half-year report

2011

31 march

www.mtf.co.nz

financial highlights

	6 mths to 31/03/2011 $m	6 mths to 31/03/2010 $m	12 mths to 30/09/2010 $m
new loans	133.9	128.5	267.0
total income	37.3	41.3	80.2
profit after taxation	2.9	2.8	5.3
total assets	425.9	480.6	462.4
net loans under administration	393.7	446.1	418.7
capital	67.9	65.0	66.2
net interest income/average loans under administration (annualised)	8.6%	7.4%	7.9%
expense/average total assets (annualised)	2.3%	1.8%	2.0%
bad debt expense/average loans under administration (annualised)	0.2%	0.5%	0.5%
capital percentage	15.9%	13.5%	14.3%
return (after tax) on average total shareholder equity (annualised)	8.8%	8.8%	8.2%
return (after tax) on average total assets (annualised)	1.3%	1.1%	1.1%
basic earnings per ordinary share (dollars)	0.09	0.09	0.16

review of operations

financial performance

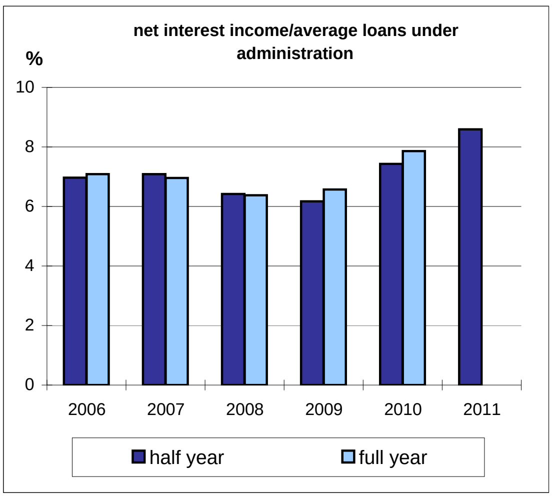
	6 months to 31/03/2011	6 months to 31/03/2010	
new loans	$133.9m	$128.5m	slow economy, tight credit
total assets	$425.9m	$480.6m	subdued sales
expense/average total assets	2.34%	1.80%	static expense, lower assets
return on average total assets	1.29%	1.10%	better margin
net interest income/average loans under administration	8.59%	7.40%	risk based pricing

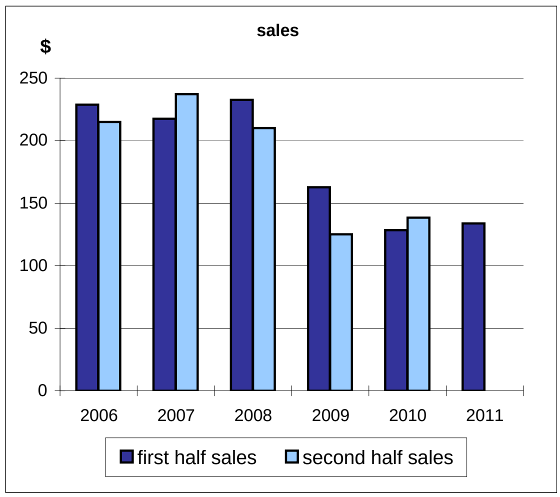
Profit after tax recorded in these accounts is $2.9 million (last year: $2.8 million).

Profit before commission remained stable at $16.5m (last year: $16.6m), a reflection of improved interest margin, as the company has encouraged shareholders to use a pricing model that more accurately reflects individual credit risk.

Sales were solid in the first quarter of the financial year, only to falter in the second quarter, as consumer confidence remained weak.

Administration expense is down 7% on last year. Communication and processing expense increased, as MTF continues to invest in technology to enable the delivery of its long-term strategy. Consumers are forcing business to rethink distribution of all goods and services, including financial services, and migration to web-based loan origination, marketing and customer relationship management is a key strategy for the company.





