50 YEARS of Helping New Zealanders to do more

mtf finance

# Annual Report

YEAR ENDED 30 SEPTEMBER 2020

# Helping 56,604 New Zealanders to do more

46,876
Passenger Vehicles

7,880
Utility Vehicles

6,369
Motorcycles

3,251
Vans

1,280
Caravans

1,192
Boats

939
Machines

906
Trucks

875
Trailers

692
Jet Skis

364
Buses

57
Tractors

3
Aircraft



# Contents


5 Financial summary

6 Review of operations

15 Five year financial review

16 Consolidated statement of comprehensive income

17 Consolidated statement of changes in equity

18 Consolidated balance sheet

19 Consolidated statement of cash flows

20 Notes to the consolidated financial statements

68 Audit report

72 Governance

82 Statutory information

86 Directory


mtf
mtf.co.nz/manukau

# Highlights

NEW LOANS $M

488.5

TOTAL PAID TO ORIGINATORS $M

65.2

TOTAL ASSETS $M

753.8

ORDINARY DIVIDEND CENTS

7.11

NEW WAY OF WORKING IMPLEMENTED WITH STREAMS OF VALUE ESTABLISHED

DIGITAL TOOLS RELEASED TO ALLOW CONTACTLESS ON-BOARDING RESULTING IN OVER 1,000 CUSTOMERS BEING SIGNED UP REMOTELY

| | 2020 $m | 2019 $m |
|---|---|---|
| **Operating result** | | |
| New loans | 488.5 | 515.3 |
| Profit after tax | 5.0 | 11.1 |
| Underlying profit after tax [1] | 7.5 | 7.9 |
| Total assets | 753.8 | 784.0 |
| Total assets under management [2] | 762.7 | 807.5 |
| Total paid to originators | 65.2 | 66.5 |
| **Performance indicators** | | |
| Net interest income/average finance receivables | 2.9% | 2.9% |
| Expense/average total assets under management [3] | 2.6% | 2.6% |
| Impaired asset expense/average finance receivables | 0.04% | 0.04% |
| Credit risk allowance/average finance receivables | 0.93% | 0.27% |
| Capital percentage | 12.9% | 12.1% |
| **Shareholder value (per ordinary share)** | | |
| Adjusted net asset backing [4] | $2.54 | $2.47 |
| Underlying profit after tax [5] | $0.28 | $0.29 |
| Dividend for the year (net) | $0.0711 | $0.145 |

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

| | 2020 $000 | 2019 $000 |
|---|---|---|
| Profit after tax | 4,960 | 11,143 |
| Adjustments: | | |
| Finance receivables at fair value (Note 7) | 4,394 | (10,398) |
| Interest rate swap derivatives at fair value (Note 7) | (862) | 5,962 |
| Total adjustments before tax | 3,532 | (4,436) |
| Tax on adjustments | (989) | 1,242 |
| Underlying profit after tax (UPAT) | 7,503 | 7,949 |

[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

In a year where we had planned to celebrate our 50 year milestone the COVID-19 pandemic and subsequent shock to the New Zealand and world economies meant that our focus quickly changed to the monumental impact on people, small businesses and industries across the nation.

## Our COVID-19 response

As we have done throughout our 50-year history, supporting our originators, our customers and the communities in which we operate, remained our top priority in response to the global pandemic.

Our immediate response was focused on the safety of our people, ensuring that we could operate remotely and continue to provide the support our originators and customers needed. We were well prepared for this with 90% of staff able to work remotely from Level 3 and only minimal core staff remaining on site during Level 4.

The business experienced a rapid decline in sales activity during the Level 4 lockdown with sales dropping 90% during this period. We experienced gradual recovery through Level 3 into Level 1 with business volume now back to pre-COVID-19 levels. The rebound in the New Zealand economy, and subsequent demand for credit, was one we did not anticipate as we planned for the impact of the pandemic.

Our next step was to look after the customers and originators who were seeking help and guidance, with a tenfold increase in email and call volumes in the initial lockdown period. Over 5,000 customers, representing $70m of loans, have taken up the option of support since the pandemic began. Support options included payment breaks, postponed payments options and refinancing. As at the date of this report we have helped rehabilitate some 3,700 customers representing $49m of loans, with a further 1,000 having arrangements in place designed to get them back on track in the near term. We are in close contact with the remaining 300 customers, representing $6.3m of loans, and are working steadily to get suitable arrangements in place, that are in the best interests of the customers while protecting our originators' recourse liability and shareholders.

A big part of our response was to support our originators with the digital tools they would need to restart remote lending operations during the unprecedented nationwide lockdown, including software providing digital identification and contactless disclosure. Since the release of these tools, our originators have signed up over 1,000 customers without the need to physically visit an office.

We have been closely monitoring originator activity – particularly those who have significant exposure to industry sectors at higher risk of economic deterioration and we are providing advice and support for them to assist their affected customers. The value of our company is directly linked to the success of our originators, so it is in the best interests of the company that we support our originators through this once in a lifetime event. We have built cash and balance sheet reserves and the board is confident that the company is in a strong position to weather the financial impacts and protect our shareholders from potential loss.

# Financial performance

Prior to the arrival of COVID-19, the first half of the 2020 financial year was tracking ahead of expectations. Despite the severe drop in sales during Level 4, a strong recovery has occurred following lockdown with total sales dropping only 5.2% from 2019.

Due to the ensuing uncertainty of COVID-19, we have taken proactive measures to increase our provisioning in response to forecasted increase in credit risk. This provisioning has resulted in profit after tax decreasing by $6.2m to $5.0m from the same period last year as the credit risk adjustment to finance receivables increased $4.5m.

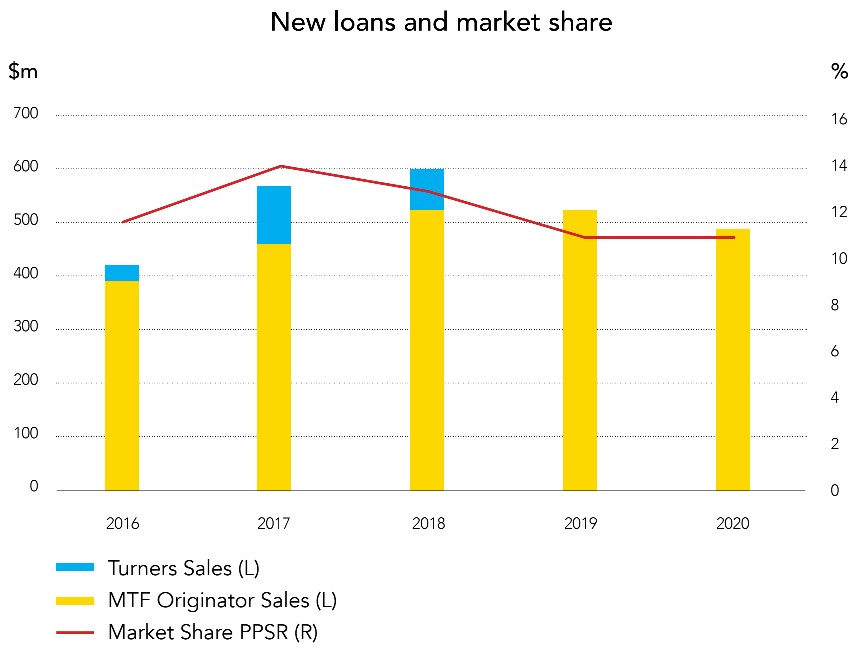
Underlying profit after tax, which removes the volatility of fair value movements, and provides a more consistent measure of company performance, saw a decrease of 5.6% to $7.50m (30 September 2019: $7.95m).

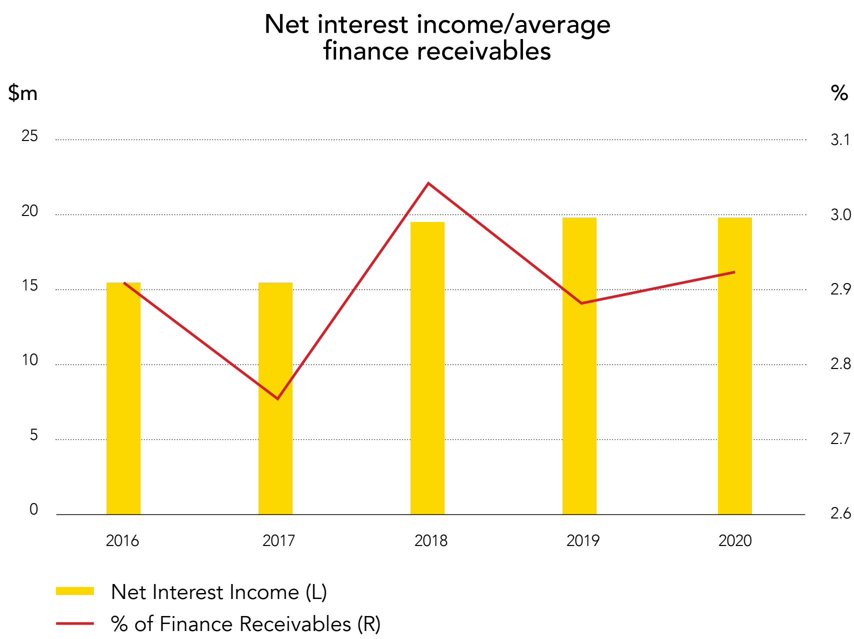
Net interest income, as a percentage of average finance receivables, of 2.9% (30 September 2019: 2.9%) is consistent with expectations and reflects continued competitive pressures of the current lending market.

Total amounts paid to shareholder originators, including commission, fees and payment waiver, decreased marginally to $65m. This was a key achievement for 2020, as we fought hard to protect our originator's earnings, as we understand their reliance on MTF Finance to provide cash flow. This was never as important as during the COVID-19 lockdown period and beyond.

## **$489m** in sales for the year
*(a decrease of 5% from $515m in 2019)*

To achieve this we undertook an extensive review of our operating budget immediately following the nationwide lockdown announcement, in anticipation of declining sales. Staff and directors accepted temporary reductions in their remuneration and resource was directed away from non-critical activities. This resulted in significant reductions to non-critical business expenditure, protecting our originators from a deterioration in their commission and protected MTF Finance from having to make reductions in headcount which would in any case have been operationally challenging at a time when credit review, and strong customer and originator engagement were more important than ever.


