has a range of credit enhancements against the transacting shareholder including, but not limited to, future commission payments (refer Note 18).

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

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

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

Note 13: Fair value cont ...

Fair value of financial assets and liabilities

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

Impact on Comprehensive Income 12 months to 30 September 2019	Prior credit risk adjustment $000	New credit risk adjustment $000	Change $000
Profit before tax	10,636	15,701	5,065
Profit after tax	7,658	11,143	3,485

Impact on Balance Sheet 30 September 2019	Prior credit risk adjustment $000	New credit risk adjustment $000	Change $000
Finance receivables	687,129	692,194	5,065
Deferred tax	2,264	684	(1,580)
Retained earnings	30,405	33,890	3,485

Note 14: Property, plant and equipment

Policy

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

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

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

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

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

Carrying amount:	2019 $000	2018 $000
Computer hardware	3,146	2,621
Less accumulated depreciation	(2,424)	(2,192)
Total carrying amount	**722**	**429**
Office equipment, fixtures and fittings	1,119	1,139
Less accumulated depreciation	(450)	(383)
Total carrying amount	**669**	**756**
Motor vehicles	476	372
Less accumulated depreciation	(202)	(154)
Total carrying amount	**274**	**218**
Total property, plant and equipment	**$1,665**	**$1,403**

Capital commitments

The estimated capital expenditure contracted for at balance date but not provided for is $14,800 (2018: Nil).

Note 15: Intangible assets – computer software and websites

Policy

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

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

	2019 $000	2018 $000
Cost		
Balance at beginning of year	23,929	23,281
Additions	1,014	648
Disposals	-	-
Balance at end of year	**24,943**	**23,929**
Amortisation and impairment		
Balance at beginning of year	21,629	19,796
Amortisation	1,453	1,833
Impairment	-	-
Balance at end of year	**23,082**	**21,629**
Total intangible assets	**$1,861**	**$2,300**

Capital commitments

The estimated capital expenditure contracted for at balance date but not provided for is $Nil (2018: Nil).

Note 16: Accounts payable and accrued expense

Employee entitlements

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

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

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

	2019 $000	2018 $000 (Restated)
Trade creditors	822	750
Sundry creditors and accruals	3,564	4,041
Unpaid commission	4,466	4,520
Employee entitlements	1,536	1,073
	$10,388	**$10,384**

Credit period

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

Note 17: Related party transactions

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

	2019 $000	2018 $000 (Restated)
Noel Johnston	742	-
Geoffrey Kenny	1,024	1,081
Mike King	499	781
Brent Robertson	2,356	2,181
Grant Woolford	117	126
	$4,738	**$4,169**

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

	2019 $000	2018 $000 (Restated)
Noel Johnston	153	-
Geoffrey Kenny	83	86
Mike King	-	70
Brent Robertson	213	189
Grant Woolford	9	9
	$458	**$354**

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

	2019 $000	2018 $000
Noel Johnston	2,139	-
Geoffrey Kenny	2,257	2,454
Mike King	1,048	2,036
Brent Robertson	5,386	5,094
Grant Woolford	332	189
	$11,162	**$9,773**

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

	2019 $000	2018 $000
Noel Johnston	30,531	-
Geoffrey Kenny	12,929	13,604
Mike King	-	14,769
Brent Robertson	35,211	31,688
Grant Woolford	2,284	2,576
	$80,955	**$62,637**

Related parties

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

Mike King ceased to be a Director on 21 March 2019. The associated related party balances stated above reflect all transactions during the period up to this date.

Noel Johnston was appointed a Director on 21 March 2019. The associated related party balances stated above reflect all transactions during the period from this date.

