What can a
little birdie
tell you?

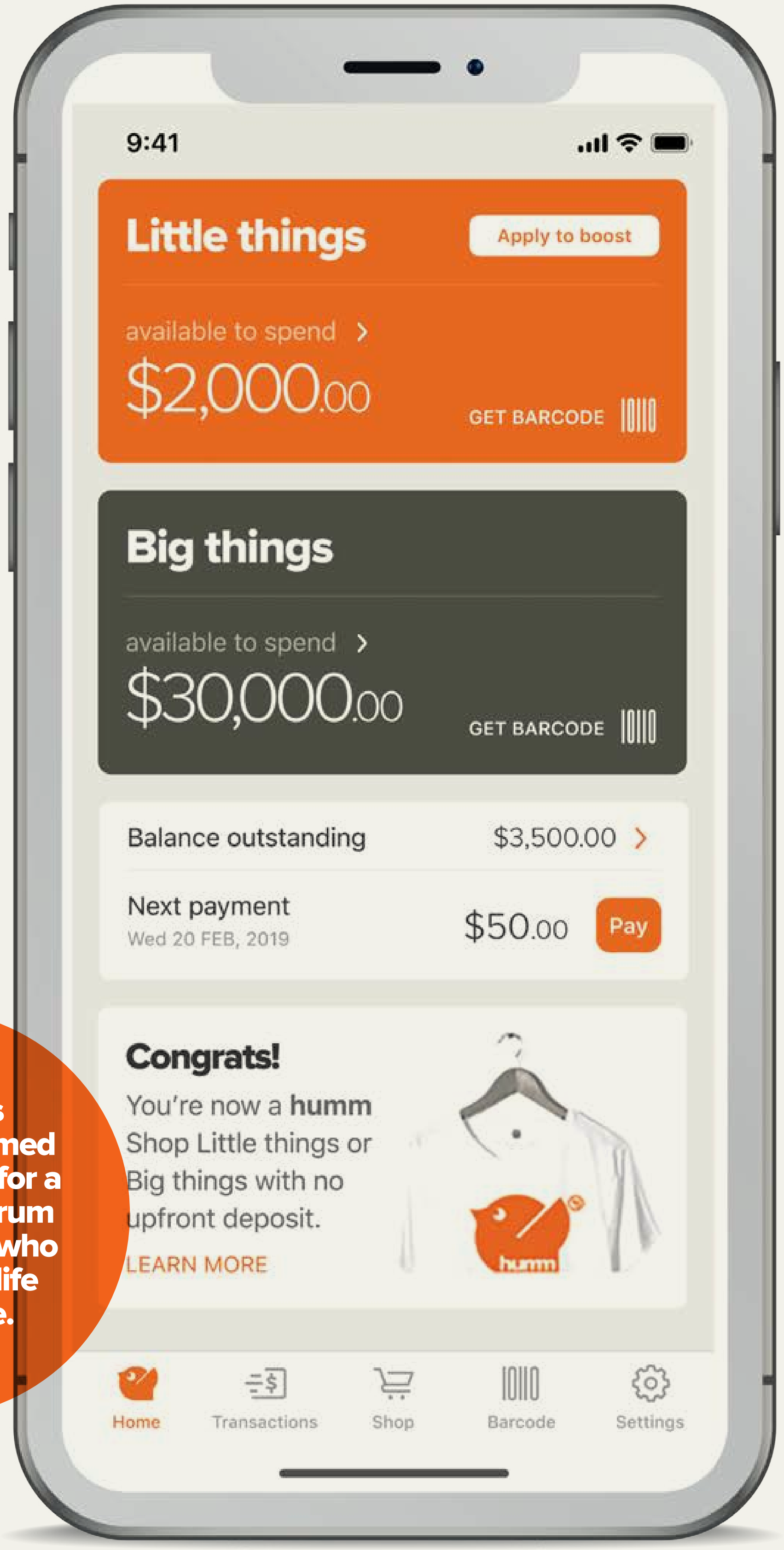
ANNUAL REPORT // 2019
ABN 75 122 574 583

flexigroup


hu

On 8 April, 2019 flexigroup released humm: a revolutionary 'Buy Now Pay Later' product that marked our first step into the next era of digital payments.