New loans and market share
$m
%
700
600
500
400
300
200
100
0
16
14
12
10
8
6
4
2
0
2016
2017
2018
2019
2020
Turners Sales (L)
MTF Originator Sales (L)
Market Share PPSR (R)


Net interest income/average finance receivables
$m
%
25
20
15
10
5
0
3.1
3.0
2.9
2.8
2.7
2.6
2016
2017
2018
2019
2020
Net Interest Income (L)
% of Finance Receivables (R)

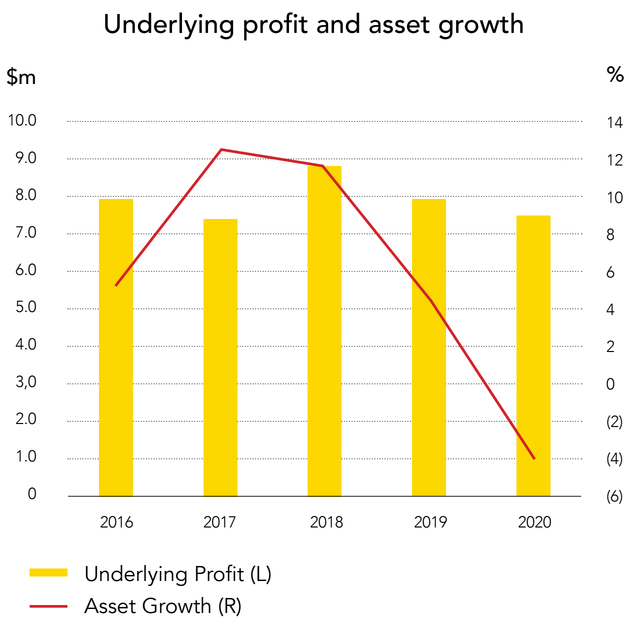
## Financial position and liquidity

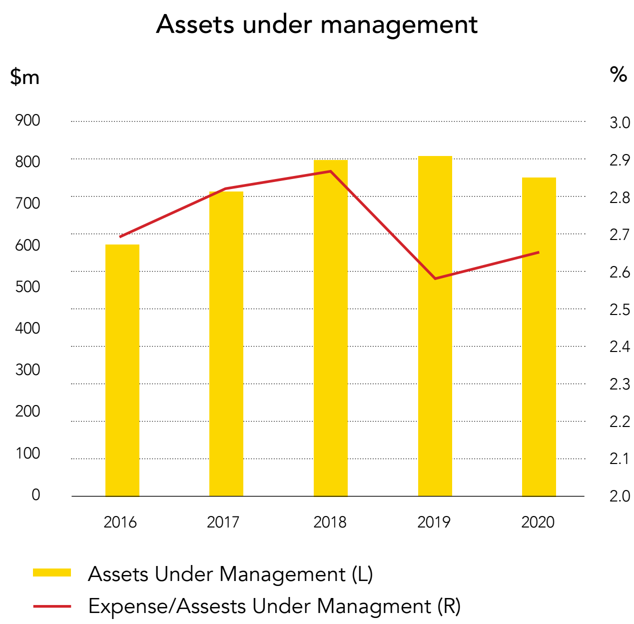
The company's balance sheet has a capital ratio of 12.9%, and we are in a very strong position to face the coming recession and to support originators through the current crisis and what may yet follow.

We have a well-established funding programme that enjoys the support of our banking partners and investors. Throughout the COVID-19 crisis we have been in regular communication and are confident in our liquidity levels and funding capacity. Our strong capital position, built up over the last 12 years, means we have been able to provide additional credit enhancement to give our long-term investment partners extra comfort.

We worked quickly with our funding partners and investors to lock in funding facilities where the terms reflected our long-term assessment of the financial impact of COVID-19. Our funding structure and investor relationships have been a key strength and we intend to return to our market issuance programme in 2021.

Securitisation facilities have sufficient capacity to support existing borrowing and fund growth with $96.9m undrawn at year end.



## Credit quality

The resilience shown by our customers throughout the pandemic has been remarkable. At the date of this report, 31+ day arrears, excluding COVID-19 affected loans, stood at 0.61% (2019: 0.75%) and are at their lowest levels for several years.

When we take into account all lending, the 31+ day arrears is sitting at 1.9%, and will remain a core focus for 2021 to work with customers and originators to reduce this down further.

## Our strategic focus

Board and management continue to work closely together to shape the strategic direction of the company to best serve our originators, their customers, and our people. We are emerging from COVID-19, into a period of uncertainty, but we are in a solid position from which to invest in the future of our company.

We have completed significant work over the past 18 months to develop a new agile way of working to allow us to deliver on our strategy in an efficient and effective manner, with a focus on continuous improvement. This has been valuable in our COVID-19 response to date and will continue to be imperative as we define and deliver the future of MTF Finance.

Our immediate focus, post COVID-19, is on how we will grow over the next five years. The key to this will be partnering with our originators to develop products and services that are attractive to their customers.

Digital transformation is at the heart of our strategy and this has been amplified by consumer behavioural changes due to COVID-19. From digitising onboarding and disclosure to redesigning our internal processes, we have been focusing heavily on adapting what we do. We will be continuing to invest to expand our digital capability, by working with our originators to create a seamless customer onboarding experience that is humanised and adaptable to meet the needs of our future customers.

Our business and ownership model has survived for over 50 years and has provided stability and strength in some of the biggest financial shocks in recent history. Our competitive advantage lies in the co-operative ethos and belonging to something that we all believe in and benefit from.

The backdrop to this strategy is the ongoing work, focusing on helping those customers who have suffered a material change in circumstances get back on track. We will continue to improve on existing tools for our originators to help collect the required information and put appropriate payment arrangements in place that support the customers' circumstances.

## Our shareholders

Return on ordinary equity, using underlying profit after tax, was 11.1%, down from 11.7% for the same period last year as a result of the factors outlined earlier.

As a precautionary response to COVID-19, the board resolved to suspend dividend distributions to ordinary shareholders until there was significantly more certainty as to the severity of the financial impact of the pandemic on the company's financial strength. After review, the board are satisfied that the company is well provided for potential credit losses and maintains prudent levels of working capital to meet forecast requirements. As a result, the board is pleased to advise shareholders that it will reinstate its previous dividend policy to return 50% of underlying profit after tax, adjusted for COVID-19 provisions, to shareholders. A final dividend of $0.05 per share (2019: $0.08) will be paid on 30 November.

Perpetual preference share dividends have continued totalling $0.9m (30 September 2019: $1.3m) for the period. The dividend rate is set annually at 2.40% over the one-year swap rate, and was reset at 2.52% (2019: 3.42%) on 1 October 2020, for the twelve months to 30 September 2021.

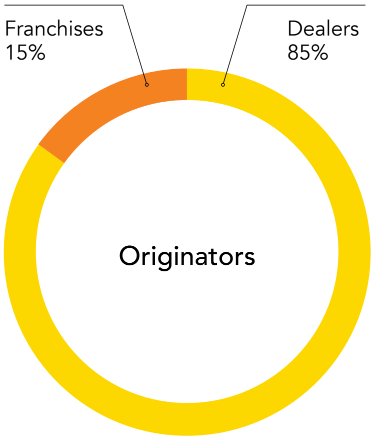
## Board changes

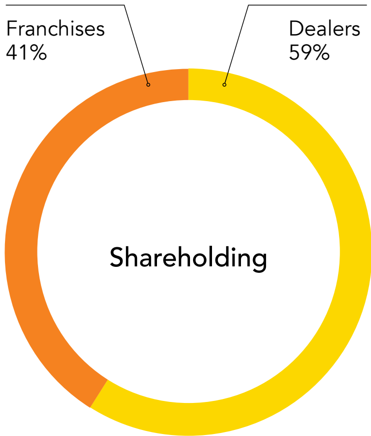
There has been significant change at the board table during 2020, with Brent Robertson and Scott Creahan both retiring and Stephen Higgs indicating his intention to leave the board after 15 years. Brent and Scott have served as directors since 2011 and 2013 respectively. Both have made a significant contribution to the company's development during this time and were instrumental in helping lead MTF Finance through periods of significant change and disruption. The board and management would like to thank Brent and Scott for their service to the company.

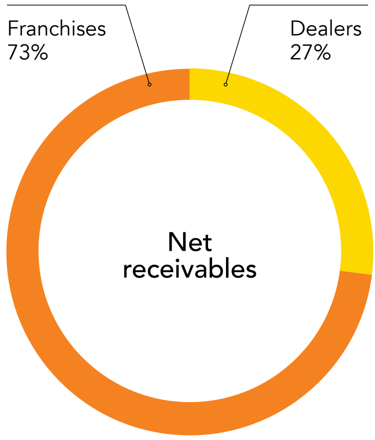
Stu Myles was appointed as a shareholder director in March. Stu has been a shareholder of MTF Finance since 2008 when he established one of the original MTF Finance franchises in Christchurch. Stu has an extensive background in the finance and motor industry.

Mark Darrow joined the board in July 2020 as the new independent director and brings with him a wealth of relevant skills and experience to guide MTF Finance into the recovery phase. As one of two independent directors, Mark's appointment will ensure the ongoing balance of the board, with particular knowledge and experience in the motor vehicle and finance industries, franchising, member associations and M&A.

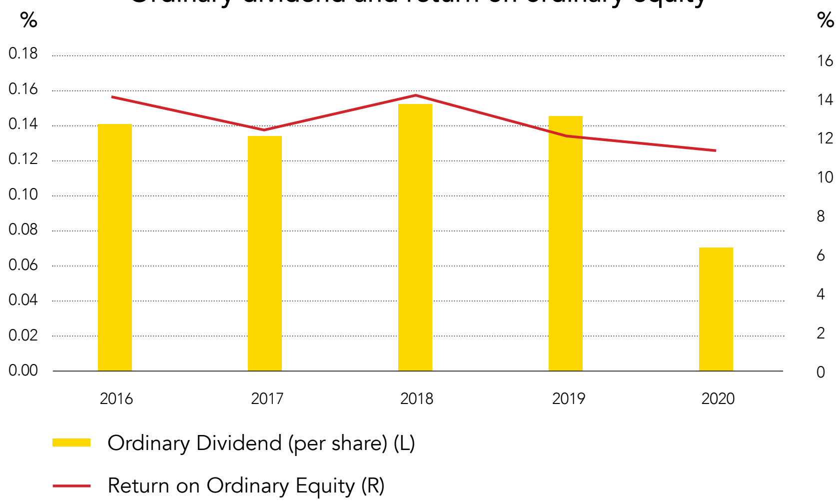
The board are currently recruiting an independent director to replace Stephen Higgs and expect to make an appointment prior to Christmas.