Revenue

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

Note 18: Credit risk

Maximum exposures to credit risk:

	2019 $000	2018 $000
Cash in restricted bank accounts	83,908	61,285
Accounts receivable	1,792	2,184
Honda Trust securitised finance receivables	19,332	10,896
Rambler Trust securitised finance receivables	250,809	-
Sierra Trust securitised finance receivables	203,244	200,911
Torana Trust securitised finance receivables	72,935	198,326
Warehouse Trust securitised finance receivables	51,353	186,255
Non securitised finance receivables	94,521	81,161

Finance receivables credit risk by geographical location:

	2019 $000	2018 $000
Waikato	83,575	81,956
Auckland	82,498	80,024
Bay of Plenty	79,311	80,624
Canterbury	71,525	75,060
Otago	63,572	59,008
South Auckland	63,403	57,706
Wellington/Wairarapa	60,931	60,435
Manawatu/Wanganui	39,715	42,884
Nelson/Marlborough	31,303	26,626
Hawkes Bay	23,486	22,795
Southland	21,703	22,275
Northland	18,561	18,489
Gisborne	17,589	16,444
Mid/South Canterbury	14,050	13,829
Taranaki	12,329	12,012
West Coast	8,643	7,382
Finance receivables by geographical location	**$692,194**	**$677,549**

Finance receivables credit risk by security type:

	2019 $000	2018 $000
Passenger vehicle	342,335	349,696
Commercial vehicle	111,635	150,975
Utes/Trucks/Trailers	110,453	81,793
Motorcycle	44,455	38,229
Vans/Buses	29,009	16,421
Marine	23,724	19,329
Caravans	22,454	18,582
Equipment/Aircraft/Tractors/Machinery	8,129	2,524
Finance receivables by security type	**$692,194**	**$677,549**

Finance receivables credit risk by transacting shareholder:

	2019 $000	2018 $000
0 - $5,000,000	115,388	125,733
$5,000,000 - $10,000,000	218,072	191,942
$10,000,000 - $20,000,000	244,782	259,034
$20,000,000+	113,952	100,840
Finance receivables by transacting shareholder	**$692,194**	**$677,549**

Finance receivables credit risk by individual contract size:

	2019 $000	2018 $000
0 - $5,000	66,855	64,383
$5,001 - $10,000	159,686	167,759
$10,001 - $20,000	217,942	222,178
$20,001 - $30,000	115,286	102,915
$30,001 - $40,000	62,839	53,542
$40,001- $50,000	31,472	28,246
$50,001+	38,114	38,526
Finance receivables by contract size	**$692,194**	**$677,549**

Note 18: Credit risk cont ...

Credit risk

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

Management of credit risk

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

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

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

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

Exposure to credit risk

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

Subordinated notes on issue	Effective credit enhancement		Carrying amount	
	2019 %	2018 %	2019 $000	2018 $000
Rambler Trust	1.73	-	4,800	-
Sierra Trust	2.36	2.38	5,214	5,214
Torana Trust	5.15	2.36	4,287	5,214
Warehouse Trust	11.12	11.10	6,089	21,369
			$20,390	**$31,797**

Senior notes on issue	Fitch rating	2019 $000	2018 $000
Sierra Trust - Class F	B(sf)	1,320	1,320
Torana Trust - Class F	B(sf)	988	1,320
		$2,308	**$2,640**

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

Concentration of credit risk

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

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

Note 19: Liquidity risk

Financial assets matched against financial liabilities at 30 September 2019 (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	83,908	-	-	-	-	83,908
Accounts receivable	-	1,792	-	-	-	1,792
Finance receivables	-	153,173	169,898	267,807	228,606	819,484
	83,908	154,965	169,898	267,807	228,606	905,184
Monetary liabilities						
Bank overdraft	80	-	-	-	-	80
Committed cash advance	32,300	-	-	-	-	32,300
Accounts payable and accrued expense	-	10,388	-	-	-	10,388
Senior notes - secured	-	147,529	75,612	124,848	308,287	656,276
	32,380	157,917	75,612	124,848	308,287	699,044
Net liquidity gap	**$51,528**	**($2,952)**	**$94,286**	**$142,959**	**($79,681)**	**$206,140**
Net liquidity gap - cumulative	**$51,528**	**$48,576**	**$142,862**	**$285,821**	**$206,140**	