Humm is the first building block in our strategy to create a complete ecosystem of products that will rewrite the playbook for digital spending. It tells us a lot about the business we're becoming.



Humm has instantly reframed family finance for a massive spectrum of Australians who can now live life interest free.

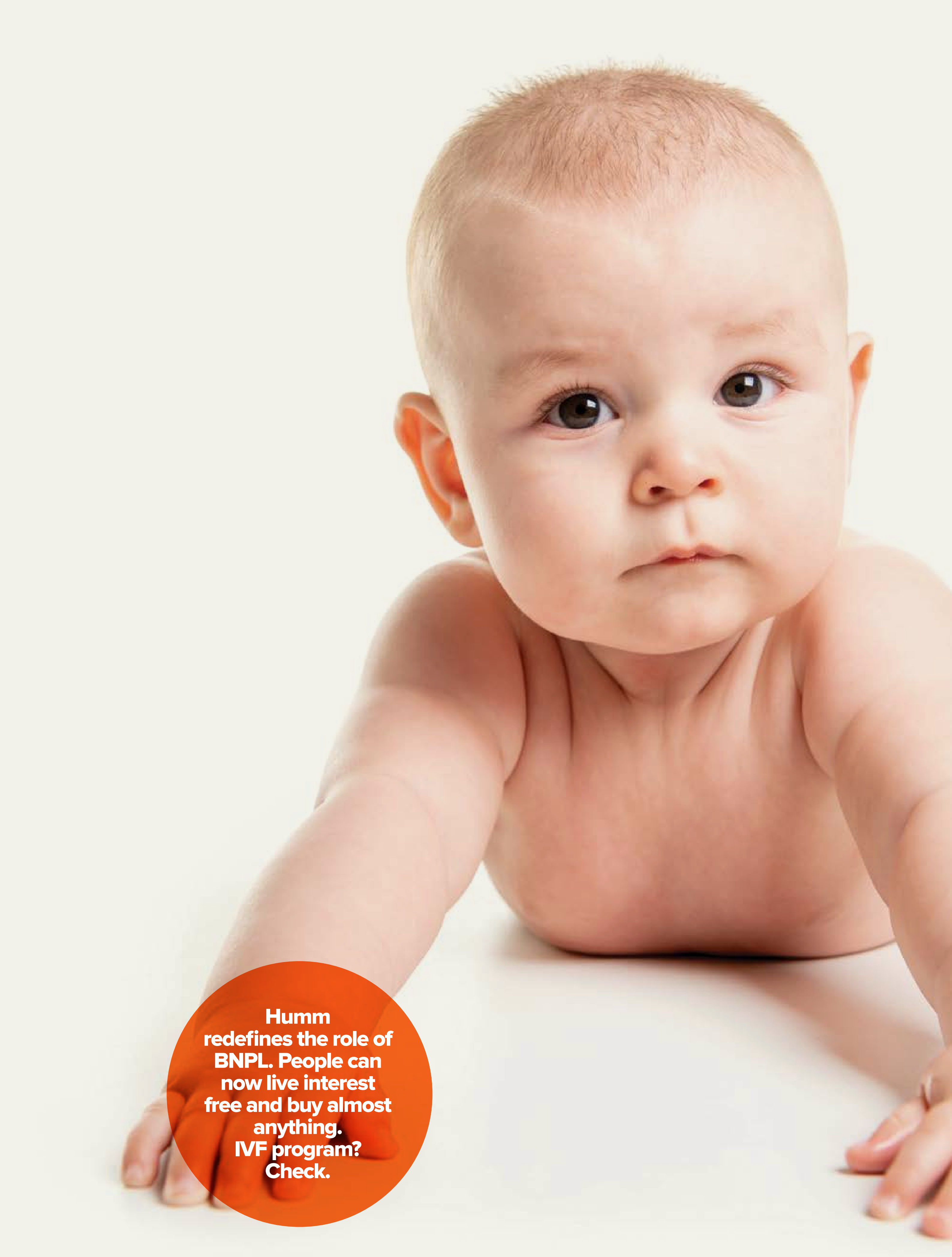
Humm began with the integration of Certegy Ezi-pay and Oxipay into one optimised product.