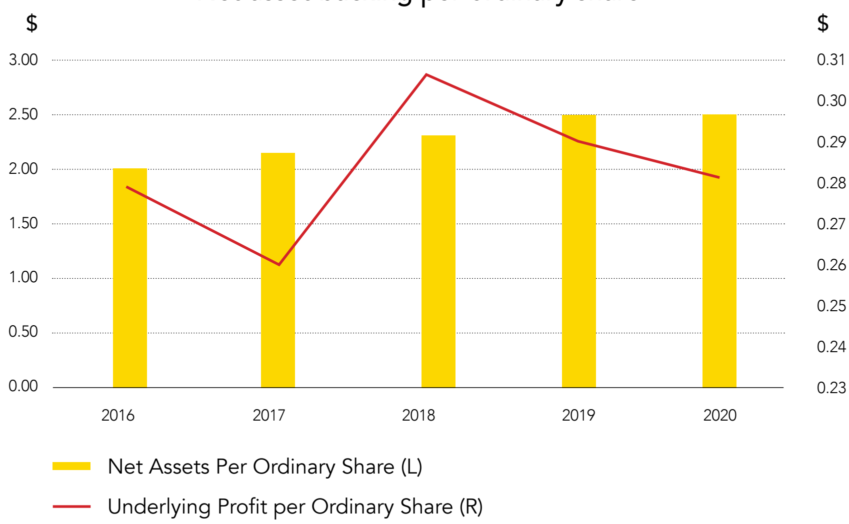




Ordinary dividend and return on ordinary equity




Net asset backing per ordinary share



## Our originators

$65.2m PAID TO ORIGINATORS (down from $66.5m last year)

Originators have received income from MTF Finance of $65.2m for the period, down from $66.5m last year. This is a modest decrease given the significant impact COVID-19 has had on the world, demonstrating our commitment to deliver value and results to our originators and take all measures available to protect returns to our originators.

The board wish to acknowledge the way originators have responded across our network in support of their customers, their staff and their company. We appreciate the support and patience our originator network has shown us during these unprecedented times and look forward to working together to deliver a recovery, growth and value in a sustainable manner into the future.

## Our people

We would like to take this opportunity to express our pride and gratitude to all staff for their response throughout the COVID-19 crisis. They have shown resilience despite having to deal with significant disruption to their working and personal lives, while remaining committed to assisting our originators and their customers in these unparalleled circumstances. They have lived up to our company values and have shown true leadership.

## Outlook

COVID-19 was not how we imagined we would celebrate 50 years of successful business. This year has been challenging to a degree never envisaged in our most challenging planning scenarios. What it has done, is provide us the opportunity to rethink what we need to prioritise to emerge from this crisis in better shape. The new year has started better than expected, but it feels like only now, post the general election exhilaration, that we are starting to face economic reality as a country. We are in a better position than most other countries, however there remains considerable economic uncertainty. Consumer spending and the availability of credit will play critical roles in New Zealand's recovery and MTF Finance is well placed to play our part. We are looking at ways to grow MTF Finance by teaming up with our originators to deliver leading customer experiences that combine digital and humanised lending. This customer first approach means MTF Finance will be well positioned to thrive for the next 50 years.

**Stephen Higgs**
Chairman

**Glen Todd**
Chief Executive Officer

# Financial Statements

YEAR ENDED 30 SEPTEMBER 2020

# Five year financial review

| | 2020 $000 | 2019 $000 | 2018 $000 | 2017 $000 | 2016 $000 |
|---|---|---|---|---|---|
| **Financial performance** | | | | | |
| Net interest income and fees | 31,678 | 32,337 | 33,793 | 28,615 | 27,741 |
| Commission | (42,718) | (42,519) | (40,089) | (37,610) | (34,031) |
| Operating expense (excluding bad debt) | (20,796) | (20,767) | (21,314) | (17,332) | (16,288) |
| Bad debt | (265) | (305) | (181) | (112) | (95) |
| Profit (loss) after tax | 4,960 | 11,143 | 8,059 | 7,528 | 7,169 |
| Underlying profit after tax[1] | 7,503 | 7,949 | 8,696 | 7,835 | 8,068 |
| **Financial position** | | | | | |
| Assets | 753,809 | 784,017 | 748,036 | 670,157 | 596,520 |
| Liabilities | 656,327 | 688,088 | 658,458 | 581,958 | 511,346 |
| Capital | 97,482 | 95,929 | 89,578 | 88,199 | 85,174 |
| Finance receivables | 669,328 | 692,194 | 677,549 | 600,961 | 535,237 |
| **Performance indicators** | | | | | |
| Net interest income/average finance receivables | 2.90% | 2.86% | 3.04% | 2.73% | 2.90% |
| Operating expense (excluding bad debt) /average total assets under management | 2.65% | 2.59% | 2.81% | 2.62% | 2.76% |
| Return on assets (underlying profit after tax) | 0.98% | 1.04% | 1.23% | 1.24% | 1.39% |
| Capital percentage | 12.93% | 12.24% | 11.98% | 13.16% | 14.28% |

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 2020 | Note | 2020 $000 | 2019 $000 |
|---|---|---|---|
| Gross interest income from finance receivables | 2 | 85,681 | 88,957 |
| Commission | 4 | (42,718) | (42,519) |
| **Net interest income from finance receivables** | | **42,963** | **46,438** |
| Interest income from assets measured at amortised cost | 3 | 429 | 999 |
| Interest expense | 5 | (23,659) | (27,854) |
| **Net interest income** | | **19,733** | **19,583** |
| Payment waiver | | 3,593 | 3,878 |
| Fees | | 8,352 | 8,876 |
| **Net interest income and fees** | | **31,678** | **32,337** |
| **Expense** | | | |
| Employee | | (8,017) | (8,267) |
| Communication and processing | | (4,686) | (4,854) |
| Depreciation and amortisation | | (2,189) | (2,028) |
| Administration | | (5,904) | (5,618) |
| Bad debt | | (265) | (305) |
| | 6 | (21,061) | (21,072) |
| **Profit before net gain (loss) from financial instruments at fair value** | | **10,617** | **11,265** |
| Net gain (loss) from financial instruments at fair value | 7 | (3,532) | 4,436 |
| **Profit before tax** | | **7,085** | **15,701** |
| Tax | 8 | (2,125) | (4,558) |
| **Profit after tax** | | **4,960** | **11,143** |
| Other comprehensive income | | - | - |
| **Total comprehensive income** | | **$4,960** | **$11,143** |

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 2020

| | Note | Ordinary shares $000 | Retained earnings $000 | Perpetual preference shares $000 | Total equity $000 |
|---|---|---|---|---|---|
| **Year ended 30 September 2020** | | | | | |
| Balance at 1 October 2019 | | 23,073 | 33,890 | 38,966 | 95,929 |
| Total comprehensive income for the year: | | | | | |
| Profit after tax | | - | 4,960 | - | 4,960 |
| Total comprehensive income for the year | | - | 4,960 | - | 4,960 |
| Transactions with shareholders: | | | | | |
| Ordinary share dividends | 9 | - | (2,422) | - | (2,422) |
| Perpetual preference share dividends | 9 | - | (985) | - | (985) |
| Total transactions with shareholders | | - | (3,407) | - | (3,407) |
| **Balance at 30 September 2020** | | **$23,073** | **$35,443** | **$38,966** | **$97,482** |
| | | | | | |
| **Year ended 30 September 2019** | | | | | |
| Balance at 1 October 2018 | | 23,073 | 27,539 | 38,966 | 85,876 |
| Total comprehensive income for the year: | | | | | |
| Profit after tax | | - | 11,143 | - | 11,143 |
| Total comprehensive income for the year | | - | 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** |

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 2020 | Note | 2020 $000 | 2019 $000 |
|---|---|---|---|
| **Funds employed** | | | |
| Ordinary shares | 9 | 23,073 | 23,073 |
| Retained earnings | | 35,443 | 33,890 |
| Perpetual preference shares | 9 | 38,966 | 38,966 |
| **Total shareholder equity** | | **97,482** | **95,929** |
| **Liabilities** | | | |
| Bank overdraft | | - | 80 |
| Provision for taxation | | 398 | - |
| Accounts payable and accrued expense | 17 | 11,395 | 10,388 |
| Unearned payment waiver administration fees | | 5,975 | 6,270 |
| Committed cash advance | 10 | 43,200 | 32,300 |
| Securitised funding | 10 | 583,250 | 629,353 |
| Derivative financial instruments | 13, 24 | 8,836 | 9,697 |
| Lease liability | 16 | 3,273 | - |
| **Total liabilities** | | **656,327** | **688,088** |
| **Total funds employed** | | **$753,809** | **$784,017** |
| **Employment of funds** | | | |
| Cash at bank | | 266 | - |
| Cash in restricted bank accounts | 23 | 72,505 | 83,908 |
| Tax receivable | | - | 609 |
| Accounts receivable | | 1,346 | 1,792 |
| Payment waiver indemnity prepayment | | 854 | 1,304 |
| Finance receivables | 12,13 | 669,328 | 692,194 |
| Deferred tax | 8 | 3,800 | 684 |
| Property, plant and equipment | 14 | 1,467 | 1,665 |
| Right of use asset | 16 | 3,174 | - |
| Intangible assets | 15 | 1,069 | 1,861 |
| **Total assets** | | **$753,809** | **$784,017** |