Financial assets matched against financial liabilities at 30 September 2018 (undiscounted contractual cash flow) (restated):

	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	61,285	-	-	-	-	61,285
Accounts receivable	-	2,043	-	-	-	2,043
Finance receivables	-	155,201	169,168	258,617	226,994	809,980
	61,285	157,244	169,168	258,617	226,994	873,308
Monetary liabilities						
Bank overdraft	348	-	-	-	-	348
Committed cash advance	27,300	-	-	-	-	27,300
Accounts payable and accrued expense	-	10,384	-	-	-	10,384
Senior notes - secured	-	109,286	110,738	251,848	165,409	637,281
	27,648	119,670	110,738	251,848	165,409	675,313
Net liquidity gap	**$33,637**	**$37,574**	**$58,430**	**$6,769**	**$61,585**	**$197,995**
Net liquidity gap - cumulative	**$33,637**	**$71,211**	**$129,641**	**$136,410**	**$197,995**	

Liquidity risk

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

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

Liquidity risk management

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

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

The Senior Warehouse note maturity date is a maximum of 72 months after the expiry date of the facility. The next facility review is 15 February 2021. Senior Torana, Sierra and Rambler notes have a maturity date of 96 months after the issue dates of 15 September 2016, 15 September 2017 and 15 August 2019, respectively. Details of the securitisation programme are contained in Note 10 of these consolidated financial statements.

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

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

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

Concentration of funding risk

MTF Finance has concentration of funding risk to the MTF Finance securitisation programme for the future legal sale of finance receivables, which may arise in the event that MTF Finance is unable to meet the terms and conditions of the securitisation programme or in the event the programme is unable to provide a continuous source of funding, for reasons outside the control of MTF Finance. At 30 September 2019, MTF Finance complies with all covenants of the MTF Finance securitisation programme.

Note 20: 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, Finance Manager and Treasury and Strategy Manager meets regularly to consider balance sheet risk and management, within the framework of Director approved treasury policy.

Interest rate risk

Securitisation programme funding

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

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

Other funding

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

Management monitors interest rates on an on-going basis, and from time to time, may lock in fixed rates on the next floating reset using swap contracts when it considers that interest rates will rise. At 30 September 2019, 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 2019 was 6.58% (2018: 6.76%).

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 2019 was 1.00% (2018: 1.75%).

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 measured 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 possible change in interest rates.

Impact on profit (loss) after tax:

	2019 $000	2018 $000
100 bp increase in interest rates	593	551
100 bp decrease in interest rates	(411)	(613)

Impact on equity:

	2019 $000	2018 $000
100 bp increase in interest rates	593	551
100 bp decrease in interest rates	(411)	(613)

Note 21: Capital risk management

Capital structure:

	2019 $000	2018 $000 (Restated)
Ordinary shares	23,073	23,073
Retained earnings	33,890	27,539
Perpetual preference shares	38,966	38,966
Total capital for capital management purposes	**$95,929**	**$89,578**

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 remain unchanged from the prior year.

Covenants

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

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

Risk management

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

Note 22: 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 23: Derivative financial

Policy

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

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

Fair value:

	2019 $000	2018 $000
Interest rate swaps	(9,697)	(3,735)

Interest rate swaps:

	Average contracted interest rate		Notional principal amount		Fair value	
	2019 %	2018 %	2019 $000	2018 $000	2019 $000	2018 $000
Less than 1 year	1.98	2.52	295,950	289,306	(4,154)	(1,913)
1 to 2 years	1.89	2.38	204,047	200,506	(2,945)	(962)
2 to 3 years	1.11	2.36	125,058	126,361	(1,783)	(591)
3 to 4 years	1.63	2.34	49,143	49,600	(687)	(225)
4 to 5 years	1.13	2.17	9,662	9,925	(128)	(44)
			$683,860	**$675,698**	**($9,697)**	**($3,735)**

