MTF half year report
31 March 2017

mtf
vehicle finance

Financial highlights

	6 mths to 31/3/2017 $m (Unaudited)	6 mths to 31/3/2016 $m (Unaudited)	12 mths to 30/9/2016 $m (Unaudited)
Operating result			
Profit after tax	4.4	2.9	7.2
Profit before commission and other gain (loss)	23.6	21.9	45.4
Underlying profit after tax [1]	3.7	3.8	7.9
Total assets	628.1	570.0	596.5
Total assets under management [2]	644.5	579.1	599.6
Capital	86.6	82.5	85.2
New loans	261.8	192.4	418.0
Performance indicators			
Net interest income/average finance receivables[5]	9.4%	9.4%	9.4%
Expense/average total assets under management[5]	2.7%	2.7%	2.8%
Impaired asset expense/average finance receivables[5]	0.0%	0.0%	0.1%
Capital percentage	13.8%	14.5%	14.3%
Shareholder value (per ordinary share)			
Adjusted net asset backing [3]	$2.07	$1.89	$2.00
Underlying profit after tax [4]	$0.13	$0.13	$0.28
Dividend for the year (net)	$0.04	$0.04	$0.1396

[1] Underlying profit removes the volatility of unrealised fair value movements providing a more relevant and meaning full measure of company performance.

	$000 (Unaudited)	$000 (Unaudited)	$000 (Unaudited)
Profit after tax	4,388	2,862	7,168
Adjustments:			
Finance receivables designated at fair value (note 2)	3,105	(641)	1,087
Interest rate swaps derivatives at fair value (note 2)	(4,102)	1,943	(67)
Total adjustments before tax	(997)	1,302	1,020
Tax on adjustments	279	(364)	(286)
Underlying profit after tax	$3,670	$3,800	$7,902

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

Review of operations

Financial performance:

Profit before commission and fair value movements increased 7.6%, to $23.6m, a consequence of higher sales volume and growth in finance receivables. Commission paid to shareholder originators increased 9.7% to $18.2m. Total amounts paid to MTF originators, including commission, fees and payment waiver, increased 25.2% to $32.4m.

Unrealised gain on fair value of financial instruments totalled $0.6m, compared to a ($1.3)m loss for the same period last year, giving a net profit after tax of $4.4m (31 March 2016: $2.9m, 30 September 2016: $7.2m).

Underlying profit after tax, which removes the volatility of unrealised fair value movements, providing a more consistent and meaningful measure of company performance, decreased 3.4% to $3.7m (31 March 2016: $3.8m, 30 September 2016: $7.9m).

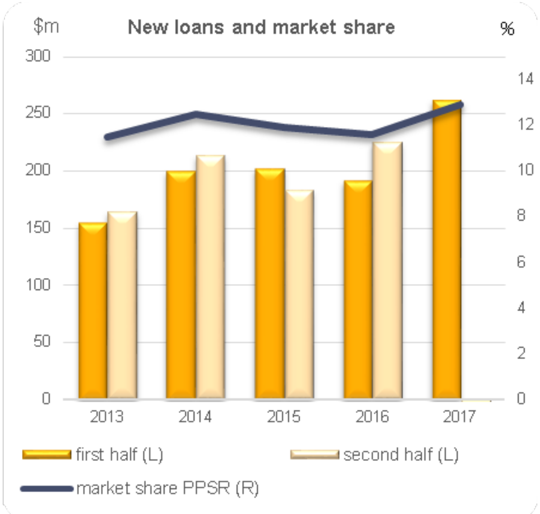
Sales have increased 36% from the same period last year due to a number of factors including a buoyant economy, record vehicle sales and the release of a non-recourse lending option to MTF originators. The car lending market generally remains very competitive and it has been very pleasing to achieve growth in market share, measured by PPSR registrations, from 11.4% to 12.9% for the period ending 31 March (31 March 2016: 11.4%, 30 September 2016: 11.9%).