Stephen Higgs
Chairman
19 November 2020

Mark Darrow
Director

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

# Consolidated statement of cash flows

| Year ended 30 September 2020 | Note | 2020 $000 | 2019 $000 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Interest income | | 86,110 | 89,956 |
| Fee income | | 8,273 | 8,776 |
| Interest expense | | (20,065) | (23,200) |
| Other funding and securitisation costs | | (3,917) | (3,744) |
| Income tax paid | | (4,233) | (4,663) |
| Commission | | (40,227) | (42,572) |
| Payment waiver | | 3,357 | 3,679 |
| Operating expense | | (18,459) | (18,526) |
| Net cash flow from operating activities before changes in operating assets and liabilities | | 10,839 | 9,706 |
| **Changes in operating assets and liabilities** | | | |
| Finance receivable instalments | | 506,728 | 510,695 |
| Increase in committed cash advance – net | | 10,900 | 5,000 |
| (Decrease) increase in securitised funding – net | | (46,420) | 19,936 |
| Finance receivable advances | | (488,522) | (515,258) |
| | | (17,314) | 20,373 |
| **Net cash flow from operating activities** | 29 | **(6,475)** | **30,079** |
| **Cash flow from investing activities** | | | |
| Sale of property, plant and equipment | | 14 | 26 |
| Purchase of property, plant and equipment | | (537) | (865) |
| Purchase of intangible assets | | (369) | (1,014) |
| **Net cash flow from investing activities** | | **(892)** | **(1,853)** |
| **Cash flow from financing activities** | | | |
| Proceeds from unpaid shares | | 6 | - |
| Lease payments | | (206) | - |
| Trust establishment costs | | (83) | (543) |
| Dividend to perpetual preference shareholders | 9 | (985) | (1,261) |
| Dividend to ordinary shareholders | 9 | (2,422) | (3,531) |
| **Net cash flow from financing activities** | | **(3,690)** | **(5,335)** |
| Net (decrease) increase in cash | | (11,057) | 22,891 |
| Cash on hand at beginning of period | | 83,828 | 60,937 |
| **Cash on hand at end of period** | | **$72,771** | **$83,828** |
| **Represented by:** | | | |
| Cash at bank (overdraft) | | 266 | (80) |
| Cash in restricted bank accounts | | 72,505 | 83,908 |
| | | **$72,771** | **$83,828** |

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 19 November 2020.

### Basis of preparation

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

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

### Basis of measurement

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

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

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

Other than the first time adoption of NZ IFRS 16 *Leases*, detailed below and further per Note 16, and the determination of credit risk with respect to the fair value of finance receivables due to COVID-19, detailed below and further per Note 13, 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:

- Determination of fair value of derivative financial instruments (Note 24)
- Consolidation of controlled entities (Note 25)
- Determination of fair value of finance receivables due to changes in accounting estimates associated with credit risk (Note 13)
- Wage subsidy (Note 6)

## COVID-19 impact on estimates and judgements

The COVID-19 pandemic and responses has significantly disrupted the domestic economy and reduced the ability of many businesses to operate resulting in volatility and instability in financial markets. The Group experienced significant declines in new business during lockdown level 4 and level 3 before gradually recovering during levels 2 and 1. The unprecedented nature of the current environment and the number of variables which impact on our market means that significant uncertainty around the future performance of the economy will remain for some time to come. The Group continues to closely monitor the situation and ways to reduce the impact on our current business performance.

The Group responded to the pandemic by focusing on supporting its originators and their customers, understanding their individual needs and providing them with the financial options and support to best meet their needs. That support was provided in several ways including payment breaks, postponed payments options and refinancing.

A number of digital tools were provided to allow originators to continue to communicate with customers and monitor and amend any arrangements put in place.

As a precautionary measure to forecasted deterioration to the global economy as a result of COVID-19, MTF Finance took proactive measures to provide for future increased rates of default. This includes withholding a certain percentage of originator commission each month in anticipation of applying this to COVID-19 related bad debt.

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

These financial statements have been prepared based upon conditions existing as at 30 September 2020 and all reasonably known and available information with respect to the COVID-19 pandemic has been taken into consideration in the critical accounting estimates and judgements. The Group also reviewed past experience, including the impact of the global financial crisis (GFC), and closely considered the judgements and estimates from this experience.

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

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

- Asset quality (Note 11)
- Determination of fair value of finance receivables due to changes in accounting estimates associated with credit risk (Note 13)
- Wage subsidy (Note 6)
- Commission withheld (Note 17)

## Significant accounting policies

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

## Basis of consolidation

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

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

## New standards, interpretations and amendments adopted by the Group

The Group adopted NZ IFRS 16 during the current reporting period. The standard deals with the recognition, measurement, presentation and disclosure of leases and replaces NZ IAS 17 Leases. NZ IFRS 16 introduces a single model for lessees which recognises all leases, other than short-term leases of 12 months or less and leases of low value assets, on the balance sheet through an asset representing the right of use (ROU) of 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.

**Impact of initial application of NZ IFRS 16 Leases**

The Group has reviewed the leases where it is a lessee with all leases relating to property.

The Group has adopted NZ IFRS 16 using the modified retrospective approach with the ROU asset being equal to the lease liability as at initial application date for all existing leases at 1 October 2019.

The Group has made use of the practical expedient available on transition to NZ IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with NZ IAS 17 will continue to be applied to those leases entered or modified before 1 October 2019. Comparative numbers have not been restated.

**Impact on Lessee Accounting**

*Former operating leases*

NZ IFRS 16 changes how the Group accounts for leases previously classified as operating leases under NZ IAS 17, which were off-balance-sheet.

Applying NZ IFRS 16, for all leases (except as noted below), the Group:

a) Recognises ROU assets and lease liabilities in the consolidated balance sheet, initially measured at the present value of future lease payments;

b) Recognises depreciation of the ROU assets and interest on lease liabilities in the consolidated statement of comprehensive income; and

c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.

Lease incentives are recognised as part of the measurement of the ROU assets and lease liabilities whereas under NZ IAS 17 they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expense on a straight-line basis. Under NZ IFRS 16, ROU assets are tested for impairment in accordance with NZ IAS 36 Impairment. This replaces the previous requirements to recognise a provision for onerous lease contracts.

For short-term leases and leases of low-value assets, the Group has opted to recognise a lease expense on a straight-line basis as permitted by NZ IFRS 16. This expense is presented within administration costs in the consolidated statement of comprehensive income.

## New standards, interpretations and amendments adopted by the Group cont...

**Financial Impact of adopting NZ IFRS 16**

The Group has applied the following practical expedients when applying NZ IFRS 16 to leases previously classified as operating leases under NZ IAS 17:

- The use of a single discount rate to a portfolio of leases with similar characteristics;
- Not recognising ROU assets and liabilities for leases with less than 12 months of lease term; and
- Not recognising ROU assets and liabilities if the underlying leased asset is considered a low value asset.

Key judgement areas in applying the new standards are:

- The use of discount rates; and
- The assessment of whether options to extend or terminate a lease will be exercised.

The discount rates used are the Group's incremental borrowing rates ("IBR"). The Group's IBR is the expected borrowing rate obtained from financial institutions as if the Group had purchased the leased asset, with the term of the borrowing similar to the lease term. The IBR rate applied to each leased asset class are:

- Property – 4.04%

The assessment of whether a lease contract will be extended or terminated at the end of the lease contract is dependent on the asset class and type. For property leases, this will be determined by the Group's intention to exercise a contractual right of renewal at the end of the initial lease term.

**Reconciliation of lease commitments to opening lease liability as at 1 October 2019:**

| | $000 |
|---|---|
| Operating lease commitments at 30 September 2019 | 2,332 |
| Effect of discounting using incremental borrowing rates at 1 October 2019 | (280) |
| Extension options reasonably certain to be exercised | 1,427 |
| **Lease liability recognised at 1 October 2019** | **3,479** |

| | |
|---|---|
| Analysed as: | |
| Current | 206 |
| Non-current | 3,273 |

## New standards, interpretations and amendments adopted by the Group cont...

**Lease Liabilities**

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate (IBR).

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments, less any lease incentives;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

Lease liabilities are presented as a separate line in the balance sheet and are subsequently measured by increasing the carrying amount to reflect interest on the lease (using the effective interest method) and reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability if:

- The lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- Lease payments changing due to changes in an index or rate, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate; or
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

## New standards, interpretations and amendments adopted by the Group cont...

**Right of Use (ROU) Assets**

ROU assets comprise of the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Wherever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under NZ IAS 37. The costs are included in the related ROU asset.

ROU assets are depreciated over the shorter period of lease term and useful life of the underlying asset. The estimated useful lives of ROU assets are determined on the same basis as similar owned assets within property, plant and equipment. Depreciation starts at the commencement date of the lease.

ROU assets are presented as a separate line in the balance sheet.

The Group applies NZ IAS 36 to determine whether a ROU asset is impaired and accounts for any identified loss under the same policy adopted for property, plant and equipment.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and ROU asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in other operating expenses in the income statement.

Further details of lease disclosure are made at Note 16.

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

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

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

# Note 2: Gross interest income from finance receivables

## Policy

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

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

| | 2020 $000 | 2019 $000 |
|---|---:|---:|
| **Gross interest income from finance receivables:** | | |
| Finance receivables designated at FVTPL | 85,681 | 88,957 |
| | **$85,681** | **$88,957** |
| **Gross interest income from finance receivables includes income from:** | | |
| Non-impaired assets | 85,629 | 88,895 |
| Impaired assets | 52 | 62 |
| | **$85,681** | **$88,957** |

# Note 3: Interest income from assets measured at amortised cost

## Policy

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

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

| | 2020 $000 | 2019 $000 |
|---|---:|---:|
| **Interest income from assets measured at amortised cost:** | | |
| Cash in restricted bank accounts | 429 | 999 |
| | **$429** | **$999** |

# Note 4: Commission

## Policy

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

| | 2020<br>$000 | 2019<br>$000 |
|---|---|---|
| Commission | 42,718 | 42,519 |
| | **$42,718** | **$42,519** |

# 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.

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

| | 2020<br>$000 | 2019<br>$000 |
|---|---|---|
| Committed cash advance | 264 | 638 |
| Senior notes / bank loan | 13,969 | 20,316 |
| Interest rate swaps - net | 7,173 | 4,694 |
| Securitisation programme | 1,323 | 1,449 |
| Other | 930 | 757 |
| | **$23,659** | **$27,854** |

# Note 6: Expense

## Policy

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

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

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

| **Includes:** | | 2020 $000 | 2019 $000 |
|---|---|---|---|
| Auditor | | | |
| | - Audit of Group financial statements | 182 | 175 |
| | - Audit of Trust financial statements | 85 | 80 |
| | - Tax compliance | 55 | 63 |
| | - Other assurance fees | 1 | 35 |
| | - Other services | 21 | - |
| Depreciation | | | |
| | - Computer hardware | 536 | 406 |
| | - Right of use asset | 305 | - |
| | - Office equipment, fixtures and fittings | 107 | 91 |
| | - Motor vehicles | 80 | 78 |
| Amortisation | | | |
| | - Intangible assets (software and websites) | 1,161 | 1,453 |
| Directors fees | | 297 | 360 |
| Payment waiver | | 1,411 | 1,514 |
| **Employee expense includes:** | | | |
| Government grants and subsidies | | (479) | - |
| Defined contribution scheme payments (Kiwisaver) | | 160 | 144 |
| Key management remuneration of: | | | |
| | - Short term employee benefits | 1,700 | 2,014 |
| | - Post employment benefits (Kiwisaver) | 61 | 57 |

## Auditor

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

## COVID-19 wage subsidy

On 17 March 2020, the NZ Government released a Wage Subsidy Scheme to help support businesses with employee retention due to the impact of restrictions imposed by the COVID-19 Alert System, introduced in response to the virus pandemic. The scheme ensured an income for those employed by businesses significantly impacted by COVID-19 that faced laying off staff or reducing hours. Employers must have suffered, or projected to suffer, at least a 30% decline in revenue compared to last year for any one month between January and June 2020.