Regulatory change around financial advice, anti-money laundering and non-bank deposit takers continues to strain resource. Progress on regulation is listless, as poor initial consultation and drafting have pushed out deadlines. MTF has obtained qualifying financial entity (QFE) status under the Financial Service Providers and Dispute Resolution Act 2008. Although a majority of our originators are exempt, it is in the interest of all to behave as if they are covered by the Act and MTF will encourage its originators to continue to set the standard for vehicle finance.

financial position

Total assets are down 11.4%, to $425.9m, due to lower sales volumes and withdrawal from the operating lease market. We expect finance receivable levels to stabilise through the coming year, as the direct business continues to grow and transacting shareholders continue to be more selective in new loan origination. The decrease in cash position, from year-end levels, is a result of higher cash investment required in the securitisation programmes.

Capital, including perpetual preference shares, totals $67.9m (last year $65.0m), giving an improved capital percentage of 15.9% (last year: 13.5%). The company continues to grow the capital base, through retained earnings, to ensure that the company has adequate capital to provide for asset growth, when the market shakes off the recession.

funding

In November 2010, MTF finalised a securitisation facility, to replace the Euro commercial paper securitisation programme. At the end of the period MTF has issued $189.6m of AAA(sf) rated notes.

Since the 2010 Annual Report, all banking facilities have been extended, demonstrating the support and willingness of our bankers to work with MTF. Detail of these facilities is provided in note 2 of these financial statements.

credit quality

Arrears management remains a primary focus of the company and its shareholders. At period end, 31+ day arrears were 1.85% (2010: 2.10 %), despite an increase in arrears as a result of the Canterbury earthquakes. We expect this situation to correct itself in the second half of the year, and anticipate arrears will continue to decrease as MTF, and its transacting shareholders, continue to be more selective in loan origination.

At the time of writing, MTF is managing shareholder ledgers totalling $6.1m (last year: $9.3m), where MTF may be at risk. Provisions for specifically impaired assets total $2.5m (last year: $3.3m).

We have written off $0.4m (last year: $1.1m), for loans that we are not able to recover from borrowers or individual shareholders. Bad debt expense is in large part a consequence of irregular lending by certain transacting shareholders. The company is pursuing every legal remedy to recover the losses incurred.

continuous improvement

The first half of the year has been dominated by continuation of two major internal projects.

The new securitisation programme required a review of funding software and reporting requirements. The first quarter was focused on bedding down new systems and ensuring compliance with programme covenants. The focus must now change to using the benefits provided by the programme, to further strengthen funding diversity, as long as such opportunity provides all stakeholders with tangible benefits.

The redevelopment of Rapid, the loan origination system, continues to be a priority. The web-based system will be central to implementing company strategy, credit policy and ensuring compliance with funding and legislative covenants. The new system will be launched later in the year and, in time, will deliver efficiency gains throughout the company.

staff and shareholders

The global financial crisis first hit the headlines in July 2007, almost four years ago. Since then the face of the banking and finance industry has substantially changed, and in most cases, these changes have been for the better. The board is proud that MTF has weathered some of the toughest business conditions in modern times and retained the support of its bankers throughout. The focus now is to use the experience and knowledge gained to position MTF to achieve its goal to become the market leader in consumer vehicle finance in New Zealand.

Roger Bonifant indicated at the annual meeting that he will retire from the board in the middle of 2011. The board is currently searching for a suitable replacement.

The next twelve months will continue to be tough and we believe we have the staff, the shareholders and the processes in place to ensure it will be another solid year, in tough trading conditions.

dividends

Perpetual preference share dividends totalling $0.8m (net) were paid during the period. The dividend rate is set annually, at 30 September, at 2.40% over the one-year swap rate, and was reset to 5.77% (last year: 5.67%) on 30 September 2010, for the twelve months to 30 September 2011.

Dividends totalling $0.5m (net) were paid to ordinary shareholders for the period. On 20 April 2011, the directors approved an interim dividend on paid-up ordinary shares of 6.25%, for the quarter ending 31 March 2011. The dividend was paid on 29 April 2011.

outlook – a year to build on a solid base

MTF has a strong, balanced presence in the Canterbury region and many of our shareholders and customers have been affected by the earthquakes. In addition to a donation of $20,000 to the Red Cross, the company has arrangements in place to assist affected customers, to meet their obligations. The full impact is yet unknown, but the company has sufficient provisions to meet any loss.

