



## **FLEXIGROUP LIMITED**

**ABN 75 122 574 583**

### **Interim Report – For the half-year ended 31 December 2017**

#### **Contents**

	Page
Group performance highlights	2
Directors' report	3
Auditor's independence declaration	13
Interim financial report	
Consolidated income statement	14
Consolidated statement of comprehensive income	15
Consolidated statement of financial position	16
Consolidated statement of changes in equity	17
Consolidated statement of cash flows	18
Notes to the consolidated financial statements	19
Directors' declaration	29
Independent auditor's review report to the members	30

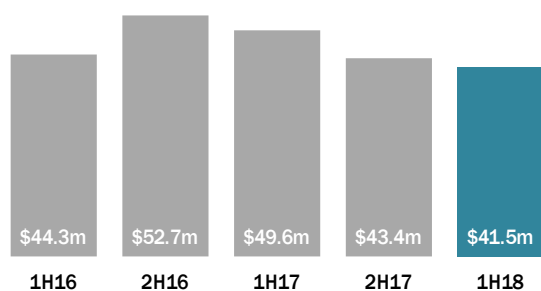
The interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2017 and any public announcements made by FlexiGroup Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

FlexiGroup Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principle place of business is:

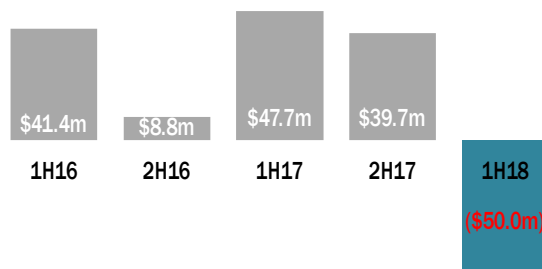
Level 7  
179 Elizabeth Street  
Sydney NSW 2000

# Group performance highlights

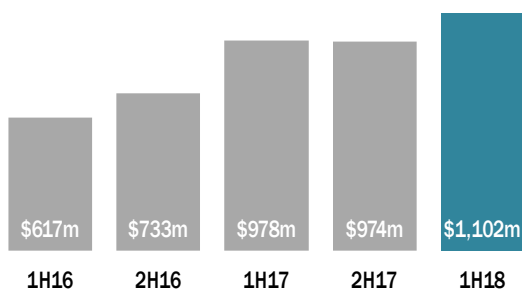
## Cash earnings \$41.5m down 16%



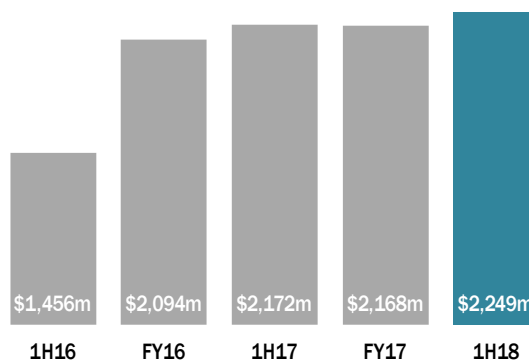
## Statutory net profit after tax \$(50.0)m down 205%



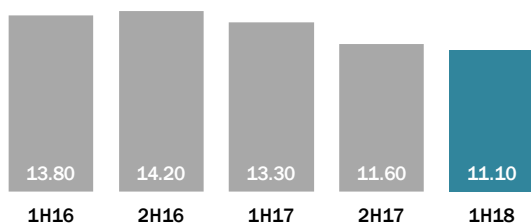
## Volume \$1,102m up 13%



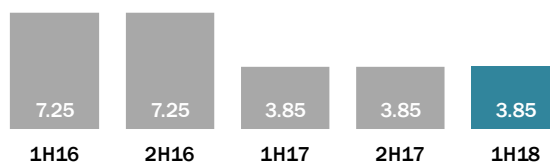
## Receivables and customer loans \$2,249m up 4%



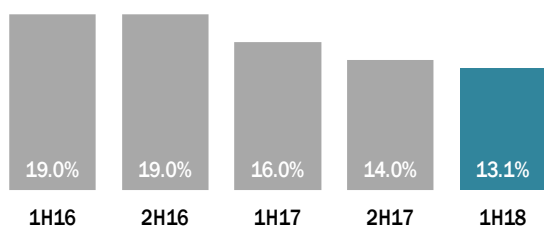
## Cash earnings per share 11.10 cents down 17%



## Stable dividends per share of 3.85 cents



## Cash earnings ROE 13.1% down 3%



	31 Dec 17	31 Dec 16	Change %
<strong>Reported earnings</strong>			
Net profit after tax (\$m)	(50.0)	47.7	(205%)
Earnings per share (cents)	(13.4)	12.8	(205%)
Dividends per share (cents)	3.85	3.85	0%
Return on equity (%)	(15.8)	15.0	(31%)
Expense to income ratio (%)	52.0	46.6	5%
<strong>Cash earnings</strong>			
Cash earnings (\$m)	41.5	49.6	(16%)
Cash earnings per share (cents)	11.1	13.3	(17%)
Cash earnings return on equity (%)	13.1	16.0	(3%)

Your directors present their report on the consolidated entity consisting of FlexiGroup Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2017 (referred to hereafter as the "Group" or "FlexiGroup").

**Directors**

The following persons were directors of FlexiGroup Limited during the half-year and up to the date of this report:

Andrew Abercrombie (Chairman)  
Symon Brewis-Weston  
Rajeev Dhawan  
Jodie Leonard  
Christine Christian  
R John Skippen (resigned 27 November 2017)

**Company Secretary**

Melissa Robinson

**Principal activities**

The principal activities during the period continued to be the provision of:

- Consumer revolving finance and cards
- Lease and rental financing services; and
- No Interest ever loans

**OPERATING AND FINANCIAL REVIEW**

The Board presents its December 2017 Interim Operating and Financial Review, which is designed to provide shareholders with a clear and concise overview of FlexiGroup's operations and financial position of the Group. The review complements the financial report.

**Review of Operations – Group Performance**

Results for the half year and corresponding prior period are set out on page 4 on a normalised basis, adjusting for amortisation of acquired intangibles and impairment of assets. The reported Cash NPAT has not been normalised for \$2.5m post tax restructuring costs that were incurred in 1H18. The normalisation for these costs is included in the investor presentation document, which does not form part of this Interim Report.

Cash NPAT of \$41.5m; represents a 16% decline compared with \$49.6m in the prior corresponding period. Net receivables increased to \$2,249m, representing a 4% increase in the prior corresponding period and compared to June 2017. Cash EPS of 11.1c represents a 17% decline from 13.3c compared to prior corresponding period reflecting the decrease in Cash NPAT.

**FlexiGroup Limited and controlled entities**  
**Directors' report**  
**For the half-year ended 31 December 2017**

<b>A\$m</b>	<b>Dec-17</b>	<b>Dec-16</b>	<b>Change %</b>
Total portfolio income	<b>229.3</b>	235.5	(3%)
Interest expense	<b>(48.2)</b>	(51.5)	(6%)
Net portfolio income	<b>181.1</b>	184.0	(2%)
Receivables and customer loan impairment expenses	<b>(32.0)</b>	(30.6)	5%
Impairment of goodwill and intangible assets	<b>(94.7)</b>	-	100%
Depreciation and amortisation expenses	<b>(9.9)</b>	(6.6)	50%
Operating expenses	<b>(84.2)</b>	(79.2)	6%
Profit before income tax	<b>(39.7)</b>	67.6	(159%)
Income tax expense	<b>(10.3)</b>	(19.9)	(48%)
<b>Profit after income tax on a statutory basis</b>	<b>(50.0)</b>	47.7	(205%)
<b>Non-cash items:</b>			
Amortisation of acquired intangible assets	<b>2.4</b>	1.6	50%
Impairment of goodwill and intangible assets	<b>89.1</b>	-	100%
Other adjustments	-	0.3	(100%)
Total non-cash items	<b>91.5</b>	1.9	4,716%
<b>Group Cash NPAT<sup>(i)</sup></b>	<b>41.5</b>	49.6	(16%)
Basic earnings per share (cents)	<b>(13.4)</b>	12.8	(205%)
Cash earnings per share (cents)	<b>11.1</b>	13.3	(17%)
Volume	<b>1,102</b>	978	13%
Closing receivables and customer loans	<b>2,249</b>	2,172	4%

- (i) *Cash NPAT reflects the reported net profit after tax adjusted for one-off or non-recurring items. The analysis of results below is primarily based on Cash NPAT to align the information that is given to users of financial reports to the way the Directors view the business and to assist better understanding of the Group's performance. The Directors believe that Cash NPAT is the most appropriate measure of maintainable earnings of the Group and therefore best reflects the core drivers and ongoing influences upon those earnings. Cash NPAT is used by the Directors for purposes of providing market guidance to shareholders and the market, and is calculated on a consistent basis each year.*

### **Total portfolio income**

Total portfolio income decreased 3% to \$229.3m. This was due to factors such as adverse foreign exchange movements in AUD/NZD, and lower volumes in Consumer and NZ Leasing, partially offset by Australia Cards on the back of significant receivables growth.