The Group has assessed that revenue for a finance company is predicated on its ability to write new finance loans for the purpose of assessing the wage subsidy criteria. Projected revenue from the April 2020 new business compared to the April 2019 period, was the basis for the Group's assessment of eligibility. As the Group's ability to enter into new finance receivable loans was significantly reduced during the level 4 lockdown period, the Group experienced more than a 30% reduction in new business in the month of April.

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

## Promotion expenses

Non-cancellable promotion expenses payable within one year from balance date are estimated to be $190,000 (2019: $395,000).

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

## Policy

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

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

| | 2020<br>$000 | 2019<br>$000 |
|---|---|---|
| **Net gain (loss) arising on financial instruments mandatorily measured at FVTPL:** | | |
| Finance receivables | (4,394) | 10,398 |
| Interest rate swap derivatives | 862 | (5,962) |
| | **($3,532)** | **$4,436** |

# 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.

| | 2020 $000 | 2019 $000 |
|---|---|---|
| Profit before tax | 7,085 | 15,701 |
| Income tax expense calculated at 28% (2019: 28%) | 1,984 | 4,396 |
| Non-deductible expense | 13 | 71 |
| Other adjustments | 131 | 109 |
| (Over) under provision of income tax in previous year | (3) | (18) |
| | **$2,125** | **$4,558** |
| Represented by: | | |
| Current tax | 5,241 | 3,522 |
| Deferred tax | (3,116) | 1,036 |
| | **$2,125** | **$4,558** |

### Tax rate

The tax rate used in the reconciliation is the corporate tax rate of 28% (2019: 28%) payable by New Zealand corporate entities on taxable profits under New Zealand tax law for the 2020 income tax year.

### Imputation credits

There were $24,521,000 imputation credits available for use as at 30 September 2020 (2019: $20,792,000).

## 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 2020 are represented by:

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

| 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** |

# 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 2020, there were 23,073,000 shares authorised and issued (2019: 23,073,000) of which 21,000 are unpaid (2019: 27,000). All fully paid ordinary shares have equal voting rights and share equally in dividends and surplus on winding up.

**Ordinary share dividend:**

| | 2020<br>$000 | 2019<br>$000 |
|---|---|---|
| Fully imputed dividend declared and paid during the year: | | |
| Final dividend paid 30 November 2019 at 8.51 cents per share (2018: 9.32 cents) | 1,961 | 2,148 |
| Interim dividend paid 31 January 2020 at 2.00 cents per share (2019: 2.00 cents) | 461 | 461 |
| No interim dividend paid 30 April 2020 (2019: 2.00 cents) | - | 461 |
| No interim dividend paid 31 July 2020 (2019: 2.00 cents) | - | 461 |
| | **$2,422** | **$3,531** |

### Dividend

On 19 November 2020, the Directors declared a final dividend on paid-up ordinary shares of 5.11 cents per share amounting to $1,178,244 (fully imputed), for the period 1 October 2019 to 30 September 2020. The dividend is due for payment on 30 November 2020.

## 9.2 Perpetual preference shares

### Policy

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

### Perpetual preference shares

At 30 September 2020, there were 40,000,000 perpetual preference shares (2019: 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

| | 2020 $000 | 2019 $000 |
|---|---|---|
| Face value | 40,000 | 40,000 |
| Issue fees and expenses | (1,034) | (1,034) |
| | **$38,966** | **$38,966** |

**Perpetual preference share dividend:**

| | 2020 $000 | 2019 $000 |
|---|---|---|
| Fully imputed dividend declared and paid during the year at 2.46 cents per share (2019: 3.15 cents) | 985 | 1,261 |
| | **$985** | **$1,261** |

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

| **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** |

## Judgments

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

## Committed bank facilities

MTF Finance has 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 Sierra Trust, the Rambler Trust and the Honda Trust (Trusts). The senior notes are funded externally by banks and other investors.

In April 2020 the Torana Trust reached the specified call date criteria and all the notes were repaid in full.

The principal components of the securitisation programme are:

The Warehouse Trust funds the purchase of qualifying finance receivables from MTF Finance. Senior Warehouse notes are issued for periods of up to 72 months past the facility expiry of 15 February 2022. 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 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 Sierra and Senior Rambler notes are secured by a first ranking mortgage debenture over the assets of the Sierra Trust and Rambler Trust respectively and have structured finance (sf) ratings from Fitch Ratings.

| **Senior Torana notes on issue** | Fitch rating | 2020 $000 | 2019 $000 |
|---|---|---|---|
| Class A | AAA(sf) | - | 58,596 |
| Class B | AA(sf) | - | 5,482 |
| Class C | A(sf) | - | 4,807 |
| Class D | BBB(sf) | - | 2,190 |
| Class E | BB(sf) | - | 2,058 |
| | | **-** | **$73,133** |

| **Senior Sierra notes on issue** | Fitch rating | 2020 $000 | 2019 $000 |
|---|---|---|---|
| Class A | AAA(sf) | 61,104 | 194,040 |
| Class B | AA(sf) | 5,392 | 7,326 |
| Class C | A(sf) | 4,728 | 6,424 |
| Class D | BBB(sf) | 2,154 | 2,926 |
| Class E | BB(sf) | 2,024 | 2,750 |
| | | **$75,402** | **$213,466** |

| **Senior Rambler notes on issue** | Fitch rating | 2020 $000 | 2019 $000 |
|---|---|---|---|
| Class A | AAA(sf) | 249,000 | 249,000 |
| Class B | AA(sf) | 10,200 | 10,200 |
| Class C | A(sf) | 8,000 | 8,000 |
| Class D | BBB(sf) | 4,200 | 4,200 |
| Class E | BB(sf) | 3,800 | 3,800 |
| | | **$275,200** | **$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:

| | 2020<br>$000 | 2019<br>$000 |
|---|---|---|
| Honda Trust | 28,923 | 19,332 |
| Rambler Trust | 255,207 | 250,809 |
| Sierra Trust | 70,926 | 203,244 |
| Torana Trust | - | 72,935 |
| Warehouse Trust | 215,478 | 51,353 |
| | **$570,534** | **$597,673** |

## 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 2020, $400,000 (2019: $384,000) of amortisation is included in interest expense in the Consolidated statement of comprehensive income.

# Note 11: Asset quality disclosures

| | 2020 $000 | 2019 $000 |
|---|---|---|
| **Asset quality - finance receivables** | | |
| Current | 643,365 | 655,869 |
| 1-30 days past due | 20,735 | 25,672 |
| 31-90 days past due | 2,875 | 3,825 |
| More than 90 days past due | 1,349 | 1,334 |
| Managed transacting shareholders | 608 | 704 |
| | 668,932 | 687,404 |
| **Adjustments:** | | |
| Fair value adjustment | 6,703 | 6,607 |
| Credit risk adjustment | (6,307) | (1,817) |
| **Total carrying amount** | **$669,328** | **$692,194** |

## Credit risk adjustment

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

## Past due

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

## Past due > 90 days

Of total finance receivables at 30 September 2020, 0.20% (2019: 0.20%) had repayments that are past due more than 90 days.

## Material restructured assets

The Group does not have any assets acquired through the enforcement of security (2019: Nil).

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

The remaining $19.1m are considered to be at a higher risk of default. Of this $11.7m of these finance receivables have payment arrangements in place that allow the customer to make up their payments without the need to formally restructure the loans. A further $7.4m of these loans are categorised as on hold where payment holidays have been granted. These COVID-19 affected loans have been considered as part of the COVID-19 credit allowance per Note 13.

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

# Note 12: Finance receivables

## Policy

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

| | 2020 $000 | 2019 $000 |
|---|---|---|
| Receivable within 12 months | 234,278 | 207,871 |
| Receivable beyond 12 months | 435,050 | 484,323 |
| **Total finance receivables** | **$669,328** | **$692,194** |

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

| | 2020 $000 | 2019 $000 |
|---|---|---|
| Finance receivables at FVTPL gain/(loss) | (4,490) | 4,979 |
| | **($4,490)** | **$4,979** |

## 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 2020.

## 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 |
|---|---|---|---|---|
| **2020** | | | | |
| **Financial assets mandatorily measured at FVTPL** | | | | |
| Finance receivables | - | - | 669,328 | 669,328 |
| | **-** | **-** | **$669,328** | **$669,328** |
| **Financial liabilities at FVTPL** | | | | |
| Derivative financial liabilities (held for trading) | - | 8,836 | - | 8,836 |
| | **-** | **$8,836** | **-** | **$8,836** |
| **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** |

## 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 24 of these consolidated financial statements.

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

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

**Finance receivables:**

| | 2020<br>$000 | 2019<br>$000 |
|---|---|---|
| Balance at beginning of the year | 692,194 | 677,549 |
| Gain/(loss) recognised in net gain (loss) from financial instruments at fair value | (4,394) | 10,398 |
| Sales | 488,522 | 515,258 |
| Settlements | (506,994) | (511,011) |
| **Balance at end of the year** | **$669,328** | **$692,194** |

## 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 $6,307,000 (2019: $1,817,000) 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 2020 was based on cash flows discounted using a weighted average interest rate of 6.05% (2019: 6.58%).