Judgments

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

Interest rate swaps

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

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

Note 24: Investment in subsidiaries

Policy

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

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

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

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

Name of entity	Principal activity	Percentage held	
		2019	2018
MTF Leasing Limited	Leasing	100%	100%
MTF Securities Limited	Non-trading	100%	100%
MTFS Holdings Limited	Non-trading	100%	100%
MTF Finance Limited	Non-trading	100%	100%
MTF Direct Limited	Non-trading	100%	100%
MTF Limited	Non-trading	100%	100%
MTF Treasury Limited	Securitisation	100%	100%
MTF Warehouse Trust No.1	Securitisation	-	-
MTF Torana Trust 2016	Securitisation	-	-
MTF Sierra Trust 2017	Securitisation	-	-
MTF Rambler Trust 2019	Securitisation	-	-
Honda Trust	Securitisation	-	-

Judgments

The Group consolidates the securitisation entities, MTF Warehouse Trust No.1 (Warehouse Trust), MTF Torana Trust 2016 (Torana Trust), MTF Sierra Trust 2017 (Sierra Trust), MTF Rambler Trust 2019 (Rambler Trust) and Honda Trust on its balance sheet.

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

Subsidiaries

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

Note 25: Categories of financial instruments

Policy

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

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

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

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect

  contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of

  principal and interest on the principal amount outstanding.

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

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

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

Financial assets measured at amortised cost

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

Note 25: Categories of financial instruments cont ...

Fair value through the profit or loss

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

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

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

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

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

Financial liabilities

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

Liabilities are recorded initially at fair value, net of transaction costs. Subsequently, all financial liabilities with the exception of derivative financial liabilities are measured at amortised cost with any difference between the initial recognised amount and the redemption value recognised in profit or loss in the consolidated statement of comprehensive income over the period of borrowing, using the effective interest rate method. 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 consolidated balance sheet where there is a legally enforceable right to offset and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously. This is not applicable in the current year.

Categorisation of financial instruments at 30 September 2019:

	Financial assets at FVTPL	Financial assets at amortised cost	Financial liabilities at amortised cost	Total carrying amount
	$000	$000	$000	$000
Assets				
Cash in restricted bank accounts	-	83,908	-	83,908
Accounts receivable	-	1,792	-	1,792
Finance receivables	692,194	-	-	692,194
	$692,194	**$85,700**	**-**	**$777,894**
Liabilities				
Bank overdraft	-	-	80	80
Committed cash advance	-	-	32,300	32,300
Accounts payable and accrued expense	-	-	10,388	10,388
Senior notes - secured	-	-	629,353	629,353
Derivative financial instruments (held for trading)	9,697	-	-	9,697
	$9,697	**-**	**$672,121**	**$681,818**

Categorisation of financial instruments at 30 September 2018 (Restated):

	Financial assets at FVTPL	Financial assets at amortised cost	Financial liabilities at amortised cost	Total carrying amount
	$000	$000	$000	$000
Assets				
Cash in restricted bank accounts	-	61,285	-	61,285
Accounts receivable	-	2,043	-	2,043
Finance receivables	677,549	-	-	677,549
	$677,549	**$63,328**	**-**	**$740,877**
Liabilities				
Bank overdraft	-	-	348	348
Committed cash advance	-	-	27,300	27,300
Accounts payable and accrued expense	-	-	10,384	10,384
Senior notes - secured	-	-	609,576	609,576
Derivative financial instruments (held for trading)	3,735	-	-	3,735
	$3,735	**-**	**$647,608**	**$651,343**

Note 26: Events after balance date

Dividend

On 21 November 2019, the Directors declared a final dividend on paid-up ordinary shares of 8.51 cents per share amounting to $1,961,000 (fully imputed), for the period 1 October 2018 to 30 September 2019. The dividend is due for payment on 2 December 2019.