### **Interest expense**

Interest expense decreased 6% to \$48.2m, driven by decrease in average borrowings across Consumer and Commercial Leasing, Certegy and NZ Cards businesses. In addition, net corporate debt interest expense decreased by \$1.3m in the current period. This was due to a reduction in average corporate debt resulting in the decline in gearing ratio from 53% to 43%.

### **Impairment losses on loans and receivables**

The increase in impairment losses reflects the growth of the portfolio and maturity of the receivables book in the Australia Cards and NZ Cards businesses respectively. The Group continues to proactively manage losses, as demonstrated by the decline in losses in Certegy and Commercial Leasing. Overall impairment as a percentage of average net receivables remained stable at 2.9%.

### **Impairment of goodwill and intangible assets**

Impairment of goodwill and intangible assets resulted from the decline in forecast cash flows relating to the present Consumer Leasing product that is being replaced by a more customer centric product in February 2018. For more details refer to notes 6 and 7 of the Interim Financial Statements.

### **Depreciation and amortisation**

Depreciation and amortisation increased 50% due to the normalisation of the purchase adjustments from the NZ Cards acquisition that occurred in the prior comparative period.

## Operating expenses

Operating expenses increased 6% driven by significant restructuring work being conducted with an overall \$3.6m (pre-tax) restructuring charge, of which approximately \$1m relates to redundancies.

## Non-cash items

### *Amortisation of acquired intangibles*

The acquisition of companies over the years has resulted in the recognition of intangible assets that are amortised over their useful life ranging from 3 to 27 years. The amortisation of these intangible assets is treated as a non-cash item because it does not affect cash distributions available to shareholders. During the year, \$2.4m post tax has been amortised to the income statement (December 2016: \$1.6m).

### *Impairment of Goodwill and intangible assets*

The impairment of goodwill and intangible assets is a non-cash adjustment as it is non-recurring and has no effect on the Group's ability to pay dividends.

### *Other adjustments*

Other adjustments in the prior period relate to the share of equity accounted losses relating to the Group's investment in Kikka.

## Group Balance Sheet

A\$m	Dec-17	Jun-17	Change %
Cash and cash equivalents	133.8	167.3	(20%)
Receivables and customer loans <sup>(1)</sup>	2,244.4	2,165.9	4%
Other assets	16.0	13.1	22%
Current tax receivable	3.6	3.8	(5%)
Goodwill	236.9	321.4	(26%)
Other intangible assets	95.6	114.4	(16%)
<b>Total assets</b>	<b>2,730.3</b>	<b>2,785.9</b>	<b>(2%)</b>
Payables	45.2	50.3	(10%)
Borrowings	2,042.7	2,007.7	2%
Other liabilities	27.4	30.9	(11%)
Current and deferred tax liabilities	18.1	25.2	(28%)
<b>Total liabilities</b>	<b>2,133.4</b>	<b>2,114.1</b>	<b>1%</b>
Equity	596.9	671.8	(11%)
<b>Gearing<sup>(2)</sup></b>	<b>43%</b>	<b>53%</b>	<b>(10%)</b>
<b>ROE<sup>(3)</sup></b>	<b>13%</b>	<b>14%</b>	<b>(1%)</b>

<sup>(1)</sup> Includes other debtors as disclosed in the statutory accounts.

<sup>(2)</sup> Gearing is recourse (corporate) borrowings as a percentage of equity excluding intangible assets.

<sup>(3)</sup> Calculated based on Cash NPAT as a percentage of average equity.

## Receivables and customer loans

Receivables and customer loans (including other debtors) increased by 4% to \$2,244.4m compared to June 2017 driven primarily by Australia cards customer loans growth of \$186.0m (48%).

## Goodwill

The decrease in goodwill is due to a \$75.9m impairment of the Consumer Leases goodwill, and the impact of exchange rates on NZ\$ denominated goodwill balances.

### **Other intangible assets**

Other intangible assets include merchant and customer relationships, brand names and capitalised software. These are amortised over the useful life ranging from 3 to 27 years. The balance has decreased due to a one-off impairment of capitalised development software of \$18.4m and acquired merchant relationships of \$0.4m. Excluding the one-off impairment, the balance has remained stable with the amortisation and foreign exchange impacts being offset by the additional capitalised software.

### **Payables**

Payables include trade creditors, interest accruals, GST payable and sales incentive accruals. These remain in line with FY17 levels.

### **Borrowings**

Borrowings have increased by 2% to \$2,042.7m, driven by the growth in receivables and customer loans and a net repayment of \$8.5m of corporate debt.

### **Other liabilities**

Other liabilities include provisions, derivative financial instruments and deferred and contingent consideration payable. The decrease in other liabilities is primarily attributable to a \$3.3m decrease in fair value of derivative financial instruments as a result of changes in the swap rate compared to the prior year.

### **Net current and deferred tax liabilities**

Tax balances have decreased due to the impairment of intangible assets \$18.8m resulting in a \$5.6m net deferred tax asset. In addition, unwinding of the lease portfolio is resulting in more tax payments and a reduction in deferred tax liability.

### **Funding**

FlexiGroup maintains a conservative funding strategy; to retain committed funding facilities for all scale businesses, combined with an active debt capital markets presence. The Group currently has revolving wholesale debt facilities in place with Australian Deposit Taking Institutions, large international banks, plus numerous institutional investors through its Asset Backed Securities (ABS) program.

At balance sheet date, the Group had \$2,397.0m of wholesale debt facilities, with \$448.0m undrawn and no indications that facilities will not be extended. The majority of the wholesale debt facilities (\$1,924.0m) have no bullet repayment on maturity, with outstanding balances repaying in line with receivables and customer loans if availability periods were not to be extended. These facilities are secured against underlying pools of receivables and customer loans. The remaining wholesale debt facilities either have a soft bullet or have sufficient lead-time for re-extension when approaching maturity.

The Group's \$174.4m (June 2017: \$177.5m) of corporate debt facilities were drawn to \$114.9m (June 2017: \$126.2m) at balance sheet date. These facilities are secured by the assets of the Group, and with a maturity date in 2020. The decrease in the corporate debt facility limits was driven by a change in the NZ / AUD exchange rate as part of the Corporate debt is denominated in NZ\$.

### **Gearing**

The reduction in recourse corporate debt gearing to 43% (June 2017: 53%) is driven by repayment of corporate borrowings during the period through excess funds generated from operating activities.

The Group continues to optimise its capital structure to maximise shareholder value. The Group will continue to pay down recourse corporate debt with proceeds from operating activities.

### **Return on equity ('RoE')**

ROE of 13% (June 2017: 14%) has reduced primarily due to the decrease in cash profit compared to the prior period.