Refer to Note 21 for details of sensitivity analysis.

## Changes in accounting estimate

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

Given the recourse arrangement differs significantly from other market participants, the model 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.

Based on the historical modelling this resulted in a collective adjustment for credit risk of 0.25% (2019: 0.25%) of net receivables. This has been applied to all finance receivables where the customer has not indicated they have been directly or indirectly impacted by COVID-19.

# Note 13: Fair value cont ...

## COVID-19

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

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

The Group used this information to estimate the underlying bad debt risk of each originator's ledger. The Group assessed credit risk based on specific categories relating to the status of each loan in the rehabilitation process and applied a range of expected loss assumptions based on the current observable deterioration in the performance of these finance receivables during the pandemic. A greater risk weighting has been applied to the $19.1m of finance receivable loans for which there has been no rehabilitation since the impact of the pandemic in March 2020. Included in this calculation are estimates of the value of available layers of recourse including estimate of the recoverable value of the underlying asset and the actual cash collateral held by the Group as at the reporting date.

The Group used a number of scenarios to assess the range of possible impacts on the assessment of credit risk, which ranges between $2.0m and $6.8m at balance date, and has taken a position that sits within the midrange of these scenarios, at $4.5m.

# Note 14: Property, plant and equipment

## Policy

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

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

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

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

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

| **Carrying amount:** | 2020 $000 | 2019 $000 |
|---|---|---|
| Computer hardware | 2,605 | 3,146 |
| Less accumulated depreciation | (1,922) | (2,424) |
| **Total carrying amount** | **683** | **722** |
| Office equipment, fixtures and fittings | 1,145 | 1,119 |
| Less accumulated depreciation | (544) | (450) |
| **Total carrying amount** | **601** | **669** |
| Motor vehicles | 424 | 476 |
| Less accumulated depreciation | (241) | (202) |
| **Total carrying amount** | **183** | **274** |
| **Total property, plant and equipment** | **$1,467** | **$1,665** |

## Capital commitments

The estimated capital expenditure contracted for at balance date but not provided for is $50,997 (2019: $14,800).

# 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.

| | 2020<br>$000 | 2019<br>$000 |
|---|---|---|
| **Cost** | | |
| Balance at beginning of year | 24,943 | 23,929 |
| Additions | 369 | 1,014 |
| Disposals | - | - |
| **Balance at end of year** | **25,312** | **24,943** |
| | | |
| **Amortisation and impairment** | | |
| Balance at beginning of year | 23,082 | 21,629 |
| Amortisation | 1,161 | 1,453 |
| Impairment | - | - |
| **Balance at end of year** | **24,243** | **23,082** |
| | | |
| **Total intangible assets** | **$1,069** | **$1,861** |

## Capital commitments

The estimated capital expenditure contracted for at balance date but not provided for is $Nil (2019: Nil).

# Note 16: Leases

## Policy

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

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

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

| **Right of use asset** | 2020<br>$000 | 2019<br>$000 |
|---|---|---|
| Balance at 30 September 2019 | - | - |
| Recognised on change of accounting policy | 3,479 | - |
| Depreciation | (305) | - |
| **Total right of use asset** | **$3,174** | **-** |

| **Lease liability – maturity analysis** | 2020<br>$000 | 2019<br>$000 |
|---|---|---|
| Lease liabilities under NZ IFRS 16: | | |
| Less than one year | 221 | - |
| Between one and five years | 1,075 | - |
| More than five years | 1,977 | - |
| | **$3,273** | **-** |
| Current | 221 | - |
| Non-current | 3,052 | - |
| **Balance at end of year** | **$3,273** | **-** |

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

| | 2020<br>$000 | 2019<br>$000 |
|---|---|---|
| Amounts recognised in the consolidated statement of comprehensive income: | | |
| Depreciation of right of use assets | 305 | - |
| Interest expense on lease liabilities | 136 | - |

The total cash outflow for leases in 2020 was $341,000 (2019: $337,000).

# Note 17: Accounts payable and accrued expense

## Employee entitlements

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

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

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

| | 2020<br>$000 | 2019<br>$000 |
|---|---|---|
| Trade creditors | 772 | 822 |
| Sundry creditors and accruals | 2,478 | 3,564 |
| Unpaid commission | 6,995 | 4,466 |
| Employee entitlements | 1,150 | 1,536 |
| | **$11,395** | **$10,388** |

## Credit period

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

## Commission withheld

Unpaid commission comprises accrued commission and withheld commission.

Accrued commission is commission earned by originators in the month of September but paid in the month of October. At 30 September this totalled $3.65m (2019: $3.61m).

Withheld commission is commission being retained by MTF Finance from originators. At 30 September this totalled $3.35m (2019: $0.86m). Of this amount, $2.58m relates directly to COVID-19 commission retention, to be applied to any future bad debt realised as a direct result of COVID-19.

# Note 18: Related party transactions

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

| | 2020 $000 | 2019 $000 |
|---|---|---|
| Noel Johnston | 1,835 | 742 |
| Geoffrey Kenny | 967 | 1,024 |
| Mike King | - | 499 |
| Stuart Myles | 181 | - |
| Brent Robertson | 1,521 | 2,356 |
| Grant Woolford | 105 | 117 |
| | **$4,609** | **$4,738** |

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

| | 2020 $000 | 2019 $000 |
|---|---|---|
| Noel Johnston | 156 | 153 |
| Geoffrey Kenny | 78 | 83 |
| Stuart Myles | 35 | - |
| Brent Robertson | - | 213 |
| Grant Woolford | 8 | 9 |
| | **$277** | **$458** |

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

| | 2020 $000 | 2019 $000 |
|---|---|---|
| Noel Johnston | 4,214 | 2,139 |
| Geoffrey Kenny | 2,036 | 2,257 |
| Mike King | - | 1,048 |
| Stuart Myles | 457 | - |
| Brent Robertson | 2,913 | 5,386 |
| Grant Woolford | 271 | 332 |
| | **$9,891** | **$11,162** |

# Note 18: Related party transactions cont ...

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

| | 2020 $000 | 2019 $000 |
|---|---|---|
| Noel Johnston | 29,432 | 30,531 |
| Geoffrey Kenny | 11,849 | 12,929 |
| Stuart Myles | 5,977 | - |
| Brent Robertson | - | 35,211 |
| Grant Woolford | 1,978 | 2,284 |
| | **$49,236** | **$80,955** |

## Related parties

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

Brent Robertson ceased to be a Director on 19 March 2020. The associated related party balances stated above reflect all transactions during the period up to this date.

Stuart Myles was appointed a Director on 19 March 2020. The associated related party balances stated above reflect all transactions during the period from this date.

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

Directors fees are disclosed per Note 6.

## Revenue

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

# Note 19: Credit risk

**Maximum exposures to credit risk:**

| | 2020 $000 | 2019 $000 |
|---|---|---|
| Cash at bank | 266 | - |
| Cash in restricted bank accounts | 72,505 | 83,908 |
| Accounts receivable | 1,346 | 1,792 |
| Honda Trust securitised finance receivables | 28,923 | 19,332 |
| Rambler Trust securitised finance receivables | 255,207 | 250,809 |
| Sierra Trust securitised finance receivables | 70,926 | 203,244 |
| Torana Trust securitised finance receivables | - | 72,935 |
| Warehouse Trust securitised finance receivables | 215,478 | 51,353 |
| Non securitised finance receivables | 98,794 | 94,521 |

**Finance receivables credit risk by geographical location:**

| | 2020 $000 | 2019 $000 |
|---|---|---|
| Auckland | 84,596 | 83,575 |
| Waikato | 76,718 | 82,498 |
| Bay of Plenty | 76,530 | 79,311 |
| Canterbury | 69,851 | 71,525 |
| South Auckland | 67,424 | 63,403 |
| Otago | 59,631 | 63,572 |
| Wellington/Wairarapa | 58,897 | 60,931 |
| Manawatu/Wanganui | 34,734 | 39,715 |
| Nelson/Marlborough | 28,169 | 31,303 |
| Hawkes Bay | 23,580 | 23,486 |
| Southland | 19,936 | 21,703 |
| Gisborne | 18,872 | 17,589 |
| Northland | 15,923 | 18,561 |
| Mid/South Canterbury | 13,686 | 14,050 |
| Taranaki | 11,050 | 12,329 |
| West Coast | 9,731 | 8,643 |
| **Finance receivables by geographical location** | **$669,328** | **$692,194** |

# Note 19: Credit risk cont ...

**Finance receivables credit risk by security type:**

| | 2020 $000 | 2019 $000 |
|---|---|---|
| Passenger vehicle | 302,320 | 342,335 |
| Commercial vehicle | 170,140 | 111,635 |
| Utes/Trucks/Trailers | 92,491 | 110,453 |
| Motorcycle | 40,195 | 44,455 |
| Marine | 24,818 | 23,724 |
| Caravans | 20,564 | 22,454 |
| Vans/Buses | 15,976 | 29,009 |
| Equipment/Aircraft/Tractors/Machinery | 2,824 | 8,129 |
| **Finance receivables by security type** | **$669,328** | **$692,194** |

**Finance receivables credit risk by transacting shareholder:**

| | 2020 $000 | 2019 $000 |
|---|---|---|
| 0 - $5,000,000 | 120,549 | 115,388 |
| $5,000,000 - $10,000,000 | 187,796 | 218,072 |
| $10,000,000 - $20,000,000 | 284,510 | 244,782 |
| $20,000,000+ | 76,473 | 113,952 |
| **Finance receivables by transacting shareholder** | **$669,328** | **$692,194** |

**Finance receivables credit risk by individual contract size:**

| | 2020 $000 | 2019 $000 |
|---|---|---|
| 0 - $5,000 | 63,896 | 66,855 |
| $5,001 - $10,000 | 143,842 | 159,686 |
| $10,001 - $20,000 | 207,381 | 217,942 |
| $20,001 - $30,000 | 122,145 | 115,286 |
| $30,001 - $40,000 | 64,938 | 62,839 |
| $40,001- $50,000 | 30,343 | 31,472 |
| $50,001+ | 36,783 | 38,114 |
| **Finance receivables by contract size** | **$669,328** | **$692,194** |

# Note 19: Credit risk cont ...

## Credit risk

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

## Management of credit risk

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

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

As a direct response to COVID-19, a percentage of each originator's monthly commission has been withheld. The intention is to be used against any future losses incurred on an originator's ledger as a direct result of COVID-19.