>> **A simple insight led to a whole new perspective on the way people buy day-to-day.** The opportunity lay in offering interest free for the big and the boring as well as the small and the sweet. $1 to $2,000 repaid over 10 to 20 weeks gives people the chance to indulge in life's luxuries or find a little elbow room in the monthly budget when unexpected expenses arise. $2,000 to $30,000 repaid over six to 60 months, opens up a whole new frontier for affording the big things in life. Solar, dental, optical, furniture and home renovation – and even fertility services – can now be unlocked as part of **humm's** world of 'Buy Now Pay Later'.

**Approval >
Purchase >
Repurchase >
Every stage of the value chain is now instant – even to buy a new IKEA fan forced oven.**

Night or day, home or away. Immediacy is the new currency. Our decisioning engine gives 'BNPL' true meaning – whatever, whenever and wherever.

>> **New customer sign-up is as simple as five basic questions followed by instant assessment.** This means they're a customer of **humm** in under three minutes. Although approval is swift, our assessment is rigorous through partnerships with Illion and Proviso, meaning we meet our regulatory obligations straight up. **Humm's** boost function allows us to evaluate income via bank statements, to raise spending limits from $1,000 to $2,000 seamlessly within our app. For customers who want to unlock the big wallet feature, we call on over 20 years of historical data and close to 2 million Certegy Ezi-pay purchases to validate their credit profile. Our history, knowledge bank and database create immediacy for customers, with certainty and security for our business.


Humm
redefines the role of
BNPL. People can
now live interest
free and buy almost
anything.
IVF program?
Check.

With humm we open a new frontier by moving our category from impulse spending to helping Australians afford what they need across all of life.

>> **Take your pick:** an IVF program, a swimming pool, new BBQ, braces and cosmetic dentistry, repairing the family car or tricking it up a little, audiology, home renos like new carpets, shutters and pergolas, a new watch, diamond engagement ring or string of pearls, a new flatscreen, air con or solar system – get it now, pay it later. And the silver lining? Pay no interest ever. **Humm** offers the most complete world of helping families in Australia, and soon in New Zealand, stretch their income so that they can make life happen right now.

HUMM NET WORK.

>> **500 new retailers join the humm family every week. A humm customer is spending $402 on average – more than double that of any other BNPL provider.**

Humm offers retailers access to a broader demographic with a higher spending power helping those retailers drive more value into their business. Our network is at the tipping point where the more it grows, the more value we pump into the sector.

IKEA. MYER. CITY FERTILITY. NATIONAL DENTAL PLAN. TEMPLE & WEBSTER. SMIGGLE. MICHAEL HILL JEWELLERS. STRANDBAGS.

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About this report

The 2019 Annual Report is a full report on **flexigroup**'s operational and financial performance for the financial year ended 30 June 2019. In this report, unless otherwise stated, references to '**flexigroup**', the 'Group', 'we', 'us' and 'our' refer to FlexiGroup Limited, listed on the ASX as FXL.

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Performance Highlights.

1.76 million

CUSTOMERS (GROWTH OF 8%)

$76.1 million

CASH NPAT (WITHIN GUIDANCE)

48%

COST TO INCOME RATIO (FLAT)

65k

RETAIL PARTNERS (5,000 NEW PARTNERS SINCE **HUMM** LAUNCH)