## Group Statement of Cash Flows

A\$m	Dec-17	Dec-16	Change
<b>NPAT</b>	<b>(50.0)</b>	47.7	(205%)
Impairment loss on receivables and customer loans	32.0	30.6	5%
Impairment of goodwill and other intangible assets	94.7	-	100%
Depreciation and amortisation expenses	9.9	6.6	50%
Changes in other operating assets and liabilities	(15.4)	(13.9)	11%
Other non-cash movements	(0.5)	5.3	(109%)
<b>Operating cash flow</b>	<b>70.7</b>	76.3	(7%)

## Consolidated cash flow

A\$m	Dec-17	Dec-16	Change
<b>Operating cash flow</b>	<b>70.7</b>	76.3	(7%)
Capex	(14.9)	(11.9)	25%
Acquisitions and divestments	-	(7.6)	0%
Changes in customer loans and receivables	(141.4)	(94.0)	50%
<b>Investing cash flow</b>	<b>(156.3)</b>	(113.5)	38%
Dividends paid	(14.4)	(27.0)	(47%)
Treasury shares purchased on market	(0.2)	-	(100%)
Net movement in non-recourse borrowings	78.3	41.4	89%
Repayment of corporate borrowings	(60.8)	(17.0)	258%
Drawdown of corporate borrowings	52.4	52.0	1%
<b>Financing cash flow</b>	<b>55.3</b>	49.4	12%
<b>Net (decrease) / increase in cash</b>	<b>(30.3)</b>	12.2	(348%)

Cash inflows from operating activities are down on prior period, a decrease of 7% to \$70.7m (December 2016: \$76.3m). The decrease in cash inflows from operating activities is due to lower cash earnings.

Cash outflows from investing activities increased by 38% to \$156.3m (December 2016: \$113.5m). The increase was due to increase in customer loans from the Australia Cards business. This was partially offset by no M&A activity compared to the prior year.

Cash inflows from financing activities increased 12% to \$55.3m (December 2016: \$49.4m), due to an increase in non-recourse borrowings and a net combination of higher corporate debt repayments and the decrease in dividends paid, driven by a change in dividend policy.

## Review of Operations - Segment Performance

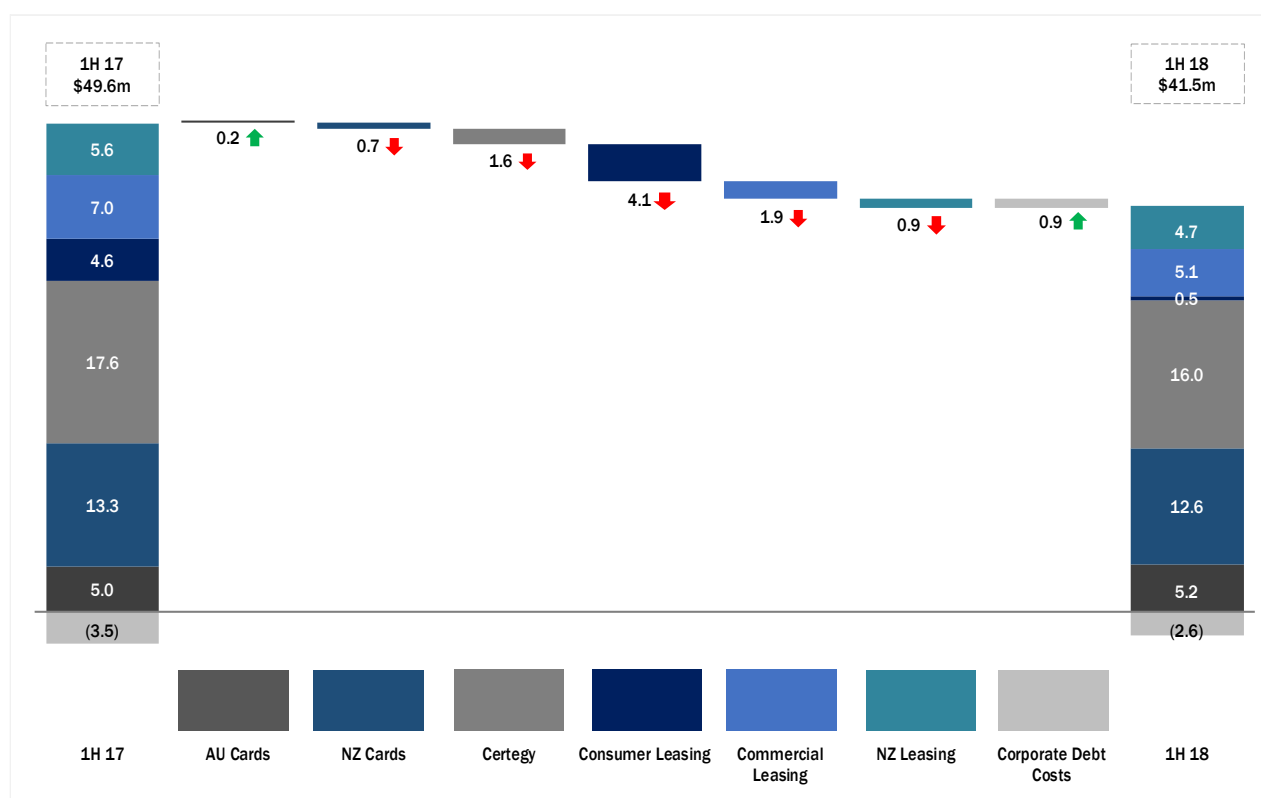
FlexiGroup's business consists of six operating segments. Interest on acquisition debt obtained to fund the acquisition of Fisher and Paykel Finance is unallocated but forms part of maintainable cash earnings.

### Segment Summary

A\$m	Dec-17	Dec-16	Change %
Australia Cards	5.2	5.0	4%
NZ Cards	12.6	13.3	(5%)
Certegy	16.0	17.6	(9%)
Consumer Leasing	0.5	4.6	(89%)
Commercial Leasing	5.1	7.0	(27%)
NZ Leasing	4.7	5.6	(16%)
Unallocated <sup>(1)</sup>	(2.6)	(3.5)	(26%)
<b>Total Cash NPAT</b>	<b>41.5</b>	<b>49.6</b>	<b>(16%)</b>

<sup>(1)</sup> Unallocated relates to net corporate debt interest

Below is a year on year cash NPAT movement by reportable segment:





## Segment Analysis

### Australia Cards

A\$m	Dec-17	Dec-16	Change %
Net portfolio income	27.8	21.8	28%
Operating expenses	(12.5)	(8.7)	44%
Impairment losses on customer loans	(7.9)	(6.0)	32%
Cash NPAT	5.2	5.0	4%
Volume	357.8	238.0	50%
Closing customer loans	575.1	389.0	48%

Australia Cards' Cash NPAT of \$5.2m represents an increase of 4% compared to the prior corresponding period.

- Net portfolio income grew 28%, as a result of strong growth in receivables and card usage.
- Impairment losses increased by \$1.9m reflecting the growth in the loans portfolio, when expressed as a percentage of average net loans, losses declined to 3.0% (2016:3.5%).
- Operating expenses increased by 44% to \$12.5m driven by investment to support the business.

### New Zealand Cards

A\$m	Dec-17	Dec-16	Change %
Net portfolio income	45.4	48.0	(5%)
Operating expenses	(19.8)	(22.3)	(11%)
Impairment losses on customer loans	(8.1)	(7.2)	13%
Cash NPAT	12.6	13.3	(5%)
Volume	339.2	310.0	9%
Closing customer loans	634.4	651.0	(3%)

New Zealand Cards' Cash NPAT is \$12.6m, a decline of 5% compared to the prior period. The decline is due to the following factors:

- Net portfolio income decreased by 5% to \$45.4m, driven by the impact of the Australian dollar appreciation. The underlying portfolio interest margin has improved with the growth in average receivables (in NZD terms) and lower funding costs.
- Operating expenses decreased by 11% to \$19.8m. Excluding the one-off onerous lease expense of \$2.6m in the prior period, costs have remained consistent with the prior corresponding period with one-off restructuring costs of \$0.8m offset by favourable foreign exchange rates.
- Impairment losses increased by 13% to \$8.1m, reflecting the portfolio maturity and short term volatility in arrears.