Note 27: 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 28: Statement of cash flow

Policy

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

Cash and cash equivalents

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

Netting of cash flows

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

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

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

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

	2019 $000	2018 $000 (Restated)
Reconciliation of profit after tax to net cash flow from operating activities		
Profit after tax	11,143	8,059
Depreciation and amortisation	2,028	2,485
	13,171	**10,544**
Movement in other items		
Decrease in accounts receivable	390	502
Decrease in payment waiver indemnity prepayment	431	90
(Increase) in finance receivables	(14,645)	(76,589)
Increase in committed cash advance	5,000	16,901
Decrease (increase) in deferred tax	1,036	(1,072)
Decrease in provision for tax	(1,140)	(493)
(Decrease) increase in accounts payable and accrued expense	(135)	228
(Decrease) increase in unearned payment waiver fees	(313)	587
Increase in securitised funding	19,777	56,938
Increase in derivative financial liabilities	5,962	5
	16,363	(2,903)
Movement in working capital items classified as investing or financing activities	545	101
Net cash surplus from operating activities	**$30,079**	**$7,742**

Deloitte.

Independent Auditor's Report

To the Shareholders of Motor Trade Finance Limited

Opinion

We have audited the consolidated financial statements of Motor Trade Finance Limited and its subsidiaries (the 'Group'), which comprise the consolidated balance sheet as at 30 September 2019, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, on pages 15 to 64 present fairly, in all material respects, the consolidated financial position of the Group as at 30 September 2019, and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

Basis for opinion

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

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

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

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

Audit materiality

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

We determined materiality for the Group financial statements as a whole to be $2,700,000.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
NZ IFRS 9 adoption - accounting treatment of finance receivables The Group adopted NZ IFRS 9 *Financial Instruments* ('NZ IFRS 9') in the current period. NZ IFRS 9 replaces NZ IAS 39 *Financial Instruments: Recognition and Measurement*. Refer to note 1 which provides disclosures on the impact of adopting the new standard on the financial statements. In evaluating the treatment of finance receivables, the Group determined that the commissions paid to the transacting shareholders form an integral part of the cash flows of the finance receivables. Previously, the fair value of finance receivables was estimated using the gross cash flows (excluding commissions) and a discount rate that excluded the credit enhancement provided by the commission structure. The commissions were recognised when approved by the Board and presented separately in the statement of comprehensive income. The determination that the commission payments are integral to the finance receivables resulted in the following impacts under NZ IFRS 9: • The finance receivables will continue to be recognised at fair value through profit or loss. NZ IFRS 9 requires financial assets to be measured at fair value through profit or loss where the financial assets are held to collect contractual cash flows but those cashflows do not represent solely payments of principal and interest. Due to the discretionary nature of the commission payments, the Group has determined that the cashflows do not represent a basic lending arrangement and therefore the finance receivables must be measured at fair value through profit or loss. • The fair value of the finance receivables is estimated using the net cash flows after commissions and using a lower discount rate that reflects the credit enhancement of the commission structure. • The commissions are presented as part of net interest income in the statement of comprehensive income. The accounting treatment of finance receivables under NZ IFRS 9 is a key audit matter due to the level of judgement applied by the Group in determining the appropriate classification and measurement for the finance receivables.	Our procedures focused on the appropriateness of the Group's assessment of the accounting treatment for finance receivables under NZ IFRS 9 and the associated transition disclosures. Our procedures included, amongst others: • Considering the Group's assessment of the accounting treatment for finance receivables under NZ IFRS 9, in particular the determination that commission cash flows are part of the finance receivable cash flows. We considered the guidance in NZ IFRS 9 as well as other accounting standards and accounting literature. We also considered possible alternative views on the accounting treatment; • Involving an internal technical specialist to assist in assessing the appropriate application of NZ IFRS 9 for finance receivables; • Evaluating the appropriateness of the presentation of gross interest income and commissions relating to finance receivables in the statement of comprehensive income; • Considering the adequacy of the NZ IFRS 9 transition disclosures.
Valuation of Finance Receivables As disclosed in note 12, the Group has finance receivables of $692.194m at 30 September 2019. The Group measures its finance receivables at fair value through profit or loss under NZ IFRS 9, as explained above under the section entitled 'NZ IFRS 9 adoption – accounting treatment of finance receivables'. The Group estimates fair value using a discounted cash flow (DCF) model. The model uses a combination of observable data (interest rates) and unobservable data	Our procedures focused on the appropriateness of the valuation methodology and the reasonableness of the assumptions in the model. Our procedures included, amongst others: • Assessing the design and implementation of the controls over the completeness and accuracy of inputs to the model; • Selecting a sample of finance receivables and: - Agreeing inputs (including outstanding principal, interest rate, maturity date, payment frequency and