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.

# Note 19: Credit risk cont ...

| **Subordinated notes on issue** | Effective credit enhancement | | Carrying amount | |
|---|---|---|---|---|
| | 2020 % | 2019 % | 2020 $000 | 2019 $000 |
| Rambler Trust | 1.72 | 1.73 | 4,800 | 4,800 |
| Sierra Trust | 4.53 | 2.36 | 3,838 | 5,214 |
| Torana Trust | - | 5.15 | - | 4,287 |
| Warehouse Trust | 15.00 | 11.12 | 35,519 | 6,089 |
| | | | **$44,157** | **$20,390** |

| **Senior notes on issue** | Fitch rating | 2020 $000 | 2019 $000 |
|---|---|---|---|
| Sierra Trust - Class F | B(sf) | 972 | 1,320 |
| Torana Trust - Class F | B(sf) | - | 988 |
| | | **$972** | **$2,308** |

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 20: Liquidity risk

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

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

**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[1] | 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** | |

[1] Not available for general use

# Note 20: Liquidity risk cont ...

## Liquidity risk

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

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

## Liquidity risk management

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

The Warehouse notes issued are subject to a credit rating by Standard and Poor's Rating Services, while 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 2022. Senior Sierra and Rambler notes have a maturity date of 96 months after the issue dates of 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 2020, MTF Finance complies with all covenants of the MTF Finance securitisation programme.

# Note 21: Market risk

## Market risk

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

## Market risk management

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

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

## Interest rate risk

**Securitisation programme funding**

To economically hedge the fixed rate income from securitised receivables, the Group enters into interest rate swaps to convert the floating rate interest liability on Warehouse, 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 2020, the committed cash advance facility had interest rate maturity of less than 90 days.

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

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

**Financial assets**

Interest rates applicable to finance receivables are fixed for the term of the finance receivables. The weighted average interest rate applicable to finance receivables at 30 September 2020 was 6.05% (2019: 6.58%).

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 2020 was 0.25% (2019: 1.00%).

# Note 21: Market risk cont ...

## Interest rate sensitivity

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

A 20 bp change (2019: 100 bp) represents the Group's best estimate of a reasonably possible change in interest rates and is considered appropriate for interest rate sensitivity based on historical and current economic forecasts.

**Impact on profit (loss) after tax:**

| | 2020<br>$000 | 2019<br>$000 |
|---|---|---|
| 20 bp increase in interest rates (2019: 100 bp) | (4) | 593 |
| 20 bp decrease in interest rates (2019: 100 bp) | 723 | (411) |

**Impact on equity:**

| | 2020<br>$000 | 2019<br>$000 |
|---|---|---|
| 20 bp increase in interest rates (2019: 100 bp) | (4) | 593 |
| 20 bp decrease in interest rates (2019: 100 bp) | 723 | (411) |

# Note 22: Capital risk management

**Capital structure:**

| | 2020<br>$000 | 2019<br>$000 |
|---|---|---|
| Ordinary shares | 23,073 | 23,073 |
| Retained earnings | 35,443 | 33,890 |
| Perpetual preference shares | 38,966 | 38,966 |
| **Total capital for capital management purposes** | **$97,482** | **$95,929** |

## 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 Management and monthly to the Directors and external funding parties. During the period, the Group complied with all covenants.

## Risk management

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

# Note 23: Cash in restricted bank accounts

## Cash in restricted bank accounts

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

# Note 24: Derivative financial

## 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:**

| | 2020 $000 | 2019 $000 |
|---|---|---|
| Interest rate swaps | (8,836) | (9,697) |
| | **($8,836)** | **($9,697)** |

**Interest rate swaps:**

| | Average contracted interest rate | | Notional principal amount | | Fair value | |
|---|---|---|---|---|---|---|
| | 2020 % | 2019 % | 2020 $000 | 2019 $000 | 2020 $000 | 2019 $000 |
| Less than 1 year | 1.15 | 1.98 | 254,332 | 295,950 | (3,790) | (4,154) |
| 1 to 2 years | 0.97 | 1.89 | 195,761 | 204,047 | (2,842) | (2,945) |
| 2 to 3 years | 0.78 | 1.11 | 114,894 | 125,058 | (1,580) | (1,783) |
| 3 to 4 years | 0.57 | 1.63 | 42,041 | 49,143 | (535) | (687) |
| 4 to 5 years | 0.17 | 1.13 | 8,104 | 9,662 | (89) | (128) |
| | | | **$615,132** | **$683,860** | **($8,836)** | **($9,697)** |

## 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 25: Investment in subsidiaries

## Policy

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

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

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

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

| **Name of entity** | **Principal activity** | **Percentage held** | |
|---|---|---|---|
| | | 2020 | 2019 |
| 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 and controlled entity has a balance date of 30 September and is domiciled in New Zealand.

# Note 26: Categories of financial instruments

## Policy

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

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

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

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

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

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

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

**Financial assets measured at amortised cost**

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

# Note 26: Categories of financial instruments cont ...

**Fair value through the profit or loss**

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

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

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

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

**Financial liabilities**

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

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

**Offset financial instruments**

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

# Note 26: Categories of financial instruments cont ...

**Categorisation of financial instruments at 30 September 2020:**

| | Financial instruments at FVTPL | Financial assets at amortised cost | Financial liabilities at amortised cost | Total carrying amount |
|---|---|---|---|---|
| | $000 | $000 | $000 | $000 |
| **Assets** | | | | |
| Cash at bank | - | 266 | - | 266 |
| Cash in restricted bank accounts | - | 72,505 | - | 72,505 |
| Accounts receivable | - | 1,346 | - | 1,346 |
| Finance receivables | 669,328 | - | - | 669,328 |
| | **$669,328** | **$74,117** | **-** | **$743,445** |
| **Liabilities** | | | | |
| Committed cash advance | - | - | 43,200 | 43,200 |
| Accounts payable and accrued expense | - | - | 11,395 | 11,395 |
| Senior notes - secured | - | - | 583,250 | 583,250 |
| Derivative financial instruments (held for trading) | 8,836 | - | - | 8,836 |
| | **$8,836** | **-** | **$637,845** | **$646,681** |

**Categorisation of financial instruments at 30 September 2019:**

| | Financial instruments at FVTPL | Financial assets at amortised cost | Financial liabilities at amortised cost | Total carrying amount |
|---|---|---|---|---|
| | $000 | $000 | $000 | $000 |
| **Assets** | | | | |
| Cash in restricted bank accounts | - | 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** |

## Note 27: Events after balance date

### Dividend

On 19 November 2020, the Directors declared a final dividend on paid-up ordinary shares of 5.11 cents per share amounting to $1,178,244 (fully imputed), for the period 1 October 2019 to 30 September 2020. The dividend is due for payment on 30 November 2020.

## Note 28: Segment information

### Policy

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

### Segments

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

The Group operates in one geographical location, New Zealand.

# Note 29: Statement of cash flows

## Policy

The consolidated statement of cash flows 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.

| | 2020 $000 | 2019 $000 |
|---|---|---|
| **Reconciliation of profit after tax to net cash flow from operating activities** | | |
| Profit after tax | 4,960 | 11,143 |
| Depreciation and amortisation | 2,189 | 2,028 |
| | **7,149** | **13,171** |
| **Movement in other items** | | |
| Decrease in accounts receivable | 446 | 390 |
| Decrease in payment waiver indemnity prepayment | 450 | 431 |
| Decrease (increase) in finance receivables | 22,866 | (14,645) |
| Increase in committed cash advance | 10,900 | 5,000 |
| (Increase) decrease in deferred tax | (3,116) | 1,036 |
| Decrease in provision for tax | 1,007 | (1,140) |
| Increase (decrease) in accounts payable and accrued expense | 1,007 | (135) |
| (Decrease) increase in unearned payment waiver fees | (295) | (313) |
| (Decrease) increase in securitised funding | (46,103) | 19,777 |
| (Decrease) increase in derivative financial liabilities | (861) | 5,962 |
| | (13,699) | 16,363 |
| Movement in working capital items classified as investing or financing activities | 75 | 545 |
| **Net cash surplus from operating activities** | **($6,475)** | **$30,079** |

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 2020, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, on pages 16 to 67, present fairly, in all material respects, the consolidated financial position of the Group as at 30 September 2020, 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 Company in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

**Audit materiality**

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

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

**Key audit matters**

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

| Key audit matter | How our audit addressed the key audit matter |
| --- | --- |
| **Valuation of Finance Receivables**<br><br>As disclosed in note 12, the Group has finance receivables of $669.328m at 30 September 2020.<br><br>The Group measures its finance receivables at fair value through profit or loss.<br><br>The Group estimates fair value using an internally developed discounted cash flow (DCF) model. At balance date, the discount rate used in the model reflects the current market interest rate and the weighted average credit margin in the finance receivable contracts (net of commission). The credit margin remains fixed throughout the term of the contract. The change in credit risk is reflected through a credit risk adjustment. The model uses a combination of observable data (market interest rates) and unobservable data (credit risk).<br><br>There has been significant judgement required in the current year to incorporate forward-looking information to reflect the future economic impact of the COVID-19 pandemic.<br><br>Disclosures about the fair value of finance receivables are included in notes 1 and 13 of the financial statements.<br><br>The valuation of finance receivables is a key audit matter due to the size of the balance and the level of judgement applied by the Group in estimating fair value. | Our procedures focused on the appropriateness of the valuation methodology and the reasonableness of the assumptions in the model.<br><br>Our procedures included, amongst others:<br><br>• Assessing the design and implementation of the controls over the completeness and accuracy of inputs to the model;<br><br>• Selecting a sample of finance receivables and:<br><br>  • Agreeing inputs (including outstanding principal, interest rate, maturity date, payment frequency and credit margin) to underlying contracts; and<br><br>  • 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;<br><br>• Agreeing market interest rates to independent external market data sources;<br><br>• 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;<br><br>• Assessing the adequacy of the adjustment for credit risk movements by:<br><br>  • Assessing the design and implementation of controls over credit risk;<br><br>  • Assessing the internal process for credit monitoring and reviews of transacting shareholder credit quality and performance;<br><br>  • Challenging and evaluating the logic of management's credit risk methodology and the key assumptions, with a particular focus on the impact of COVID-19. |

**Other information**

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

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

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

**Directors' responsibilities for the consolidated financial statements**

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

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

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

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

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

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

This description forms part of our auditor's report.