### Certegy

A\$m	Dec-17	Dec-16	Change %
Net portfolio income	46.4	47.4	(2%)
Operating expenses	(15.3)	(13.1)	17%
Impairment losses on customer loans	(8.2)	(9.2)	(11%)
Cash NPAT	16.0	17.6	(9%)
Volume	267.1	278.0	(4%)
Closing customer loans	480.3	478.0	0%

The decrease in Cash NPAT is driven by:

- Increase in average deal size and a decrease in number of written contracts, impacting on fee and interest income.

- Operating expenses increased by 17% to \$15.3m primarily driven by investment in front end digitisation of the product improving customer and seller experience. In addition, this includes a non-recurring restructuring expense of \$0.6m.
- Impairment losses decreased by 11% to \$8.2m, reflecting strong discipline in our customer collections capability.
- Volume and receivables remained relatively stable.

### Consumer Leasing

A\$m	Dec-17	Dec-16	Change %
Net portfolio income	<b>27.6</b>	32.7	(16%)
Operating expenses	<b>(22.3)</b>	(21.7)	3%
Impairment losses on receivables	<b>(4.9)</b>	(5.1)	(4%)
Cash NPAT	<b>0.5</b>	4.6	(89%)
Volume	<b>51.9</b>	56.6	(8%)
Closing receivables	<b>155.4</b>	167.5	(7%)

Cash NPAT is \$0.5m, a decrease of 89% on the prior corresponding period. The decline in profits resulted from the following factors:

- Net portfolio income decreased by 16% to \$27.6m, primarily driven by a decline in both volume and average net receivables.
- Operating expenses increased by 3% to \$22.3m due to investment to support the growth in the Ireland Flexi-Fi business and one off restructuring costs of \$2.2m.
- Impairment losses decreased by 4% to \$4.9m, driven by improved recoveries from active management of arrears.
- The decrease in sales volume of 8% to \$51.9m was driven by lower customer engagement, as the regulatory environment has negatively impacted on the lease proposition. A new Consumer Lease product will be launched in February 2018 and it is expected to improve the customer value proposition and drive future volumes.

### Commercial Leasing

A\$m	Dec-17	Dec-16	Change %
Net portfolio income	<b>21.6</b>	22.5	(4%)
Operating expenses	<b>(12.0)</b>	(9.5)	26%
Impairment losses on receivables	<b>(2.2)</b>	(2.9)	(24%)
Cash NPAT	<b>5.1</b>	7.0	(27%)
Volume	<b>48.7</b>	48.8	(0%)
Closing receivables	<b>246.3</b>	292.5	(16%)

Cash NPAT is \$5.1m, a decrease of 27% on the prior corresponding period. The decline in profits resulted from the following factors:

- Net portfolio income decreased by 4% to \$21.6m, which was driven by the declining Enterprise receivables portfolio. The managed services product is expected to address some of the decline during 2H18.
- Operating expenses increased 26% to \$12.0m driven by increased investment to establish and grow the managed services product offering and other costs to stimulate future business growth.
- Impairment losses decreased by 24% to \$2.2m, driven by improved recoveries from continuous management of arrears.
- Sales volume has remained steady at \$48.7m, with increases in the SME business offset by decline in the Enterprise portfolio. Closing receivables however decreased by 16% to \$246.3m as a result of a faster run off of the Enterprise portfolio.

## New Zealand Leasing

A\$m	Dec-17	Dec-16	Change %
Net portfolio income	16.0	16.6	(4%)
Operating expenses	(8.9)	(8.8)	1%
Impairment losses on receivables	(0.7)	(0.2)	250%
Cash NPAT	4.7	5.6	(16%)
Volume	37.3	46.0	(19%)
Closing receivables	158.6	193.0	(18%)

New Zealand Leasing's Cash NPAT is \$4.7m, a decrease of 16% on prior year, driven by the following:

- Net portfolio income decreased by 4% to \$16.0m, which was mainly due to decrease in interest income due to decline in sales volume and net receivables. The impact of the decline was partially offset by strong end of term performance.
- Operating expenses remain in line with prior years, reflecting tight cost control and synergy realisation through combining some activities with NZ Cards.
- Impairment losses increased due to a one off write off of a large exposure.

## Shareholder returns

	Half year ended 31 December		Year ended 30 June				
	2017	2016	2017	2016	2015	2014	2013
TSR	n/a	n/a	(3%)	(16%)	(14%)	(26%)	92%
Dividends per share (cents)	3.85	3.85	7.70	14.50	17.75	16.50	14.50
Cash EPS (cents)	11.10	13.30	24.90	28.00	28.70	27.10	24.30
Share price (high)	\$1.95	\$2.49	\$2.58	\$3.12	\$4.00	\$4.99	\$4.74
Share price (low)	\$1.44	\$1.85	\$1.55	\$1.71	\$2.70	\$2.98	\$2.55
Share price (close)	\$1.72	\$2.26	\$1.83	\$1.74	\$2.91	\$3.17	\$4.36

## Earnings per share

	Half Year 2017 cents	Half Year 2016 cents
Basic earnings per share	(13.4)	12.8
Diluted earnings per share	(13.4)	12.8
Cash earnings per share	11.1	13.3

## Dividends on ordinary shares

	2017		2016	
	cents	\$m	cents	\$m
Interim dividend for the year - paid in April	3.85	14.4	3.85	14.4
<b>Dividends paid during the year</b>				
Final dividend for 2017 (PY: 2016) - paid in October	3.85	14.4	7.25	27.0
Total dividends paid during the year	3.85	14.4	7.25	27.0
Total dividends declared for the financial year	3.85	14.4	3.85	14.4

#### **Matters subsequent to end of the financial year**

As at the date of this report the directors are not aware of any matter or circumstance that has arisen since 31 December 2017 that has significantly affected, or may significantly affect:

- a) the Group's operations in future financial years, or
- b) the results of those operations in future financial years, or
- c) the Group's state of affairs in future financial years.

#### **Environmental regulation**

The Group's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

#### **Auditor's Independence Declaration**

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 13.

#### **Rounding of amounts**

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 relating to the "rounding off" of amounts in the Directors' Report and the Interim Financial Report. Some amounts in the Directors' Report and the Interim Financial Report have been rounded off in accordance with that Instrument to the nearest hundred thousand dollars.

This report is made in accordance with a resolution of directors.



**Andrew Abercrombie**

Chairman  
Sydney  
20 February 2018



## Auditor's independence declaration

As lead auditor for the review of FlexiGroup Limited for the half-year ended 31 December 2017, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of FlexiGroup Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'Rob Spring'.

Rob Spring  
Partner  
PricewaterhouseCoopers

Sydney  
20 February 2018

**PricewaterhouseCoopers, ABN 52 780 433 757**

One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001  
T: +61 2 8266 0000, F: +61 2 8266 9999, [www.pwc.com.au](http://www.pwc.com.au)

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124

T: +61 2 9659 2476, F: +61 2 8266 9999, [www.pwc.com.au](http://www.pwc.com.au)

Liability limited by a scheme approved under Professional Standards Legislation.