MTF market share, as measured by PPSR registrations, continues its measured improvement. A key factor is the direct franchise, which continues to grow, with 18 franchises nationwide, from Invercargill to Auckland. This business model will play a major part in the future of the company, providing additional scale and strength to supplement the traditional vehicle dealer shareholders.

Sales in the first half of the financial year were frustrated by variable consumer confidence, driven by natural disaster and international uncertainty. We expect sales to show modest growth as the economy continues to recover from the effects of recession and disaster. We face the future with confidence, knowing we have positioned MTF to turn challenge into opportunity.

Angus Bradshaw
Managing Director

Roger Bonifant
Chairman

5 May 2011

statement of comprehensive income

six months ended 31 march 2011

	6 mths to 31/03/2011 $000 (unaudited)	6 mths to 31/03/2010 $000 (unaudited)	12 mths to 30/09/2010 $000 (audited)
interest income	32,564	36,336	70,393
interest expense	15,114	18,895	34,573
net interest income	17,450	17,441	35,820
payment waiver net income	459	420	880
fees	4,300	4,555	8,931
net interest income and fees	22,209	22,416	45,631
expense			
employee	2,568	2,223	4,789
communication and processing	1,036	789	2,107
depreciation and amortisation	733	596	1,303
administration	979	1,046	1,897
bad debt	394	1,134	2,786
operating expense	5,710	5,788	12,882
profit before commission and other gains (losses)	16,499	16,628	32,749
commission	12,490	11,984	24,798
profit before net gain (loss) from financial instruments designated at fair value	4,009	4,644	7,951
net gain (loss) from financial instruments designated at fair value	200	(588)	(999)
profit before taxation	4,209	4,056	6,952
taxation	1,293	1,218	1,646
profit after taxation	2,916	2,838	5,306
other comprehensive income	-	-	-
total comprehensive income	**$2,916**	**$2,838**	**$5,306**

statement of changes in equity

six months ended 31 march 2011

shareholder equity at beginning of period	66,244	63,473	63,473
ordinary shares issued	-	-	-
ordinary share dividend (net)	(502)	(476)	(945)
perpetual preference share dividend (net)	(808)	(794)	(1,590)
transactions with shareholders	(1,310)	(1,270)	(2,535)
total comprehensive income	2,916	2,838	5,306
total attributable revenue and expense	2,916	2,838	5,306
shareholder equity at end of period	**$67,850**	**$65,041**	**$66,244**

balance sheet

31 march 2011

	note	31/03/2011 $000 (unaudited)	31/03/2010 $000 (unaudited)	30/09/2010 $000 (audited)
funds employed				
share capital		23,073	22,695	22,957
retained earnings		5,811	3,380	4,321
perpetual preference shares		38,966	38,966	38,966
total shareholder equity		67,850	65,041	66,244
liabilities				
bank overdraft		371	-	-
provision for taxation		3,066	404	1,236
accounts payable and accrued expense		8,040	8,367	8,747
unearned payment waiver fees		5,191	4,456	4,678
short-term loans - secured		11,600	-	-
bills of exchange - secured	3	130,388	386,786	367,358
warehouse notes - secured	4	168,758	-	-
settlement notes - secured	5	20,817	-	-
derivative financial instruments		6,801	8,810	8,367
deferred taxation		3,036	6,773	5,817
total liabilities		358,068	415,596	396,203
total funds employed		**$425,918**	**$480,637**	**$462,447**
employment of funds				
cash at bank		-	1,745	8,108
cash in restricted bank accounts		23,558	23,653	23,053
taxation refund due		650	-	1,574
accounts receivable		831	719	883
prepayments		-	-	1,734
payment waiver indemnity prepayment		3,246	2,759	2,902
finance receivables	6	393,664	446,058	418,732
deferred taxation		913	2,671	2,233
property, plant and equipment		660	528	706
intangible assets		2,396	2,504	2,521
total assets		**$425,918**	**$480,637**	**$462,447**