Key audit matter	How our audit addressed the key audit matter
(credit risk). As noted above, the Group has also changed its DCF model under NZ IFRS 9 to reflect that commissions are an integral part of the cash flows of the receivables. During the current period, the Group has refined its method for reflecting credit risk in the model. Disclosures about the fair value of finance receivables are included in notes 1 and 13 of the financial statements. The valuation of finance receivables is a key audit matter due to the size of the balance and the level of judgement applied by the Group in estimating fair value.	credit margin) to underlying contracts; and - Recalculating the contribution of the sample to the weighted average credit margin (net of commission), and testing the mathematical accuracy of the weighted average credit margin (net of commission) calculation used in the model; • Agreeing market interest rates to independent external market data sources; • Selecting a sample of finance receivables and utilising an internal valuation specialist to independently calculate the value which reflects current market interest rates (using models and inputs independent of those used by the Group) and the weighted average actual credit margin (net of commission). Where necessary we then investigated variances from the fair value calculated by the Group to assess whether a systemic bias or error exists; • Assessing the adequacy of the adjustment for credit risk movements by: - Assessing the design and implementation of controls over credit risk; - Assessing the internal process for credit monitoring and reviews of transacting shareholder credit quality and performance; • Challenging and evaluating the logic of management's credit risk methodology and the key assumptions, including reasons for changes in those assumptions.

Other information

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

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

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

Directors' responsibilities for the consolidated financial statements

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

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

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

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

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

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

This description forms part of our auditor's report.

Restriction on use

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

Deloitte Limited

Heidi Rautjoki, Partner
for Deloitte Limited
Dunedin, New Zealand
21 November 2019

Governance

Framework

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

Key governance policies are available on the MTF Finance website.

Principle 1: Ethical Standards

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

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

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

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

The Code is available on the Company's website.

MTF Finance has a Securities Trading Policy to mitigate the risk of insider trading in its securities by employees and Directors. Additional trading restrictions apply to Restricted Persons including Directors and certain employees. Details of Directors' shareholding are on page 81 of the annual report.

Principle 2: Board composition and performance

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

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

The Board operates under a charter which:

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

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

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

Board composition and appointment

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

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

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

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

Information on each Director is available on the MTF Finance website. Director's interests are disclosed on page 80 of this report.

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

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

Diversity

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

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

As at 30 September 2019, the gender balance of Directors and Senior Management was as follows:

	2019		2018	
	Male	Female	Male	Female
Directors	6	-	6	-
Senior Management	7	3	7	3

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

Board meetings and attendance

The Board held eight scheduled meetings during the year. The table below sets out Directors' attendance at Board and Committee meetings during the year ended 30 September 2019.