**FlexiGroup Limited**  
**Consolidated income statement**  
**For the half-year ended 31 December 2017**

A\$m		31 Dec 17	31 Dec 16
	Notes	\$m	\$m
Total portfolio income	3	229.3	235.5
Interest expense		(48.2)	(51.5)
<b>Net portfolio income</b>		<b>181.1</b>	<b>184.0</b>
Employment expenses		(47.4)	(43.7)
Receivables and customer loan impairment expenses		(32.0)	(30.6)
Impairment of goodwill and intangible assets		(94.7)	-
Depreciation and amortisation expenses	4	(9.9)	(6.6)
Operating expenses	4	(36.8)	(35.5)
<b>(Loss) / profit before income tax</b>		<b>(39.7)</b>	<b>67.6</b>
Income tax expense		(10.3)	(19.9)
<b>(Loss) / profit for the year attributable to shareholders of FlexiGroup Limited</b>		<b>(50.0)</b>	<b>47.7</b>

Earnings per share for profit attributable to the ordinary equity holders of the Company:	cents	cents
Basic earnings per share	(13.4)	12.8
Diluted earnings per share	(13.4)	12.8

*The above consolidated income statement should be read in conjunction with the accompanying notes.*

**FlexiGroup Limited**  
**Consolidated statement of comprehensive income**  
**For the half-year ended 31 December 2017**

<b>A\$m</b>	<b>31 Dec 17</b>	<b>31 Dec 16</b>
<b>(Loss) / profit for the year</b>	<b>(50.0)</b>	47.7
<b>Other comprehensive income</b>		
<i>Items that may be reclassified to profit and loss</i>		
Exchange differences on translation of foreign operations	<b>(12.7)</b>	5.5
Changes in the fair value of cash flow hedges, net of tax	<b>1.8</b>	5.8
<b>Other comprehensive income for the year, net of tax</b>	<b>(10.9)</b>	11.3
<b>Total comprehensive income for the year attributable to shareholders of FlexiGroup Limited</b>	<b>(60.9)</b>	59.0

*The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.*

**FlexiGroup Limited**  
**Consolidated statement of financial position**  
**As at 31 December 2017**

<b>A\$m</b>		<b>31 Dec 17</b>	<b>30 Jun 17</b>
<b>Assets</b>			
	<b>Note</b>		
Cash and cash equivalents	<b>5</b>	<b>133.8</b>	167.3
Inventories		<b>4.7</b>	4.7
Receivables		<b>582.7</b>	626.9
Customer loans		<b>1,661.7</b>	1,539.0
Current tax receivable		<b>3.6</b>	3.8
Plant and equipment		<b>11.3</b>	8.4
Goodwill	<b>6</b>	<b>236.9</b>	321.4
Other intangible assets	<b>7</b>	<b>95.6</b>	114.4
<b>Total assets</b>		<b>2,730.3</b>	2,785.9
<b>Liabilities</b>			
Payables		<b>45.2</b>	50.3
Borrowings		<b>2,042.7</b>	2,007.7
Current tax liabilities		<b>3.4</b>	0.5
Provisions		<b>7.9</b>	7.9
Derivative financial instruments		<b>9.6</b>	12.9
Deferred and contingent consideration		<b>9.9</b>	10.1
Deferred tax liabilities		<b>14.7</b>	24.7
<b>Total liabilities</b>		<b>2,133.4</b>	2,114.1
<b>Net assets</b>		<b>596.9</b>	671.8
<b>Equity</b>			
Contributed equity	<b>9</b>	<b>362.8</b>	361.2
Reserves		<b>4.9</b>	17.0
Retained earnings		<b>229.2</b>	293.6
<b>Total equity</b>		<b>596.9</b>	671.8

*The above consolidated statement of financial position should be read in conjunction with the accompanying notes.*



**FlexiGroup Limited**  
**Consolidated statement of changes in equity**  
**For the half-year ended 31 December 2017**

<b>A\$m</b>	<b>Contributed equity</b>	<b>Reserves</b>	<b>Retained earnings</b>	<b>Total</b>
<b>2016</b>				
Balance at the beginning of the half-year	356.8	8.1	247.5	612.4
Profit for the half-year	-	-	47.7	47.7
Other comprehensive income	-	11.3	-	11.3
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>11.3</b>	<b>47.7</b>	<b>59.0</b>
Share based payment expense	-	0.5	-	0.5
Dividends provided for or paid	-	-	(27.0)	(27.0)
<b>Balance at the end of the half-year</b>	<b>356.8</b>	<b>19.9</b>	<b>268.2</b>	<b>644.9</b>
<b>2017</b>				
<b>Balance at the beginning of the half-year</b>	<b>361.2</b>	<b>17.0</b>	<b>293.6</b>	<b>671.8</b>
Loss for the half-year	-	-	(50.0)	(50.0)
Other comprehensive income	-	(10.9)	-	(10.9)
<b>Total comprehensive income for the half-year</b>	<b>-</b>	<b>(10.9)</b>	<b>(50.0)</b>	<b>(60.9)</b>
Share based payment expense	-	0.5	-	0.5
Transfer to share capital from share based payment reserve	1.4	(1.4)	-	0.0
Transfer to share capital from profit reserve	0.3	(0.3)	-	0.0
Treasury shares purchased on market	(0.2)	-	-	(0.2)
Transfer from treasury shares	0.1	-	-	0.1
Dividends provided for or paid	-	-	(14.4)	(14.4)
<b>Balance at the end of the half-year</b>	<b>362.8</b>	<b>4.9</b>	<b>229.2</b>	<b>596.9</b>

*The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.*

**FlexiGroup Limited**  
**Consolidated statement of cash flows**  
**For the half-year ended 31 December 2017**

<b>A\$m</b>	<b>31 Dec 17</b>	<b>31 Dec 16</b>
<b>Cash flows from operating activities</b>		
Interest and fee income received from customers	<b>239.1</b>	237.4
Payments to suppliers and employees	<b>(103.4)</b>	(96.0)
Borrowing costs	<b>(48.2)</b>	(51.5)
Taxation paid	<b>(16.8)</b>	(13.6)
<b>Net cash inflows from operating activities</b>	<b>70.7</b>	76.3
<b>Cash flows from investing activities</b>		
Payment for purchase of plant and equipment and software	<b>(14.9)</b>	(11.9)
Payment for deferred consideration relating to business acquisitions	-	(3.5)
Payment for business acquisitions	-	(2.4)
Payment for equity investment	-	(1.7)
Net movement in:		
Customer loans	<b>(175.6)</b>	(157.3)
Receivables due from customers	<b>34.2</b>	63.3
<b>Net cash outflows from investing activities</b>	<b>(156.3)</b>	(113.5)
<b>Cash flows from financing activities</b>		
Dividends paid	<b>(14.4)</b>	(27.0)
Treasury shares purchased on market	<b>(0.2)</b>	-
Drawdown of corporate borrowings	<b>52.4</b>	52.0
Repayment of corporate borrowings	<b>(60.8)</b>	(17.0)
Net movement in:		
Non-recourse borrowings	<b>77.3</b>	41.1
Loss reserves on non-recourse borrowings	<b>1.0</b>	0.3
<b>Net cash inflows from financing activities</b>	<b>55.3</b>	49.4
Net (decrease) / increase in cash and cash equivalents	<b>(30.3)</b>	12.2
Cash and cash equivalents at the beginning of the half-year	<b>167.3</b>	174.4
Effects of exchange rate changes on cash and cash equivalents	<b>(3.2)</b>	0.6
<b>Cash and cash equivalents at end of the half-year</b>	<b>133.8</b>	187.2

*The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.*

## Note 1 Basis of preparation and summary of significant accounting policies

### (a) Basis of preparation

The condensed interim consolidated financial statements for the half-year ended 31 December 2017 have been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The condensed interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements. As a result, they should be read in conjunction with the annual consolidated financial statements for the year ended 30 June 2017 and any public announcements made in the period by FlexiGroup Limited ('the Group') in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the ASX *Listing Rules*.

Where necessary comparative information has been reclassified to be consistent with current period disclosures.

#### (i) New standards, interpretations and amendments adopted:

The accounting policies adopted in the preparation of the condensed interim consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2017.

#### (ii) New standards issued but not yet effective:

- **AASB 9 Financial instruments.** AASB 9 *Financial Instruments* will replace AASB 139 *Financial Instruments: Recognition and Measurement* for adoption by the Group for the year ending 30 June 2019. The implementation project of AASB 9 has focused on the preparation for a parallel run of AASB 9. The project includes the definition of significant business models and cash flow characteristics for all financial assets under the scope of AASB 9, the design and development of the Expected Credit Loss impairment models and its calculation. The major changes under the standard and details of the implementation project are outlined below:

**Impairment:** AASB 9 replaces the current incurred loss model which recognises impairment provided that there is evidence that a loss has been incurred by introducing an updated impairment model which requires entities to recognise expected credit losses based on forward looking information. The Group has established an AASB 9 implementation assignment which will deliver translation to the new standard effective 1 July 2018. Models and credit risk processes will be further tested in parallel prior to adoption to provide a better understanding of the implications of the new impairment requirements. This includes an evaluation of the effect on the Group's results as well as validating the controls and effectiveness of the governance and operational processes.

