



MTF reports half-year profit (half-year ended 31 March 2010)

Profit after tax for the period is \$2.84 million (last year: \$4.04 million).

- new loan sales decreased by 21.0% to \$128.5m (last year: \$162.6m), as motor vehicle sales slowed
- assets reduced by 21.1% to \$480.6m, as a consequence of lower sales
- net interest income increased by 0.8%, as margin improved
- expense, excluding bad debt, is down 5.8%, in spite of higher costs related to additional regulatory requirements

Net interest income has improved as the full impact of increased credit margins and bank fees has been factored into interest rates charged to customers and lending criteria remains tight. Net interest income as a percentage of average loans under administration rose to 7.4% (last year: 6.2%).

Expense, excluding bad debt, continues to be well contained, despite the burden of continuous regulatory change, both current and planned. Changes planned include regulation for financial advisers, anti-money laundering, non-bank deposit takers and amendments to credit contract legislation.

Bad debt expense for the period has arisen from individual shareholder losses, not recoverable from the originating shareholder. The company is pursuing the originating shareholders and the borrowers for full recovery.

Total assets are down 21.1%, to \$480.6m, in line with lower sales and a decision to withdraw from operating lease business, made jointly with the major originator of this business, because of capital and funding constraints. Assets will continue to reduce as the operating lease book runs off and new credit contract originations are limited by a sluggish economy and internal constraints on new lending.

Capital, including perpetual preference shares, totals \$65.0m (last year \$60.5m), giving an improved capital percentage of 13.5% (last year: 11.8%).

At the date of this release, securitised loans are funded by bills of exchange, provided by banks, under a revolving liquidity facility (RLF), an integral part of the securitisation programme since 1995.

The financial statements at 30 September 2009 reported that the RLF was nearing maturity and that MTF was working with the providers to extend the facility. The RLF facility has been extended to 31 March 2011 to fund operating lease finance receivables. We are working with our bankers and professional advisers to implement a new securitisation structure to fund the remaining finance receivables, currently funded by the RLF. The new structure is intended to be in place, prior to the RLF maturity on 30 June 2010. In the event the new structure is not in place prior to the maturity of the RLF, the directors believe the RLF will be rolled over to allow time to implement the new structure, consistent with the actions of the same providers in rolling over the RLF on each maturity since June 2007. The directors' confidence is based on discussion with each of the RLF providers, the record of sustainable earnings before dividend distribution, commission paid to transacting shareholders and the quality of the finance receivables.

Arrears management has been a primary focus for the company and its shareholders during the period and it is pleasing to report that overall arrears are trending down and are below our long term internal benchmark at the date of this report. Arrears rose above the benchmark for a period, as a small number of shareholders struggled to manage lending that, in hindsight, was always risky and came under impossible pressure during a recession.

At the date of this release, MTF is managing shareholder ledgers totalling \$9.3m (last year \$18m), where we believe MTF may be at risk. Provisions for specifically impaired assets total \$2.7m (last year: \$2.5m), and we have written off loans that we have not been able to recover from borrowers or shareholders totalling \$1.1m. Where one shareholder is not able to meet its obligations, all shareholders share in the loss and will share in recoveries, if any.

As a result of our experience in this recession, we have tightened our lending criteria, with the primary focus on our traditional business of used motor vehicles, which provides in excess of 80% of our business, and is less prone to loss.

New loan originations bottomed out in August 2009 and since that date we have seen a monthly increase in sales activity. Feedback from shareholders and from economic commentators suggests that it will be many months before we see the sales levels achieved prior to the global financial crisis.

On a positive note, the MTF Direct franchise continues to grow by the number of franchises and the volume of business generated. Used car financing, on a "same store" basis, is approaching the levels experienced prior to 2007 and we are seeing some strength returning to the motor cycle business, where we are a significant player. New car financing is well down but recovering and we will continue to look at funding opportunities that enable us to re-enter the operating lease market.

We face the future with confidence, because MTF has survived in a market where the actions of others have impacted unfavourably on its business but where its business model has proved to be both durable and successful. We have been managing uncertainty, around the actions of others, since July 2007 and we expect that uncertainty will be a major challenge for at least another two years.

Visit us at www.mtf.co.nz

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