On behalf of the Board

Angus Bradshaw
Managing Director

Roger Bonifant
Chairman

5 May 2011

statement of cash flow

six months ended 31 march 2011

	note	6 mths to 31/03/2011 $000 (unaudited)	6 mths to 31/03/2010 $000 (unaudited)	12 mths to 30/09/2010 $000 (audited)
cash flow from operating activities				
interest and fee income		36,864	40,834	79,111
interest expense		(12,271)	-	(27,630)
other funding and securitisation costs		(3,231)	(19,086)	(7,266)
income taxation paid		-	(1,278)	(2,968)
commission		(11,635)	(10,298)	(22,930)
operating expense		(7,055)	(5,702)	(11,853)
net cash flow from operating activities before changes in operating assets and liabilities		2,672	4,470	6,464
net changes in operating assets and liabilities:				
finance receivable instalments		157,159	168,961	332,490
increase (decrease) in bills of exchange - net		(236,970)	(51,335)	(70,763)
increase (decrease) in bank warehouse notes - net		170,623	-	-
increase (decrease) in settlement notes - net		20,817	-	-
(decrease) in finance receivable advances		(131,889)	(126,802)	(263,369)
(increase) decrease in prepayments		1,734	-	(1,734)
increase (decrease) in short-term loans - net		11,600	-	-
		(6,926)	(9,176)	(3,376)
net cash flow from operating activities	7	(4,254)	(4,706)	3,088
cash flow from investing activities				
sale of property, plant and equipment		21	25	56
purchase of property, plant and equipment		(89)	(145)	(457)
purchase of intangible assets		(2,359)	(505)	(1,038)
net cash flow from investing activities		(2,427)	(625)	(1,439)
cash flow from financing activities				
repay share capital and transacting shareholder deposits		-	(15)	-
proceeds from share issue		17	15	48
dividend to perpetual preference shareholders		(808)	(794)	(1,590)
dividend to ordinary shareholders		(502)	(476)	(945)
net cash flow from financing activities		(1,293)	(1,270)	(2,487)
net increase (decrease) in cash		(7,974)	(6,601)	(838)
cash on hand at beginning of period		31,161	31,999	31,999
cash on hand at end of period		**$23,187**	**$25,398**	**$31,161**
represented by:				
cash at bank (overdraft)		(371)	1,745	8,108
cash in restricted bank accounts		23,558	23,653	23,053
		$23,187	**$25,398**	**$31,161**

notes to financial statements

note 1: presentation and accounting policies

(a) basis for preparation

reporting entity

The unaudited interim financial statements presented are those of Motor Trade Finances Limited (MTF or Company) and its subsidiaries (Group). The principal activity of MTF consists of accepting finance receivables entered into by transacting shareholders.

MTF is a profit oriented entity, incorporated in New Zealand under the Companies Act 1993. MTF is an issuer for the purpose of the Financial Reporting Act 1993. The interim financial statements have been prepared in accordance with the aforementioned Acts.

The registered office of the Company is 193 Princes Street, Dunedin.

statement of compliance

The unaudited interim financial statements are prepared in accordance with Generally Accepted Accounting Practice (NZ GAAP) and comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), as appropriate for interim financial statements (NZ IAS 34). The interim financial statements should be read in conjunction with the Group annual report for the year ended 30 September 2010.

note 2: funding facilities

Since the beginning of the global credit crisis MTF has been working with its bankers and professional advisors to implement a funding structure to replace the MTFS securitisation programme. At the end of 2010 MTF, together with Trustees Executors Limited, Commonwealth Bank of Australia and Westpac Banking Corporation established the following entities to facilitate funding arrangements:

- MTF Warehouse Trust No.1(Warehouse Trust)
- MTF Settlement Trust No.1 (Settlement Trust)

The new funding structure commenced on 4 November 2010.