$2.64 billion

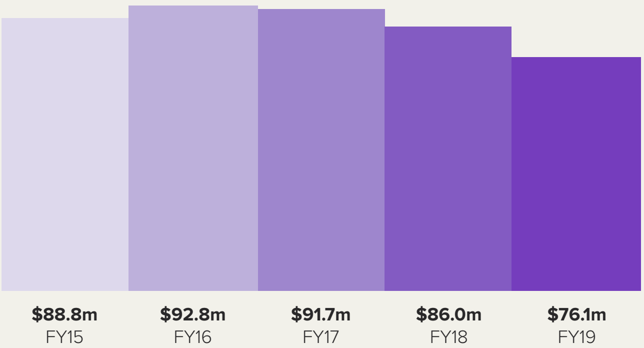
RECEIVABLES (GROWTH OF 11%)

$2.56 billion

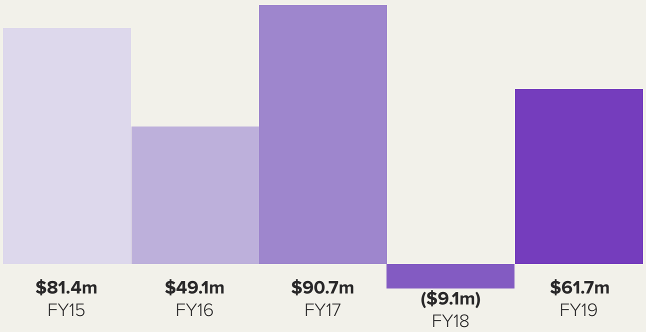
TRANSACTION VOLUME (GROWTH OF 12%)

1. Cash NPAT is defined as statutory profit after tax, adjusted for the after tax effect of material infrequent items that the CEO and Board believe do not reflect ongoing operations of the Group, and amortisation of acquired intangible assets.
2. Receivable and loans excludes provision for doubtful debts, unamortised transaction costs and other debtors.
3. Return on Equity (RoE) is Cash NPAT as a percentage of average Equity.

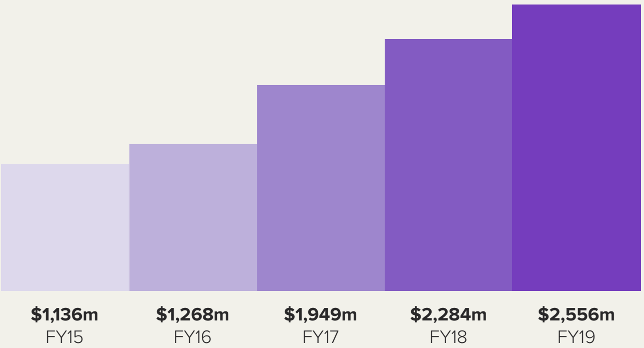
Cash NPAT[1] $76.1m ▼ 12%



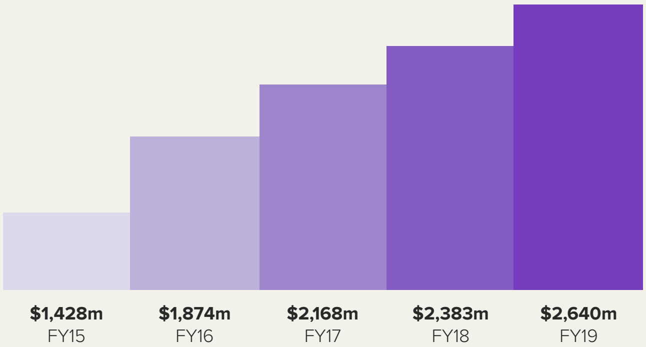
Statutory net (loss)/profit after tax $61.7m ▲ 778%