	2019
Scott Creahan	7
Stephen Higgs	8
Noel Johnston (appointed 21 March 2019)	4
Geoffrey Kenny	8
Mike King (retired 21 March 2019)	4
Brent Robertson	8
Grant Woolford	8

Principle 3: Board committees

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

The Board has three Committees, being the Audit Committee, the Credit Committee and the Remuneration Committee.

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

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

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

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

Audit Committee

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

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

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

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

Members as at 30 September 2019 were Scott Creahan (Chair), Stephen Higgs and Grant Woolford. It met three times during the financial year.

Credit Committee

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

The Credit Committee members as at 30 September 2019 were Scott Creahan (Chair), Noel Johnston, Geoff Kenny and Brent Robertson.

Remuneration Committee

The Remuneration Committee reviews remuneration of Directors and the CEO, annually. The Remuneration Committee members as at 30 September 2019 were Stephen Higgs and Brent Robertson.

Principle 4: Reporting and disclosure

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

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

In addition to all information required by law, MTF Finance also seeks to disclose all meaningful information to ensure stakeholders and investors are well informed, including financial and non-financial information.

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

For the financial year ended 30 September 2019, the Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and facilitate compliance of the consolidated financial statements with the Financial Reporting Act 2013.

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

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

Non-financial information

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

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

Principle 5: Remuneration

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

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

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

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

Details of individual Directors' remuneration are detailed on page 50 of this report.

CEO remuneration

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

Principle 6: Risk management

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

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

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

Health and safety

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

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

Principle 7: Auditors

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

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

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

For the financial year ended 30 September 2019, Deloitte Limited was the external auditor for MTF Finance. Deloitte Limited were automatically re-appointed under the Companies Act 1993 at the 2019 MTF Finance Annual Shareholder Meeting. Deloitte Limited are subject to regular partner rotations and cool off periods.

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

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

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

Principle 8: Shareholder relations and stakeholder interests

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

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

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

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

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

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

Statutory information

Reporting entity

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

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

Regulatory environment

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

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

Auditor

Deloitte Limited has continued to act as auditor of the Company, and has undertaken the audit of the consolidated financial statements for the 2019 financial year.

Director indemnity and insurance

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

Information by Directors

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

Donations

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

Director remuneration, holdings and disclosure of interest

Remuneration and benefits paid to Directors:

	2019	2018
Scott Creahan	53,000	50,000
Graeme Gibbons[1]	-	22,984
Stephen Higgs	95,000	90,000
Noel Johnston[2]	26,500	-
Geoffrey Kenny	53,000	50,000
Mike King[3]	26,500	50,000
Brent Robertson	53,000	50,000
Grant Woolford	53,000	27,016
	$360,000	**$340,000**

[1] Graeme Gibbons ceased to be a Director on 15 March 2018.

[2] Noel Johnston was appointed Director on 21 March 2019.

[3] Mike King ceased to be a Director on 21 March 2019.

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

Director shareholdings

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

Shares held by associated companies of Directors:

	Ordinary shares	%
Noel Johnston	711,424	3.08
Geoffrey Kenny	346,376	1.50
Brent Robertson	602,765	2.61
Grant Woolford	62,962	0.27
	1,723,527	7.47
Total shares on issue	**23,073,239**	**100.00**

Director holdings and disclosure of interest:

Disclosure of interest by Directors

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

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

Stephen Higgs is Chairman of Endovanerra Limited, South Link Health Services Limited, Vetlife Limited, Cumberland Property Group Limited, Cumberland Rural Properties Limited and a Director of Polson Higgs Wealth Management Limited, Disease Research Limited, Mitern Limited, Headwaters NZ Limited, High Health Alliance Limited, Higgs Developments Limited, Arbrothe Developments Limited, Otago Innovation Limited, University of Otago Holdings Limited, MTF Securities Limited, MTFS Holdings Limited, MTF Leasing Limited, MTF Direct Limited, MTF Treasury Limited, MTF Finance Limited and MTF Limited. He is a councillor on the University of Otago Council and trustee of two Otago Federated Farmers Trusts.