At the date of approving the interim financial statements the details of the funding facilities which MTF has access to are;

MTFS (limit $160m)

- MTFS will fund the run off of existing finance receivables that do not meet the qualification criteria of the Warehouse Trust using Bills of Exchange (BOE) issued under a Revolving Liquidity Facility (RLF)
- MTF credit support is 12.66% of the finance receivables balance, with a floor of $10m.
- facility review 30 March 2012

Settlement Trust (limit $28m)

- the Settlement Trust funds the purchase of newly originated qualifying receivables prior to transferring such finance receivables to the Warehouse Trust
- MTF credit support is 13.97% of the finance receivables balance
- facility review 30 March 2012

Warehouse Trust (limit $200m)

- the Warehouse Trust funds the purchase of new qualifying finance receivables and existing qualifying finance receivables from MTFS
- tenor of the notes funding the Warehouse Trust matches or exceeds the maturity profile of the purchased finance receivables
- notes issued from the Warehouse Trust are rated AAA(sf) (Standard & Poor's long-term, structured finance rating, 4 November 2010)
- facility limit can be increased upon request from the Trust Manager and with the agreement of the facility lenders
- MTF credit support is 13.97% of the qualifying finance receivables balance
- in the event the facility is not renewed the facility will amortise in accordance with the amortisation profile of the finance receivables
- facility review at 30 March 2012

MTF (limit $37m)

- the BNZ facility funds newly originated finance receivables that do not qualify for purchase by the Warehouse Trust
- facility review at 31 December 2013

Further information is provided in notes 3,4 and 5 to these interim financial statements.

note 3: bills of exchange

Bills of Exchange (BOE) are issued to MTFS under the Revolving Liquidity Facility (RLF), a standby bill endorsement facility with a limit of $160,000,000 (2010: $430,556,000), provided by CBA and Westpac.

The facility has a renewal date of 30 March 2012.

	RLF limit $000	undrawn $000	carrying amount $000
31 March 2011			
Commonwealth Bank of Australia	115,200	21,321	93,879
Westpac Banking Corporation	44,800	8,291	36,509
	$160,000	**$29,612**	**$130,388**
31 March 2010			
Commonwealth Bank of Australia	310,000	31,514	278,486
Westpac Banking Corporation	120,556	12,256	108,300
	$430,556	**$43,770**	**$386,786**
30 September 2010			
Commonwealth Bank of Australia	280,800	16,302	264,498
Westpac Banking Corporation	109,200	6,340	102,860
	$390,000	**$22,642**	**$367,358**

BOE with maturity dates between 7 and 28 days from balance date have been issued at an effective discount rate of 3.55% p.a. (2010 : 4.01% p.a.). New bills are issued for periods up to 90 days.

During the period, finance receivables with a total carrying amount of $167,139,000 were novated from MTFS to the Warehouse Trust resulting in a reduction in the RLF facility and subsequent BOE on issue. The RLF facility will continue to issue BOE to fund the run off of MTFS finance receivables, that do not meet the qualification criteria of the Warehouse Trust.

note 4: warehouse notes

Senior warehouse notes are issued to the facility lenders under the Warehouse Trust, presently CBA and Westpac. Warehouse notes which mature on 31 March 2018 have been issued at an effective discount rate of 4.66% p.a.

Notes issued by the Warehouse Trust are secured by a first ranking mortgage debenture over the assets of the Warehouse Trust. The notes issued by the Warehouse Trust are rated AAA(sf) (Standard and Poor's long-term, structured finance rating, 4 November 2010). Assets of MTF are not available as security to support the notes.

MTF provides credit support to the Warehouse Trust by way of subordinated notes of 13.97% of the greater of notes on issue, and the aggregate principal balance of purchased finance receivables.

	limit $000	undrawn $000	notes on issue $000
31 March 2011			
Commonwealth Bank of Australia	143,712	20,863	122,849
Westpac Banking Corporation	55,888	8,113	47,775
total	**$199,600**	**$28,977**	**$170,623**
less: establishment fees and expense			(1,865)
total carrying amount			**$168,758**

note 5: settlement notes

Settlement notes are issued to CBA and Westpac under the Settlement Trust. The Settlement Trust funds the purchase of newly originated qualifying receivables prior to transferring such finance receivables to the Warehouse Trust. Settlement notes with maturity dates between 5 and 54 days from balance date have been issued at an effective discount rate of 4.66% p.a. New notes are issued for periods of up to 60 days.

The notes are secured by a first ranking mortgage debenture over the assets of the Settlement Trust. The assets of MTF are not available as security to support the notes.