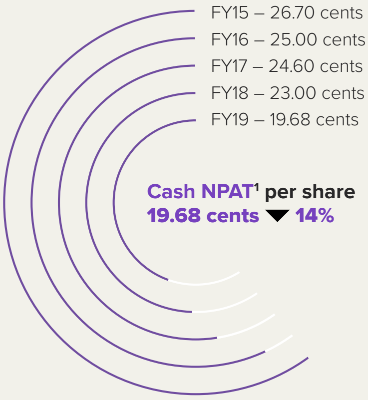


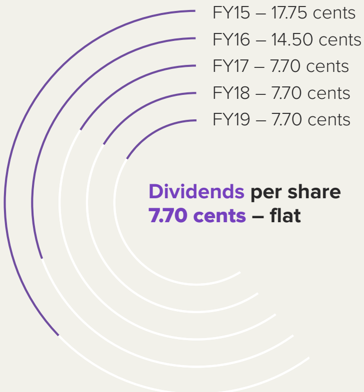
Volume $2,556m ▲ 12%

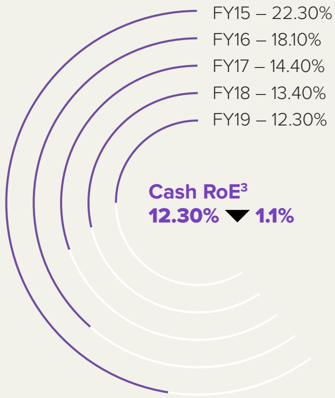


Receivables and loans[2] $2,640m ▲ 11%

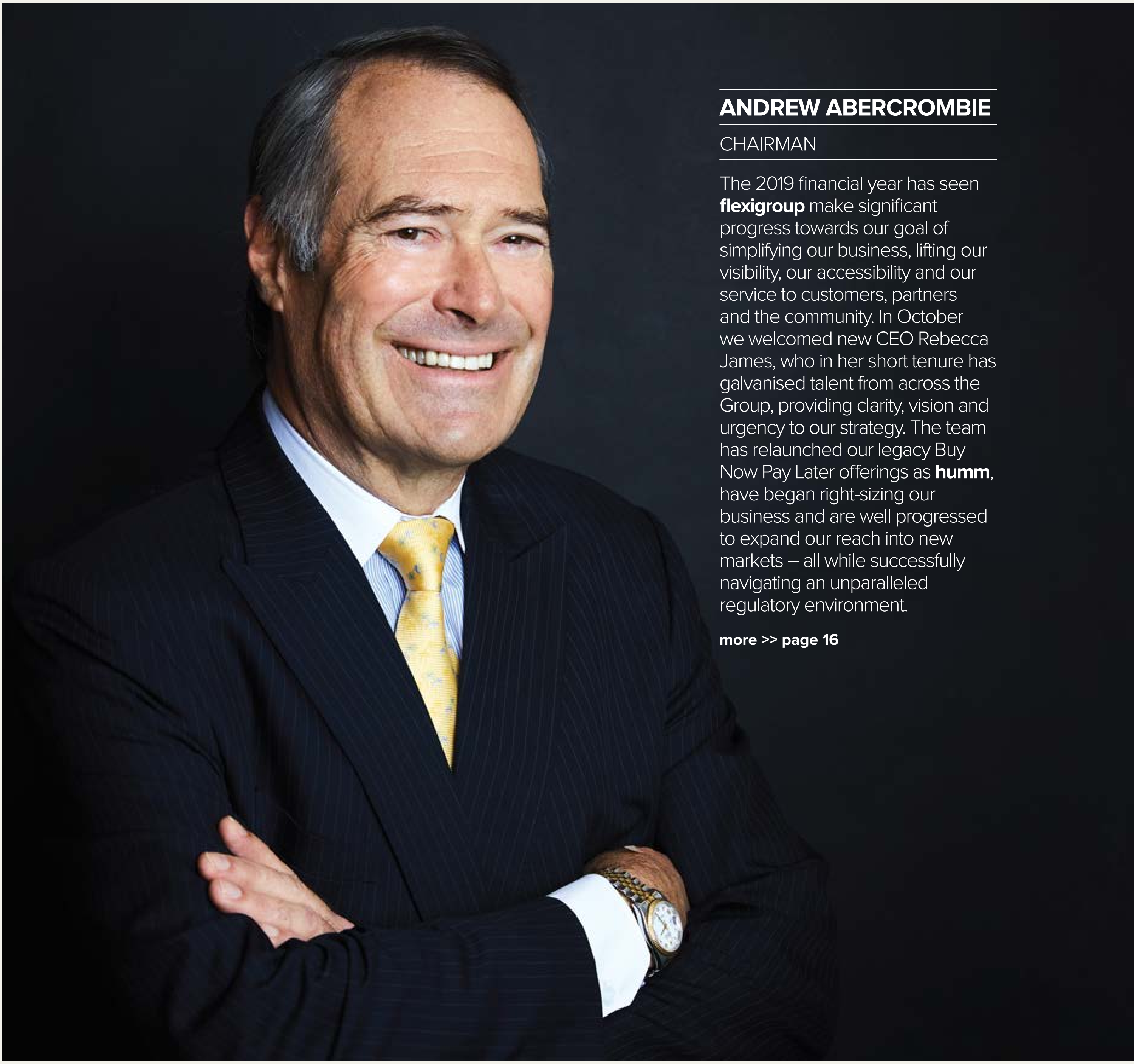








Chairman
and Chief Executive Officer.



ANDREW ABERCROMBIE

CHAIRMAN

The 2019 financial year has seen **flexigroup** make significant progress towards our goal of simplifying our business, lifting our visibility, our accessibility and our service to customers, partners and the community. In October we welcomed new CEO Rebecca James, who in her short tenure has galvanised talent from across the Group, providing clarity, vision and urgency to our strategy. The team has relaunched our legacy Buy Now Pay Later offerings as **humm**, have began right-sizing our business and are well progressed to expand our reach into new markets – all while successfully navigating an unparalleled regulatory environment.

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REBECCA JAMES

CHIEF EXECUTIVE OFFICER

flexigroup's products span a broad price range, which means that we can legitimately own lifestyle across a wide demographic. We have the ability to finance the lifestyles and aspirations of our customers – whether that be school fees, holidays, solar panels, dental work or engagement rings.

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WE ARE FILLING A GAP THAT OUR COMPETITORS ARE MISSING.

Chairman's Letter.

During the period, **flexigroup** attracted 226,000 new customers to its products, resulting in an active customer base of 1.7 million. The Group also added 5,000 new retail partners to its network, increasing its valued partnerships with retailers across Australia and New Zealand to 65,000.

Providing customers and retail partners seamless payment options that enhance the buying experience is core to **flexigroup**'s purpose. During the period, we were pleased to attract 226,000 new customers, resulting in an active customer base of 1.7 million. The Group also added 5,000 new retail partners to its network, increasing its valued partnerships with retailers across Australia and New Zealand to 65,000.