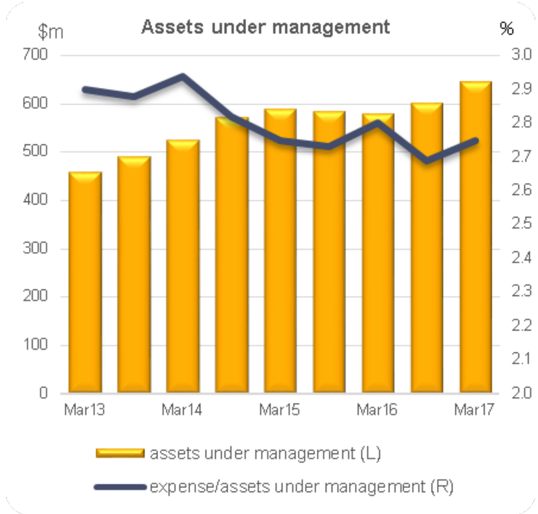
Operating expense, excluding bad debt, as a percentage of assets under administration remained consistent at 2.7% for the period (30 September 2016: 2.8%).

Administration expense decreased 9% due mainly to a reduction in legal and professional services incurred during the market testing process undertaken last year in response to the approaches received from various parties looking for an ownership stake in the company.

Communication and processing expense increased 22% due to the continued commitment to building national brand awareness through targeted multimedia advertising campaigns, delivery of loan origination training and compliance programmes, and the provision of improved and more efficient technology. The marketing campaign is producing good results demonstrated by an increase in website traffic and online enquiries from potential customers.

Bad debt of $0.05m (31 March 2016: $.06m, 30 September 2016: $0.1m) remains low and reflects continued focus on quality lending, best practice origination and the strength of the recourse lending model.





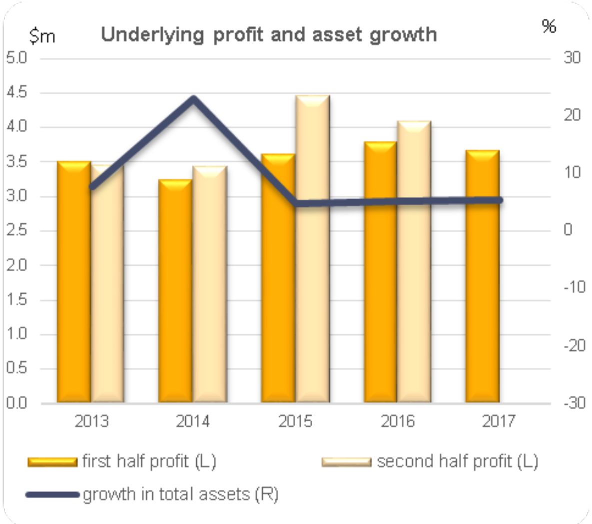
Financial position and liquidity:

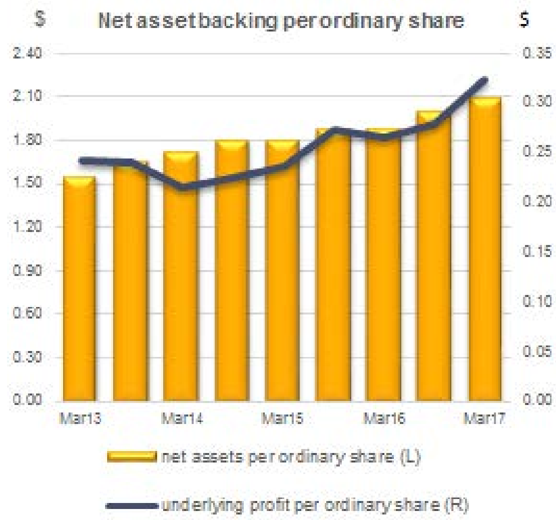
Total assets increased $31.6m, or 5.0%, on the back of significantly improved sales. Assets under management totalled $645m at 31 March 2017 (31 March 2016: $579m, 30 September 2016: $600m).

Net interest income, as a percentage of finance receivables, of 9.4% (31 March 2016: 9.4%, 30 September 2016: 9.4%) remains steady, despite the competitive pressures of the current lending market.

Growth in finance receivables was funded through securitised borrowing which increased $40.2m to $506.7m. Securitisation facilities have sufficient capacity to fund forecast growth following a $50.0 million increase to the facility limit in April.

MTF's securitisation programme continues to perform well and lead the New Zealand market. Strong investor demand for the latest issue, the Torana Trust, resulted in oversubscription and a broad mix of offshore and domestic institutional investors participating, further broadening our investor base.





Capital, as a percentage of total assets, has reduced to 13.8% (30 September 2016: 14.2%) due to growth in assets, and remains sufficient to underpin projected growth over the medium term.

Business development:

MTF originators are made up of a network of 261 dealers that sell motor vehicles in conjunction with financial services, and 43 MTF franchises which only sell financial services.