MTF provides credit support to the Settlement Trust by way of subordinated notes of 13.97% of the greater of notes on issue, and the aggregate principal balance of purchased warehouse finance receivables.

	limit $000	undrawn $000	notes on issue $000
31 March 2011			
Commonwealth Bank of Australia	20,135	5,147	14,988
Westpac Banking Corporation	7,830	2,001	5,829
total	**$27,965**	**$7,148**	**$20,817**

note 6: asset quality

	31/03/2011 $000 (unaudited)	31/03/2010 $000 (unaudited)	30/09/2010 $000 (audited)
(a) asset quality - finance receivables			
neither past due nor impaired	392,023	440,415	413,902
individually impaired	6,150	9,273	8,818
past due but not impaired	196	1,145	255
specific impairment allowance	(2,535)	(2,701)	(2,673)
collective impairment allowance	(2,170)	(2,074)	(1,570)
total carrying amount	**$393,664**	**$446,058**	**$418,732**
(b) individually impaired assets			
finance receivables	6,150	9,273	8,818
balances available for offset, including collateral	(3,615)	(6,572)	(6,145)
specific impairment allowance	**$2,535**	**$2,701**	**$2,673**

note 7: reconciliation of profit after taxation to net cash flow from operating activities

profit after taxation	2,916	2,838	5,306
non-cash items	2,561	639	1,177
	5,477	3,477	6,483
movement in other items			
(increase) decrease in accounts receivable	(292)	(240)	(548)
(increase) decrease in prepayments	1,734	-	(1,734)
increase (decrease) in accounts payable and accrued expense	(193)	1,086	1,689
increase (decrease) in provision for taxation	1,830	404	1,236
increase (decrease) in taxation refund due	924	1,050	(524)
increase (decrease) in deferred taxation	(1,461)	(1,514)	(2,033)
(increase) decrease in finance receivables	25,067	46,933	74,259
increase (decrease) in bills of exchange	(236,970)	(38,315)	(57,742)
increase (decrease) in warehouse notes	168,758	-	-
increase (decrease) in settlement notes	20,817	-	-
increase (decrease) in derivative financial instruments	(1,566)	(17,612)	(18,054)
increase (decrease) in short term loans	11,600	-	-
	(9,752)	(8,208)	(3,451)
movement in working capital items classified as investing or financing activities	21	25	56
net cash surplus from operating activities	**($4,254)**	**($4,706)**	**$3,088**

note 8: contingent liabilities

In January 2010 MTF received notice of High Court civil proceedings, brought by the Commerce Commission for alleged breaches of the Credit Contracts & Consumer Finance Act 2003 and the Fair Trading Act 1986, in respect of various fees charged in credit contracts. The Company is vigorously defending the proceedings.

note 9: going concern

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

The directors are confident that the short-term and long-term funding arrangements, described in note 2, provide reasonable expectation that the Group will have adequate funding to operate at forecast levels for the twelve months from the date of approving these interim financial statements. The directors believe the going concern assumption is a valid basis on which to prepare these interim financial statements.

The directors confidence that the facilities will be renewed on maturity is supported by:

- support of the banks and the rating agencies in setting up the Warehouse and Settlement Trusts.
- regular rollover of the BOE facilities subsequent to the global financial crisis.
- capital adequacy, profitability and quality of finance receivables.

note 10: events after balance date

On 20 April 2011, the directors declared a final dividend on paid-up ordinary shares of 6.25% (1.08 cents per share) totalling $246,000, for the period from 1 January 2011 to 31 March 2011. The dividend was paid on 29 April 2011.

directory

directors

Roger A Bonifant, MAgSc, MSc, CNZM (Chairman)
Angus R Bradshaw, BCA, ACA, F Fin (Managing Director)
Warwick N Cashmore
Graeme D Gibbons, BCom, CA
Mark B Hatwell
Stephen J Higgs, BCom, FCA
Mike D King

management

Angus Bradshaw, BCA, ACA, F Fin, (Managing Director)
Glen Todd, BCom, ACA, A Fin, (Chief Financial Officer)
Kyle Cameron, BCom, BPhEd, Dip Grad, CA, (Financial Controller)
Rowena Davenport, BCom, NZDipBus, CTP, A Fin, (Treasury)
Jason Hughes, BCom, (Trust Manager)
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