**Classification and measurement:** AASB 9 introduces a new model that categorises financial assets based on the business use within which the assets are managed, and whether the cash flows under the instrument exclusively represent the payment of principal and interest. AASB 9 substitutes the classification and measurement model in AASB 139. Financial assets will be measured at one of the following: amortised cost, fair value through other comprehensive income or fair value through profit or loss. The accounting for financial liabilities is largely unchanged.

**Hedging:** AASB 9 expands the eligibility of hedged items and hedging instruments and introduces an additional principles-based methodology in assessing hedge effectiveness. Adoption of the new hedge accounting model is non-compulsory and current hedge accounting under AASB 139 can continue to be applied until the IASB completes its accounting for dynamic risk management project. The Group is reviewing its options on adoption of AASB 9 hedge accounting.

The impairment and classification and measurement requirements of AASB 9 will be applied retrospectively by adjusting the opening balance sheet at the date of initial application, 1 July 2018. There is no requirement to restate comparatives. The standard is likely to have a material impact and the Group intends to quantify the potential impact of adopting AASB 9 once it is practical to provide a reliable estimate.

- **AASB 15 Revenue from contracts with customers.** This standard is mandatory for adoption by the Group for the year ending 30 June 2018 but is available for early adoption. This new comprehensive standard for revenue recognition replaces AASB 111 Construction contracts, AASB 118 Revenue, AASB Interpretations 13 Customer Loyalty Programmes and AASB Interpretations 18 Transfers of Assets from Customers. The standard requires identification of discrete performance obligations within a transaction and an associated transaction price allocation to these obligations, which occurs when control of the goods or services are transferred to the customer. Revenue received for a contract that includes a variable amount is subject to revised conditions for recognition, whereby it must be highly probable that no significant reversal of the

**Note 1 Basis of preparation and summary of significant accounting policies (continued)**

variable component may occur when uncertainties around its measurement are removed. The financial impact to the Group of adopting AASB 15 is not expected to be material.

- **AASB 16 Leases.** This standard is mandatory for adoption by the Group for the year ending 30 June 2020 but is available for early adoption. This new standard sets out a comprehensive model for identifying lease arrangements and the subsequent measurement. A contract contains a lease if it conveys the right to control the use of an identified assets for a period of time. The majority of leases from a lessee perspective are within the scope of the standard and will require the recognition of a 'right to use' asset and a related lease liability, being the present value of future lease payments. Other than the leases on the Group's premises and motor vehicles, there are no other items that are significant as the Group mainly operates as a lessor. The financial impact to the Group of adopting AASB 16 will be quantified by the Group for the year ending 30 June 2019.

*(iii) Disclosure*

Some disclosures in the income statement, statement of financial position, statement of cash flows and notes to the financial statements for comparatives have been reclassified to be consistent with current period disclosures.

**(b) Use of judgement, estimates and assumptions**

The preparation of condensed interim consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed interim consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements for the year ended 30 June 2017.

**Note 2 Segment information**

**(a) Description of segments**

Management has determined the operating segments based on the reports reviewed by the Chief Executive Officer (CEO) that are used to make strategic decisions. In addition to statutory profit after tax, the CEO and the Board assess the business on a Cash NPAT basis. Cash NPAT is defined as statutory profit after tax, adjusted for the after tax effect of material one-off items that the CEO and Board believe do not reflect ongoing operations of the Group and amortisation of acquired intangible assets.

The CEO considers the business from a product perspective and has identified six reportable segments; Certegy, Australia Cards business, Consumer Leasing (consisting of Flexirent, SmartWay and FlexiWay), Commercial Leasing (consisting of Flexi Commercial, Enterprise and Think Office Technology), New Zealand Leasing, and New Zealand Cards. During the period, a new segment Commercial Leasing, was introduced to better reflect the way resources are allocated and performance managed.

The Commercial segment resulted from the amalgamation of the Enterprise and Think Office Technology (TOT) (disclosed as "Other", a non-core business in run-off in FY17) and SME businesses. There is an enhanced focus to grow this segment, underpinned by the managed services product. SME was reported as part of Australia Leasing in FY17 which also included Consumer Leasing. As a consequence, the remaining businesses in the previous Australia Leasing now form the Consumer Leasing segment, which is also reported separately. Additionally, there is an unallocated segment which consists of net corporate debt interest. Prior year comparatives have been restated to reflect the changes to reportable segments.

The Group operates in Australia, New Zealand and Ireland. The operating segments are identified according to the nature of the products and services provided with New Zealand disclosed separately (based on its product offering) and Ireland included within Consumer Leasing.

The segment information provided to the Chief Executive Officer for the reportable segments for the half year ended 31 December 2017 is as below:

**Note 2 Segment information (continued)**

**(b) Operating segments**

**Half year 31 December 2017**

<b>A\$m</b>	<b>Certegy</b>	<b>Australia Cards</b>	<b>Consumer Leasing</b>	<b>Commercial Leasing</b>	<b>NZ Leasing</b>	<b>NZ Cards</b>	<b>Unallocated<sup>(i)</sup></b>	<b>Total</b>
Total portfolio income	55.4	35.3	31.4	25.7	20.0	61.5	-	229.3
Interest expense	(9.0)	(7.5)	(3.8)	(4.1)	(4.0)	(16.1)	(3.7)	(48.2)
Net portfolio income	46.4	27.8	27.6	21.6	16.0	45.4	(3.7)	181.1
Operating expenses	(15.3)	(12.5)	(22.3)	(12.0)	(8.9)	(19.8)	-	(90.8)
Impairment of goodwill and intangible assets	-	-	(94.7)	-	-	-	-	(94.7)
Impairment losses on receivables and customer loans	(8.2)	(7.9)	(4.9)	(2.2)	(0.7)	(8.1)	-	(32.0)
Amortisation of acquired intangible assets	(0.5)	(0.2)	(0.3)	(0.5)	(0.6)	(1.2)	-	(3.3)
<b>Profit before income tax</b>	<b>22.4</b>	<b>7.2</b>	<b>(94.6)</b>	<b>6.9</b>	<b>5.8</b>	<b>16.3</b>	<b>(3.7)</b>	<b>(39.7)</b>
Income tax expense	(6.8)	(2.2)	5.9	(2.1)	(1.6)	(4.6)	1.1	(10.3)
<b>Statutory profit for the year</b>	<b>15.6</b>	<b>5.0</b>	<b>(88.7)</b>	<b>4.8</b>	<b>4.2</b>	<b>11.7</b>	<b>(2.6)</b>	<b>(50.0)</b>
<i>Recurring non-cash adjustments:</i>								
Amortisation of acquired intangible assets	0.4	0.2	0.1	0.3	0.5	0.9	-	2.4
Impairment of goodwill and intangible assets	-	-	89.1	-	-	-	-	89.1
<b>Cash net profit after tax</b>	<b>16.0</b>	<b>5.2</b>	<b>0.5</b>	<b>5.1</b>	<b>4.7</b>	<b>12.6</b>	<b>(2.6)</b>	<b>41.5</b>
<b>Total segment assets at 31 December 2017</b>	<b>550.8</b>	<b>617.8</b>	<b>238.4</b>	<b>252.5</b>	<b>172.8</b>	<b>898.0</b>	<b>-</b>	<b>2,730.3</b>

(i) Unallocated relates to net corporate debt interest.