Since the emergence of the franchise network in 2007 MTF has become a multi-channel business – motor vehicle dealers and franchises.

The franchise network has now entered its 10th year of operation and has continued to grow at a rapid pace. The franchises now write in excess of 65% of new business. The opportunity for this channel is still significant and MTF has spent substantial time and investment ensuring that the franchisor will deliver best in class systems and support to partner with franchises and drive sustainable and profitable growth. MTF is using outside expertise to benchmark and develop this framework and the board is encouraged by the level of engagement and commitment from franchises.

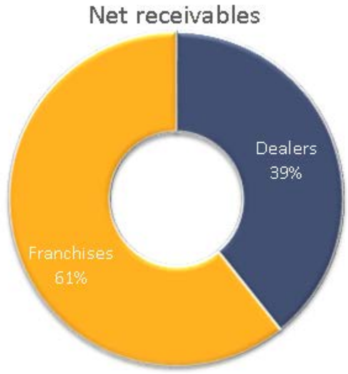
Motor vehicle dealers are MTF's traditional distributors and the company is committed to continuing to support this channel. While MTF's share of this market has been in decline in recent years, MTF has reignited support through this channel by focusing on providing technology that makes it easier for dealers to transact with MTF and providing an alternative to our traditional recourse lending option.

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

This partnership allows all MTF shareholders to benefit from Turners' ledger management experience, without taking on the credit risk or MTF needing to resource a new team to manage this ledger. A pilot was launched in early December with a progressive roll out from January once the lessons from the pilot were applied. The uptake has significantly exceeded expectations with sales exceeding $25m since 1 December 2016 and presents exciting opportunities for the future.

Our future development is now heavily focused on making it easier for our originators and customers to write good business. Creating simple and effective ways for originators to meet their compliance responsibilities is paramount. The introduction of electronic document and signature capture last year is indicative of our future direction. Uptake of the technology has been better than anticipated and by the end of March 41% of loans were originated using the platform.

Future initiatives include loan origination via i-Pad and smart customer on-boarding tools to reduce the compliance burden and to make the MTF experience so good that customers will want to shout it from the roof tops.



Shareholder returns:

Return on ordinary equity, using underlying profit after tax, was 12.7%, down from 14.3% for the same period last year. Underlying profit per ordinary share is $0.13, consistent with $0.13 for the same period last year. In 2016 the company paid dividends of 13.96 cents per share, delivering a market leading return and yield.

On 19 April 2017 the directors approved an interim dividend of 2.0 cents per ordinary share that was paid on 1 May 2017 bringing the total interim dividends for the year to 4.0 cents per share.

Perpetual preference share dividends totalling $0.6m (31 March 2016: $0.7m, 30 September 2016: $1.5m) were paid during the period. The dividend rate is set annually at 2.40% over the one-year swap rate, and was reset at 4.47% (2015: 5.11%) on 30 September 2016, for the twelve months to 30 September 2017.

Outlook:

The economic outlook continues to remain uncertain, with New Zealand susceptible to volatile international events. Record new and used car sales, driven by low credit cost and manufacturers fighting for market share, are forecast to continue in the short term. MTF has positioned itself to take advantage of this buoyant market, while a pragmatic and conservative approach to operational risk means we are in a strong position to navigate any difficulties the economy may throw up.

The board and management are confident a focus on delivering outstanding service to customers and originators will enable MTF to continue to grow its share of a highly competitive market.

Stephen Higgs
Chairman

Glen Todd
Chief Executive Officer

Consolidated statement of comprehensive income

Six months ended 31 March 2017

	Note	6 mths to 31/3/2017 $000 (Unaudited)	6 mths to 31/3/2016 $000 (Unaudited)	12 mths to 30/9/2016 $000 (Audited)
Interest income		39,186	38,013	76,120
Interest expense		13,433	13,918	26,915
Net interest income		25,753	24,095	49,205
Payment waiver net income		1,161	1,169	3,288
Fees		5,248	4,494	9,279
Net interest income and fees		32,162	29,758	61,772
Expense				
Employee		3,679	3,224	6,710
Communication and processing		2,073	1,706	3,648
Depreciation and amortisation		1,124	1,039	2,479
Administration		1,632	1,786	3,451
Bad debt		48	63	95
Operating expense		8,556	7,818	16,383
Profit before commission and other gain (loss)		**23,606**	**21,940**	**45,389**
Commission		18,161	16,549	34,031
Profit before net gain (loss) from financial instruments at fair value		**5,445**	**5,391**	**11,358**
Net gain (loss) from financial instruments at fair value	2	654	(1,329)	(1,249)
Profit before tax		**6,099**	**4,062**	**10,109**
Tax		1,711	1,200	2,940
Profit after tax		**4,388**	**2,862**	**7,169**
Other comprehensive income		-	-	-
Total comprehensive income		**$4,388**	**$2,862**	**$7,169**