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

Geoffrey Kenny is a Director of Geoff Kenny Limited, Karstan Finance Ltd, Pioneer Property Trust Limited and GBK Developments Limited.

Brent Robertson is a Director of Brents Investments (2008) Limited, Guinness Holdings Limited, Moorhouse City Limited, O'Connell Robertson Limited, Old Tai Tapu Limited, Ferguson Robertson Limited, Jackson Robertson Limited and Brents Workshop Limited.

Grant Woolford is a Director of Motorcycle Spot Limited, Motorcycles North Limited and Indian Motorcycle Auckland Limited.

Shareholding

Twenty largest ordinary shareholders at 30 September 2019:

Shareholder rank and name		Holding	% Total ordinary shares
1	Turners Finance Limited	1,780,891	7.73
2	Honda New Zealand Limited	906,623	3.93
3	Vehicle Logistics Limited	680,097	2.95
4	Douglas Rushbrooke Limited	542,587	2.35
5	Cheryl Renouf Limited	458,805	1.99
6	Stephen Parker Limited	420,941	1.83
7	Paul A Robinson Limited	387,352	1.68
8	Noel Johnston Limited	383,564	1.66
9	The Colonial Motor Company Limited	377,599	1.64
10	Geoff Kenny Limited	346,376	1.50
11	Richard S Scott Limited	333,655	1.45
12	Mark and Joy Diggelmann Limited	317,269	1.38
13	Tony Gow Limited	278,762	1.21
14	Johnston Hall Limited	271,785	1.18
15	Neil Wolfgram Limited	269,536	1.17
16	Mike King Limited	258,877	1.12
17	Collier Sendall Limited	255,312	1.11
18	John Davidson Limited	244,478	1.06
19	Patterson & Patterson Limited	236,784	1.03
20	O'Connell Robertson Limited	229,635	1.00
Total shares on issue		**23,073,239**	**100.00**

Employee remuneration

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

Range	Number of employees 2019	2018
$100,000 - $109,999	9	8
$110,000 - $119,999	8	8
$120,000 - $129,999	1	2
$130,000 - $139,999	2	3
$140,000 - $149,999	4	2
$150,000 - $159,999	1	1
$160,000 - $169,999	1	-
$170,000 - $179,999	-	3
$180,000 - $189,999	1	-
$190,000 - $199,999	2	3
$200,000 - $209,999	-	-
$220,000 - $229,999	1	1
$230,000 - $239,999	1	1
$240,000 - $249,999	1	1
$350,000 - $359,999	1	1
$500,000 - $509,999	1	-
$570,000 - $579,999	-	1

No remuneration is paid by subsidiaries.

Directory

Directors

Scott Creahan, BCom (Hons)
Stephen Higgs, BCom, FCA, FInstD (Chair)
Noel Johnston
Geoffrey Kenny
Brent Robertson
Grant Woolford

Management

Glen Todd, BCom, ACA, MInstD (Chief Executive Officer)
Kyle Cameron, BCom, BPhEd, CA (Chief Financial Officer)
Rowena Davenport, BCom, MInstD (Treasury & Strategy Manager)
Brent Dunshea (National Franchise Manager)
Ron Frater (National Dealer Manager)
Angus Geary, BCom (Marketing & Communications Manager)
Yoel George, BApMgt (Manager – Credit & Compliance)
Lydia Hopkins (People & Culture)
Simon Hopkins (Manager – Solutions Team)
Ashley Ross, BApMgt, PMP (Chief Information Officer)

Perpetual preference share registrar

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

Ordinary share registrar

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

Trustee for securitisation programme

Trustees Executors Limited

Bankers

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

Solicitors

Bell Gully
Gallaway Cook Allan

Auditor

Deloitte Limited

Registered office

Level 1, 98 Great King Street, Dunedin
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