**Note 2 Segment information (continued)**

**(b) Operating segments (continued)**

Half year 31 December 2016

A\$m	Certegy	Australia Cards	Consumer Leasing	Commercial Leasing	NZ Leasing	NZ Cards	Unallocated <sup>(i)</sup>	Total
Total portfolio income	56.9	27.4	37.6	28.2	20.5	64.9	-	235.5
Interest expense	(9.5)	(5.6)	(4.9)	(5.7)	(3.9)	(16.9)	(5.0)	(51.5)
Net portfolio income	47.4	21.8	32.7	22.5	16.6	48.0	(5.0)	184.0
Operating expenses	(13.1)	(8.7)	(21.7)	(9.5)	(8.8)	(22.3)	-	(84.1)
Impairment losses on receivables and customer loans	(9.2)	(6.0)	(5.1)	(2.9)	(0.2)	(7.2)	-	(30.6)
Amortisation of acquired intangible assets	(0.4)	(0.2)	(0.1)	(0.5)	(0.4)	(0.1)	-	(1.7)
<b>Profit before income tax</b>	24.7	6.9	5.8	9.6	7.2	18.4	(5.0)	67.6
Income tax expense	(7.4)	(2.1)	(1.8)	(2.9)	(2.1)	(5.2)	1.5	(19.9)
<b>Statutory profit for the year</b>	17.3	4.8	4.0	6.7	5.1	13.2	(3.5)	47.7
<i>Recurring non-cash adjustments:</i>								
Amortisation of acquired intangible assets	0.3	0.2	0.6	0.3	0.5	0.1	-	1.9
<b>Cash net profit after tax</b>	17.6	5.0	4.6	7.0	5.6	13.3	(3.5)	49.6
<b>Total segment assets at 31 December 2016</b>	549.6	432.6	333.8	314.8	222.7	934.3	-	2,787.8

(i) Unallocated relates to net corporate debt interest.

**Note 3 Total portfolio income**

A\$m	Half-year ended 31 Dec 17	Half-year ended 31 Dec 16
Gross interest and finance lease income	192.7	200.1
Amortisation of initial direct transaction costs	(11.6)	(12.7)
Other portfolio income	42.7	43.0
Sale of goods	3.4	2.5
Interest income	1.2	1.6
Sundry income	0.9	1.0
<b>Total portfolio income</b>	<b>229.3</b>	<b>235.5</b>

**Note 4 Expenses**

A\$m	Half-year ended 31 Dec 17	Half-year ended 31 Dec 16
<b>Depreciation and amortisation expenses</b>		
Depreciation of plant and equipment	1.4	1.3
Amortisation of other intangible assets	8.5	5.3
<b>Total depreciation and amortisation expenses</b>	<b>9.9</b>	<b>6.6</b>

**Operating and other expenses**

Advertising and marketing	4.9	4.8
Cost of goods sold	2.2	1.7
Information technology and communication	7.7	7.5
Operating lease rental expenses	3.0	2.6
Other occupancy, equipment and related costs	2.0	1.8
Outsourced operation costs	5.3	4.5
Professional, consulting and other service provider costs	10.4	7.6
Onerous lease expenses	-	2.6
Other	1.3	2.4
<b>Total operating and other expenses</b>	<b>36.8</b>	<b>35.5</b>

**Note 5 Cash and cash equivalents**

A\$m	31 Dec 17	30 Jun 17
Restricted <sup>(i)</sup>	97.9	125.2
Unrestricted	35.9	42.1
<b>Cash at bank and on hand</b>	<b>133.8</b>	<b>167.3</b>

<sup>(i)</sup> Represents amounts held as part of the Group's funding arrangements and are not available to the Group. The restricted cash balances are distributed to various parties at a future date and are not available to the Group for any other purpose.

**Note 6      Goodwill**

A\$m	31-Dec-17	30-Jun-17
<b>(a)      Carrying value</b>		
Cost	236.9	321.4
Net book amount	236.9	321.4

**Movement in goodwill at net book amount**

Balance at the beginning of the year	321.4	298.9
Additions or fair value adjustments through business combinations:		
- acquisition of subsidiaries	-	1.0
- NZ Cards fair value adjustment	-	15.2
Transfer from/(to) assets in disposal group held for sale	-	1.9
Impairment	(75.9)	-
Effect of movements in exchange rates	(8.6)	4.4
<b>Balance at the end of the year</b>	<b>236.9</b>	<b>321.4</b>

**(b)      Impairment testing for cash generating units containing goodwill**

For the purpose of impairment testing, goodwill is allocated to the Group's operating business units, which represent the lowest level within the Group at which goodwill is monitored for internal management purposes.

The aggregate carrying amounts of goodwill allocated to each unit(s) are as follows:

A\$m	31-Dec-17	30-Jun-17
Consumer Leasing	-	75.9
Certegy	30.7	30.7
Australia Cards	18.9	18.9
New Zealand Leasing	17.5	18.3
Think Office Technology (TOT)	1.9	1.9
New Zealand Cards	167.9	175.7
<b>Total Goodwill</b>	<b>236.9</b>	<b>321.4</b>

The carrying amount of goodwill of each CGU is tested for impairment at each statutory reporting date and whenever there is an indicator that the asset may be impaired. After observing some indicators of impairment at the interim reporting date, an assessment of the Consumer Leasing CGU was performed at 31 December 2017. This resulted in a pre-tax impairment of goodwill (\$75.9m), acquired intangible assets (\$0.4m) and capitalised development software (\$18.4m) totalling \$94.7m. The impairment resulted from the following factors:

- The main product that underpinned the operations of the CGU, the Flexirent consumer lease product in Australia will be retired in February 2018 and the receivables portfolio run down over the next few years. The future cash flows attaching to this product are therefore not sufficient to support the value of the CGU net assets.
- The realignment of operating segments as described in Note 3, resulted in SME cash flows that previously were part of this CGU being excluded from recoverable amount assessment. Management deemed that no part of existing goodwill be allocated to a new CGU containing the SME cash flows.

The CGU that has been impaired belongs to the Consumer Leasing reportable segment.



The key assumptions used in determining value in use are:

<b>Assumption</b>	<b>How determined</b>
Forecast revenues and expenses	Forecast revenues and expenses have been based on 3 year Board approved business plan with a further 2 year period extrapolated with the long-term terminal growth rate at 2.5%
Long-term growth rate	The above long-term growth rate does not exceed the long-term average growth rate for the sector / industry in which the CGU operates.
Cost of Equity Capital	The discount rate applied to the cash flows of the CGU is based on the risk free rate for ten-year Commonwealth Government bonds, adjusted for a risk premium to reflect both the increased risk of investing in equities and the risk of the specific group operating company. In making this adjustment, inputs required are the equity markets risk premium (that is the required increased return required over and above a risk free rate by an investor who is investing in the market as a whole) and the risk adjustment, beta, applied to reflect the risk of the specific group operating company relative to the market as a whole, giving rise to the CGU specific Cost of Equity Capital. The pre-tax discount rate used for testing the Consumer Leasing CGU was 19.7% (2017:15.3%).

No impairment testing was performed for other CGUs at the interim reporting date as no indicators of impairment were assessed as being present.

#### **Note 7 Other Intangible assets**

<b>A\$m</b>	<b>Merchant &amp; customer</b>			<b>Total</b>
	<b>IT development &amp; software</b>	<b>relationships and other rights</b>	<b>Brand name</b>	
<b>At 1 July 2016</b>	<b>53.5</b>	<b>47.3</b>	<b>-</b>	<b>100.8</b>
Additions	10.7	-	-	10.7
Additions and changes in fair value through business combinations	(5.0)	1.5	4.1	0.6
Amortisation (note 4)	(3.5)	(1.8)	-	(5.3)
Effect of movements in exchange rates	-	0.2	0.1	0.3
<b>At 31 December 2016</b>	<b>55.7</b>	<b>47.2</b>	<b>4.2</b>	<b>107.1</b>
<b>At 1 July 2017</b>	<b>62.1</b>	<b>47.8</b>	<b>4.5</b>	<b>114.4</b>
Additions	11.2	-	-	11.2
Impairment	(18.4)	(0.4)	-	(18.8)
Amortisation (note 4)	(5.6)	(2.9)	-	(8.5)
Effect of movements in exchange rates	(0.6)	(1.9)	(0.2)	(2.7)
<b>At 31 December 2017</b>	<b>48.7</b>	<b>42.6</b>	<b>4.3</b>	<b>95.6</b>

#### **Note 8 Dividends**

<b>A\$m</b>	<b>Half-year ended 31 Dec 17</b>	<b>Half-year ended 31 Dec 16</b>
-------------	--------------------------------------	--------------------------------------

##### **Ordinary shares**

Dividends provided for or paid during the half-year	<b>14.4</b>	27.0
---	-------------	------

On 20 February 2018 the Directors have recommended the payment of an interim dividend of 3.85 cents per fully paid ordinary share, fully franked based on tax paid at 30%. The interim dividend totalling \$14.4m is expected to be paid on 13 April 2018 out of retained profits at 31 December 2017 and has not been recognised as a liability at the end of the half-year.