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

Consolidated statement of changes in equity

Six months ended 31 March 2017

	Note	Ordinary shares $000	Retained earnings $000	Perpetual preference shares $000	Total equity $000
6 months ended 31 March 2017 (Unaudited)					
Balance at 1 October 2016		23,073	23,135	38,966	85,174
Total comprehensive income for the period:					
Profit after tax		-	4,388	-	4,388
Total comprehensive income for period		-	4,388	-	4,388
Transactions with shareholders:					
Ordinary share dividends		-	(2,295)	-	(2,295)
Perpetual preference share dividends		-	(644)	-	(644)
Total transactions with shareholders		-	(2,939)	-	(2,939)
Balance at 31 March 2017		**$23,073**	**$24,584**	**$38,966**	**$86,623**
6 months ended 31 March 2016 (Unaudited)					
Balance at 1 October 2015		23,073	20,582	38,966	82,621
Total comprehensive income for the period:					
Profit after tax		-	2,862	-	2,862
Total comprehensive income for the period		-	2,862	-	2,862
Transactions with shareholders:					
Ordinary share dividends		-	(2,223)	-	(2,223)
Perpetual preference share dividends		-	(736)	-	(736)
Total transactions with shareholders		-	(2,959)	-	(2,959)
Balance at 31 March 2016		**$23,073**	**$20,485**	**$38,966**	**$82,524**
Year ended 30 September 2016 (Audited)					
Balance at 1 October 2015		23,073	20,582	38,966	82,621
Total comprehensive income for the year:					
Profit after tax		-	7,169	-	7,169
Total comprehensive income for the year		-	7,169	-	7,169
Transactions with shareholders:					
Ordinary share dividends		-	(3,144)	-	(3,144)
Perpetual preference share dividends		-	(1,472)	-	(1,472)
Total transactions with shareholders		-	(4,616)	-	(4,616)
Balance at 30 September 2016		**$23,073**	**$23,135**	**$38,966**	**$85,174**

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

Consolidated balance sheet

31 March 2017

	Note	31/3/2017 $000 (Unaudited)	31/3/2016 $000 (Unaudited)	30/9/2016 $000 (Audited)
Funds employed				
Ordinary shares		23,073	23,073	23,073
Retained earnings		24,584	20,485	23,135
Perpetual preference shares		38,966	38,966	38,966
Total shareholder equity		**86,623**	**82,524**	**85,174**
Liabilities				
Bank overdraft		-	226	554
Provision for taxation		1,071	-	626
Accounts payable and accrued expense		4,752	4,142	5,053
Unearned payment waiver fees		5,521	5,232	5,005
Committed cash advance	4	20,000	16,600	26,000
Senior notes – secured	4	506,740	451,817	466,492
Deferred tax		-	-	130
Derivative financial instruments		3,384	9,495	7,486
Total liabilities		**$541,468**	**$487,512**	**$511,346**
Total funds employed		**$628,091**	**$570,036**	**$596,520**
Employment of funds				
Cash at bank		1,029	-	-
Cash in restricted bank accounts		51,487	44,619	50,972
Provision for taxation		-	5	-
Accounts receivable		1,858	1,611	2,257
Payment waiver indemnity prepayment		1,844	1,601	1,804
Finance receivables	3	566,323	515,170	535,237
Deferred tax		149	157	-
Property, plant and equipment		1,530	1,251	1,626
Intangible assets		3,871	5,622	4,624
Total assets		**$628,091**	**$570,036**	**$596,520**