**Restriction on use**

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

Deloitte Limited

**Heidi Rautjoki, Partner**
**for Deloitte Limited**
Dunedin, New Zealand
19 November 2020

# 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 83 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 83 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 2020, the gender balance of Directors and Senior Management was as follows:**

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | 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 nine scheduled meetings during the year. The table below sets out Directors' attendance at Board and Committee meetings during the year ended 30 September 2020.

| | 2020 |
|---|---|
| Scott Creahan (retired 27 July 2020) | 7 |
| Mark Darrow (appointed 27 July 2020) | 2 |
| Stephen Higgs | 9 |
| Noel Johnston | 9 |
| Geoffrey Kenny | 8 |
| Stuart Myles (appointed 19 March 2020) | 5 |
| Brent Robertson (retired 19 March 2020) | 4 |
| Grant Woolford | 9 |

# Principle 3: Board committees

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

The Board has 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 matters relating to accounting, audit and reporting of MTF Finance and its subsidiaries.

The Committee is to provide a specific governance focus on enterprise risks and the financial management, accounting, audit and reporting of MTF Finance and its subsidiaries. A charter outlines the Audit 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 2020 were Mark Darrow (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 2020 were Mark Darrow (Chair), Noel Johnston, Geoff Kenny and Stu Myles.

### Remuneration Committee

The Remuneration Committee reviews remuneration of Directors and the CEO, annually. The Remuneration Committee members as at 30 September 2020 were Stephen Higgs (Chair) and Stu Myles.

**Committee meeting attendance***

| | Audit | | Remuneration | |
|---|---|---|---|---|
| | Held | Attended | Held | Attended |
| Scott Creahan (retired 27 July 2020) | 3 | 3 | - | - |
| Mark Darrow (appointed 27 July 2020) | - | - | - | - |
| Stephen Higgs | 3 | 3 | 1 | 1 |
| Noel Johnston | - | - | - | - |
| Geoffrey Kenny | - | - | - | - |
| Stuart Myles (appointed 19 March 2020) | - | - | - | - |
| Brent Robertson (retired 19 March 2020) | - | - | 1 | 1 |
| Grant Woolford | 3 | 3 | - | - |

* The Credit Committee do not formally meet in person but rather correspond on policy and facility reviews on an ad-hoc and as needed basis.

# Principle 4: Reporting and disclosure

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

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

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

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

For the financial year ended 30 September 2020, the Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and facilitate compliance of the consolidated financial statements with the Financial Reporting Act 2013.

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

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

### Non-financial information

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

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

# Principle 5: Remuneration

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

### Director remuneration

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

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

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

Details of individual Directors' remuneration are detailed on page 82 of this report including a 35% remuneration sacrifice made by each member in direct response to the financial pressures on the company as a direct result of COVID-19 and business interruption suffered due to the restrictions incurred by national lockdowns.

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

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

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

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

## Principle 8: Shareholder relations and stakeholder interests

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

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

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

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

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

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

# Statutory information

## Reporting entity

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

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

## Regulatory environment

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

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

## Auditor

Deloitte Limited has continued to act as auditor of the Company, and has undertaken the audit of the consolidated financial statements for the 2020 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:**

| | 2020 | 2019 |
|---|---|---|
| Scott Creahan[1] | 37,640 | 53,000 |
| Mark Darrow[2] | 6,085 | - |
| Stephen Higgs | 78,375 | 95,000 |
| Noel Johnston | 43,725 | 26,500 |
| Geoffrey Kenny | 43,725 | 53,000 |
| Mike King[3] | - | 26,500 |
| Stuart Myles[4] | 18,972 | - |
| Brent Robertson[5] | 24,753 | 53,000 |
| Grant Woolford | 43,725 | 53,000 |
| | **$297,000** | **$360,000** |

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

[2] Mark Darrow was appointed Director on 27 July 2020.

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

[4] Stuart Myles was appointed Director on 19 March 2020.

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

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

**Director shareholdings**

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

Shares held by associated companies of Directors:

| | Ordinary shares | % |
|---|---|---|
| Noel Johnston | 737,555 | 3.20 |
| Geoffrey Kenny | 346,376 | 1.50 |
| Stuart Myles | 158,608 | 0.69 |
| Grant Woolford | 62,962 | 0.27 |
| | 1,305,501 | 5.66 |
| **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.

Mark Darrow is Chair of Leighs Construction, The Lines Company, Invivo and Co, and Armstrong Motor Group, and a Director of Balle Brothers Group. He is an external member of the Audit & Risk Committee of Auckland Council CCO Panuku Development, a member of the Risk & Assurance Committee of the Inland Revenue Department and co-founder of Signum Holdings and Trust Codes. He is a Director and incoming Chair for MTF incorporating MTF Limited, MTF Finance Limited, MTF Securities Limited, MTF Direct Limited, MTF Treasury Limited, MTF Leasing Limited, MTFS Holdings Limited.

Stephen Higgs is Chairman of Vetlife Limited, Cumberland Property Group Limited, Cumberland Rural Properties Limited, Polson Higgs Wealth Management Limited, Otago Innovation Limited, Headwaters NZ Limited, University of Otago Holdings Limited, and a Director of High Health Alliance Limited, LP Management No 10 Ltd (Counties Medical Practice), 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 University of Otago Foundation Trust, South Link Education Trust, and two Otago Federated Farmers Trusts.

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

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

Stu Myles is a director of Myles and Fairhall Limited.

Grant Woolford is a Director of Motorcycle Spot Limited, Motorcycles North Limited and 4Sale Group Limited.

## Shareholding

Twenty largest ordinary shareholders at 30 September 2020:

| Shareholder rank and name | | Holding | % Total ordinary shares |
|---|---|---|---|
| 1 | Turners Finance Limited | 1,516,975 | 6.58 |
| 2 | Honda New Zealand Limited | 906,623 | 3.93 |
| 3 | Douglas Rushbrooke Limited | 729,503 | 3.16 |
| 4 | Vehicle Logistics Limited | 680,097 | 2.95 |
| 5 | Cheryl Renouf Limited | 458,805 | 1.99 |
| 6 | Paul A Robinson Limited | 387,352 | 1.68 |
| 7 | Noel Johnston Limited | 383,564 | 1.66 |
| 8 | The Colonial Motor Company Limited | 377,599 | 1.64 |
| 9 | Stephen Parker Limited | 350,941 | 1.52 |
| 10 | Geoff Kenny Limited | 346,376 | 1.50 |
| 11 | Richard S Scott Limited | 333,655 | 1.45 |
| 12 | John Davidson Limited | 317,389 | 1.38 |
| 13 | Mark and Joy Diggelmann Limited | 317,269 | 1.38 |
| 14 | Tony Gow Limited | 278,762 | 1.21 |
| 15 | Johnston Hall Limited | 271,785 | 1.18 |
| 16 | Neil Wolfgram Limited | 269,536 | 1.17 |
| 17 | Collier Sendall Limited | 255,312 | 1.11 |
| 18 | Patterson & Patterson Limited | 236,784 | 1.03 |
| 19 | O'Connell Robertson Limited | 229,635 | 1.00 |
| 20 | Bill & Tim Hintz Limited | 225,628 | 0.98 |
| **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 | |
|---|---|---|
| | 2020 | 2019 |
| $100,000 - $109,999 | 6 | 9 |
| $110,000 - $119,999 | 6 | 8 |
| $120,000 - $129,999 | 4 | 1 |
| $130,000 - $139,999 | 2 | 2 |
| $140,000 - $149,999 | 4 | 4 |
| $150,000 - $159,999 | 3 | 1 |
| $160,000 - $169,999 | 2 | 1 |
| $170,000 - $179,999 | - | - |
| $180,000 - $189,999 | 2 | 1 |
| $190,000 - $199,999 | - | 2 |
| $200,000 - $209,999 | 2 | - |
| $210,000 - $219,999 | 1 | - |
| $220,000 - $229,999 | 1 | 1 |
| $230,000 - $239,999 | - | 1 |
| $240,000 - $249,999 | 1 | 1 |
| $330,000 - $339,999 | - | - |
| $350,000 - $359,999 | 1 | 1 |
| $500,000 - $509,999 | - | 1 |
| $610,000 - $619,999 | 1 | - |

No remuneration is paid by subsidiaries.

# Directory

| | |
|---|---|
| **Management** | Glen Todd, BCom, ACA, MInstD (Chief Executive Officer)<br>Kyle Cameron, BCom, BPhEd, CA (Chief Financial Officer)<br>Rowena Davenport, BCom, MInstD (Treasury & Strategy Manager)<br>Brent Dunshea (National Franchise Manager)<br>Ron Frater (National Dealer Manager)<br>Angus Geary, BCom (Marketing & Communications Manager)<br>Yoel George, BApMgt (Manager – Credit & Compliance)<br>Lydia Hopkins (People & Culture)<br>Simon Hopkins (Manager – Solutions Team)<br>Ashley Ross, BApMgt, PMP (Chief Information Officer) |
| **Perpetual preference share registrar** | Computershare Investor Services Limited<br>+ 64 9 488 8777<br>enquiry@computershare.co.nz |
| **Ordinary share registrar** | Computershare Investor Services Limited<br>+64 9 488 8777<br>enquiry@computershare.co.nz |
| **Trustee for securitisation programme** | Trustees Executors Limited |
| **Bankers** | Bank of New Zealand<br>Commonwealth Bank of Australia<br>Mitsubishi UFJ Financial Group (MUFG)<br>Westpac New Zealand |
| **Solicitors** | Bell Gully<br>Gallaway Cook Allan |
| **Auditor** | Deloitte Limited |
| **Registered office** | Level 1, 98 Great King Street, Dunedin<br>PO Box 885, Dunedin 9054 |
| **Enquiries** | +64 3 477 0530<br>info@mtf.co.nz<br>www.mtf.co.nz |

MTF FINANCE
ANNUAL REPORT

# Helping New Zealanders to do more

mtf finance