**Note 9 Contributed equity**

**(a) Movement in ordinary share capital**

	Number of shares (m)	\$m
<b>1 July 2017</b>	<b>374.1</b>	<b>312.1</b>
Treasury shares purchased on market	(0.2)	(0.2)
Transfer from treasury shares on vesting of sign on rights	0.1	0.1
Transfer from share capital reserve	-	0.3
Expired options and rights transferred from share based payment reserve	-	1.4
<b>31 December 2017</b>	<b>374.0</b>	<b>313.7</b>

**(b) Movement in preference share capital**

	Number of shares (m)	\$m
<b>1 July 2017</b>	<b>49.1</b>	<b>49.1</b>
<b>31 December 2017</b>	<b>49.1</b>	<b>49.1</b>

	Number of shares (m)	\$m
<b>Total contributed equity</b>	<b>423.1</b>	<b>362.8</b>

**Note 10 Related party transactions**

*Rental of Melbourne premises*

A related company in the Group has rented premises in Melbourne owned by entities associated with a director; Mr A. Abercrombie. The rental arrangements for the Melbourne premises are based on market terms.

A\$m	Half-year ended 31 Dec 17	Half-year ended 31 Dec 16
Rental of Melbourne premises	97,544	94,703

**Note 11 Contingencies**

FlexiGroup's consumer leasing division ("Flexirent") has been proactively engaging with ASIC and the Credit and Investments Ombudsman, on a range of matters relating to its responsible lending processes. Flexirent is considering a range of enhancements to its existing control environment to assist it to early identify and resolve areas of potential customer detriment. This may result in remediation (financial and/or non-financial) for any impacted customers.

No provisions have been recognised in the financial statements as a result of the uncertainty on the nature, timing and amount of the potential remediation. Based on information currently available, FlexiGroup cannot ascertain the materiality of any remediation activities.

There are no other material contingent liabilities at the date of this report.

**Note 12 Fair value of financial assets and financial liabilities**

Fair value reflects the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Quoted prices or rates are used to determine fair value where an active market exists. If the market for a financial instrument is not active, fair values are estimated using present value or other valuation techniques, using inputs based on market conditions prevailing on the measurement date.

**Note 12 Fair value of financial assets and financial liabilities (continued)**

Financial instruments measured at fair value are categorised under a three level hierarchy as outlined below:

*Level 1:* quoted prices (unadjusted) in active markets for identical assets or liabilities.

*Level 2:* 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).

*Level 3:* inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Group has assessed its financial instruments recorded at fair value and are categorised as per below under fair value hierarchy.

The table below summarises the carrying amount and fair value of financial assets and financial liabilities held at amortised cost. The methodology and assumptions used in determining fair values are as follows:

*Cash and cash equivalents*

The carrying amount of cash and cash equivalents is an approximation of fair value as they are short term in nature or are receivable on demand.

*Receivables and customer loans*

The fair value of lease receivables and customer loans are estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group. The nominal value (including unamortised initial direct transaction costs) less estimated credit adjustments of lease receivables and customer loans are assumed to approximate their fair values.

*Payables*

The carrying amount of payables is an approximation of fair values as they are short term in nature.

*Borrowings*

The fair value of borrowings is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group.

Set out below is a comparison of the carrying amounts and fair values of financial assets and liabilities as at 31 December 2017 and 30 June 2017:

<b>A\$m</b>	<b>Carrying amount 31 Dec 17</b>	<b>Fair value 31 Dec 17</b>	<b>Carrying amount 30 Jun 17</b>	<b>Fair value 30 Jun 17</b>
<b>Financial assets</b>				
Cash and cash equivalents	133.8	133.8	167.3	167.3
Receivables	582.7	582.7	626.9	626.9
Customer loans	1,661.7	1,661.7	1,539.0	1,539.0
<b>Financial liabilities</b>				
Payables	45.2	45.2	50.3	50.3
Borrowings				
- Floating interest rate	1,846.4	1,846.4	1,843.4	1,843.4
- Fixed interest rate	217.6	221.2	186.6	190.3
Total borrowings before loss reserves	2,064.0	2,067.6	2,030.0	2,033.7
Derivative financial instruments	9.6	9.6	12.9	12.9

**Note 12 Fair value of financial assets and financial liabilities (continued)**

**Fair value hierarchy**

The fair value hierarchy is determined by reference to observable inputs into the fair value models.

*Receivables and customer loans*

Unobservable inputs such as historic and current product margins and customer creditworthiness are considered to determine the fair value. These are classified as level 3.

*Borrowings and derivative financial instruments*

These are classified as level 2 as the inputs into the fair value models used to determine fair value are observable.

Other financial assets and financial liabilities are classified as Level 1.

**Note 13 Securitisation and special purpose vehicles**

The Group sells receivables and customer loans to securitisation vehicles through its asset-backed securitisation program and other special purpose vehicles. The securitisation and special purpose vehicles are consolidated as the Group is exposed or has rights to variable returns and has the ability to affect its returns through its power over the securitisation vehicles. The Group may serve as a sponsor, servicer, liquidity provider, purchaser of notes and/or purchaser of residual interest units.

The table below presents assets securitised and the underlying borrowings as a result of the securitisations.

A\$m	31 Dec 17	30 Jun 17
Receivables	569.0	519.6
Customer loans	1,640.2	1,520.6
Cash held by securitisation vehicles	95.7	121.5
	<b>2,304.9</b>	<b>2,161.7</b>
Borrowings related to receivables and customer loans	1,927.6	1,881.4

**Note 14 Events occurring after balance sheet date**

As at the date of this report the directors are not aware of any matter or circumstance that has arisen since 31 December 2017 that has significantly affected, or may significantly affect:

- a) the Group's operations in future financial years, or
- b) the results of those operations in future financial years, or
- c) the Group's state of affairs in future financial years.

In accordance with a resolution of directors of FlexiGroup Limited, we state that:

In the opinion of the directors:

- a) the financial statements and notes of the Group are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
  - (ii) giving a true and fair view of the Group's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and
- b) there are reasonable grounds to believe that FlexiGroup Limited will be able to pay its debts as and when they become due and payable.

On behalf of the Board



**Andrew Abercrombie**  
Chairman

Sydney  
20 February 2018



## **Independent auditor's review report to the members of FlexiGroup Limited**

### ***Report on the Half-Year Financial Report***

We have reviewed the accompanying half-year financial report of FlexiGroup Limited (the Company), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and consolidated income statement for the half-year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for FlexiGroup Limited. The consolidated entity comprises the Company and the entities it controlled during that half-year.

### ***Directors' responsibility for the half-year financial report***

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

### ***Auditor's responsibility***

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of FlexiGroup Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### ***Independence***

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

---

**PricewaterhouseCoopers, ABN 52 780 433 757**

One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001  
T: +61 2 8266 0000, F: +61 2 8266 9999, [www.pwc.com.au](http://www.pwc.com.au)

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124  
T: +61 2 9659 2476, F: +61 2 8266 9999, [www.pwc.com.au](http://www.pwc.com.au)

*Liability limited by a scheme approved under Professional Standards Legislation*

### ***Conclusion***

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of FlexiGroup Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



PricewaterhouseCoopers



Rob Spring  
Partner

Sydney  
20 February 2018