Stephen Higgs
Chairman

Graeme Gibbons
Director

18 May 2017

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

Consolidated statement of cash flow

Six months ended 31 March 2017

	Note	6 mths to 31/3/2017 $000 (Unaudited)	6 mths to 31/3/2016 $000 (Unaudited)	12 mths to 30/9/2016 $000 (Audited)
Cash flow from operating activities				
Interest income		39,186	38,013	76,120
Fee income		5,238	4,482	9,256
Interest expense		(12,360)	(12,183)	(22,984)
Other funding and securitisation costs		(1,894)	(1,562)	(2,970)
Income tax paid		(1,544)	(1,085)	(1,907)
Commission		(17,881)	(16,293)	(34,005)
Payment waiver		251	(92)	294
Operating expense		(6,549)	(7,419)	(14,680)
Net cash flow from operating activities before changes in operating assets and liabilities		4,447	3,861	9,124
Changes in operating assets and liabilities:				
Finance receivable instalments		210,903	189,908	393,476
Increase (decrease) in committed cash advance – net		(6,000)	(3,200)	6,200
Increase in senior notes – net		40,138	5,246	20,332
Finance receivable advances		(244,081)	(191,065)	(415,329)
		960	889	4,679
Net cash flow from operating activities	6	**5,407**	**4,750**	**13,803**
Cash flow from investing activities				
Sale of property, plant and equipment		57	20	32
Purchase of property, plant and equipment		(202)	(828)	(1,481)
Purchase of intangible assets		(129)	(944)	(1,121)
Net cash flow from investing activities		**(274)**	**(1,752)**	**(2,570)**
Cash flow from financing activities				
Proceeds from share issue		2	9	9
Trust establishment costs		(98)	-	(553)
Dividend to perpetual preference shareholders		(644)	(736)	(1,472)
Dividend to ordinary shareholders		(2,295)	(2,223)	(3,144)
Net cash flow from financing activities		**(3,035)**	**(2,950)**	**(5,160)**
Net increase in cash		2,098	48	6,073
Cash on hand at beginning of period		50,418	44,345	44,345
Cash on hand at end of period		**$52,516**	**$44,393**	**$50,418**
Represented by:				
Cash at bank (overdraft)		1,029	(226)	(554)
Cash in restricted bank accounts		51,487	44,619	50,972
		$52,516	**$44,393**	**$50,418**

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

Condensed notes to the financial statements (unaudited)

Note 1: Basis of reporting

Reporting entity:

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

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

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

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

The financial statements were approved by the Board of Directors on 18 May 2017.

Basis of preparation:

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

The Group is a tier 1 for-profit entity in terms of the External Reporting Board Standard A1: Accounting Standard Framework (For-profit Entities Update).

Statement of compliance

The condensed Group financial statements should be read in conjunction with the Annual Report for the year ended 30 September 2016.

The accounting policies and computation methods used in the preparation of the interim financial statements are consistent with those used as at 30 September 2016 and 31 March 2016. Where necessary, comparative information has been reclassified to achieve consistency in disclosure with the current period.

These interim financial statements have not been audited. The interim financial statements comply with NZ IAS 34: Interim Financial Reporting and IAS 34: Interim Financial Reporting.

Note 2: Net gain (loss) from financial instruments at fair value

	31/3/2017 $000 Unaudited	31/3/2016 $000 Unaudited	30/9/2016 $000 (Audited)
Net gain (loss) arising on:			
Finance receivables	(3,105)	641	(1,087)
Credit risk	(343)	(27)	(229)
Interest rate swap derivatives	4,102	(1,943)	67
	$654	**($1,329)**	**($1,249)**

Note 3: Asset quality disclosures

	31/3/2017 $000 (Unaudited)	31/3/2016 $000 (Unaudited)	30/9/2016 $000 (Audited)
(a) Asset quality - finance receivables			
Neither past due nor impaired	571,466	519,229	540,304
Individually impaired	18	219	216
Past due but not impaired	509	848	45
Specific credit risk	-	(14)	-
Collective credit risk	(5,670)	(5,112)	(5,328)
Total carrying amount	**$566,323**	**$515,170**	**$535,237**
(b) Individually impaired assets – managed transaction shareholder			
Finance receivables	18	219	216
Balances available for offset, including collateral	(18)	(205)	(216)
Specific impairment allowance	**-**	**$14**	**-**

Note 4: Funding (secured)

31 March 2017 (Unaudited)	Facility expiry date	Limit $000	Undrawn $000	Drawn $000	Unamortised fees and expense $000	Carrying amount $000
Committed cash advance facility	31/08/2018	80,000	60,000	20,000	-	20,000
Securitisation:						
Senior Warehouse notes	31/07/2017	210,000	5,098	204,902	-	204,902
Senior Valiant notes	15/07/2022	89,042	-	89,042	(131)	88,911
Senior Torana notes	15/09/2024	213,466	-	213,466	(539)	212,927
Total senior notes		512,508	5,098	507,410	(670)	506,740
Total		**$592,508**	**$65,098**	**$527,410**	**($670)**	**$526,740**

31 March 2016 (Unaudited)	Facility expiry date	Limit $000	Undrawn $000	Drawn $000	Unamortised fees and expense $000	Carrying amount $000
Committed cash advance facility	31/12/2018	50,000	33,400	16,600	-	16,600
Securitisation:						
Senior Settlement notes	31/07/2017	40,000	7,434	32,566	-	32,566
Senior Warehouse notes	31/07/2017	250,000	25,828	224,172	(2)	224,170
Senior Zephyr notes	15/06/2020	187	-	187	(9)	178
Senior Valiant notes	15/07/2022	195,260	-	195,260	(357)	194,903
Total senior notes		485,447	33,262	452,185	(368)	451,817
Total		**$535,447**	**$66,662**	**$468,785**	**($368)**	**$468,417**

30 September 2016 (Audited)	Facility expiry date	Limit $000	Undrawn $000	Drawn $000	Unamortised fees and expense $000	Carrying amount $000
Committed cash advance facility	31/08/2018	80,000	54,000	26,000	-	26,000
Securitisation:						
Senior Warehouse notes	31/07/2017	150,000	59,118	90,882	-	90,882
Senior Valiant notes	15/07/2022	162,924	-	162,924	(227)	162,697
Senior Torana notes	15/09/2024	213,466	-	213,466	(553)	212,913
Total senior notes		526,390	59,118	467,272	(780)	466,492
Total		**$606,390**	**$113,118**	**$493,272**	**($780)**	**$492,492**

Note 5: Events after balance date

Dividend: On 19 April 2017 the directors declared an interim dividend on paid-up ordinary shares of 2.00 cents per share, amounting to $461,000 (fully imputed), for the period 1 January 2017 to 31 March 2017. The dividend was paid on 1 May 2017.

Note 6: Statement of cash flow

	31/3/2017 $000 (Unaudited)	31/3/2016 $000 (Unaudited)	30/9/2016 $000 (Audited)
Reconciliation of profit after tax to net cash flow from operating activities			
Profit after tax	4,388	2,862	7,169
Non-cash items	1,124	1,038	2,479
	5,512	**3,900**	**9,648**
Movement in other items			
(increase) decrease in accounts receivable	399	265	(381)
(Increase) in payment waiver indemnity prepayment	(40)	(29)	(233)
(Increase) in finance receivables	(31,086)	(3,019)	(23,087)
Increase (decrease) in committed cash advance	(6,000)	(3,200)	6,200
Increase in deferred tax	(279)	65	353
Increase in provision for tax	445	49	680
(Decrease) increase in accounts payable and accrued expense	(301)	(741)	170
Increase (decrease) in unearned payment waiver fees	516	62	(165)
Increase in senior notes	40,248	5,465	20,140
Increase in derivative financial liabilities	(4,102)	1,942	(67)
	(200)	**859**	**3,610**
Movement in working capital items classified as investing or financing activities	95	(9)	545
Net cash surplus from operating activities	**$5,407**	**$4,750**	**$13,803**

Directory

Directors:	Stephen Higgs, BCom, FCA, FInstD (Chair) Scott Creahan, BCom (Hons) Graeme Gibbons, BCom, CA Geoffrey Kenny Mike King Brent Robertson
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) Yoel George, BApMgt (Manager – Credit & Compliance) Simon Hopkins (Manager – Solutions Team) Jason Hughes, BCom (Trust Manager) Ashley Ross, BApMgt, PMP, MinstD (Chief Information Officer)
Perpetual preference share registrar:	Computershare Investor Services Limited 09 488 8777 enquiry@computershare.co.nz
Ordinary share registrar:	Computershare Investor Services Limited 09 488 8777 enquiry@computershare.co.nz
Trustee for securitisation programme:	Trustees Executors Ltd
Bankers:	Bank of New Zealand Commonwealth Bank of Australia Westpac New Zealand
Solicitors:	Bell Gully DLA Piper Gallaway Cook Allan
Auditor:	Deloitte
Registered office:	Level 1, 98 Great King Street, Dunedin PO Box 885, Dunedin 9054
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