The Company delivered Cash Net Profit After Tax of $76.1m, in line with our revised guidance. Adjusting for a one-off impairment in Commercial Leasing, **flexigroup**'s Cash NPAT was $88.6m. Underlying operating performance remained positive with good momentum across most of the business.

In April we successfully consolidated two Australian legacy platforms (Certegy Ezi-Pay and OxiPay) when we launched our new Buy Now Pay Later product, **humm**. A compelling and differentiated completely interest free offer, shoppers can spend from $1 up to $30,000 which supports broad usage from high street retail to home owner purchases. This has seen strong traction and in the month following the launch of **humm** in Australia, the total number of transactions increased by 22% and transaction volume grew by 16%.

Total volumes of **flexigroup**'s AU cards business grew by 10% year-on-year, which is a good result when viewed against a negative trend across the category. While there is improvement in arrears in AU cards business, the improvement is occurring at a slower than forecast rate, also impacting Group NPAT. In our NZ cards business we achieved volume growth of 16%, well ahead of the market.

AU commercial leasing delivered volume of $294m, up 27%, but cash NPAT for the segment was impacted by a one-off impairment of $14m.

Capital Management

flexigroup declared fully franked dividends of 7.7 cents per share for the 2019 financial year – equivalent to last year and in line with our stated payout ratio of 30 to 40% of Cash NPAT.

Your company remains well funded for growth with significant funding facility headroom.

In line with new accounting standards, from 1 July 2018 we have increased our provision for doubtful debts as the credit provision policy moves from one based on incurred loss to one based on expected loss.

Our focus is on maintaining a sustainable capital model with the flexibility for investment and future growth. We are investing in our products to help make an enriched life affordable for everyone.

Management and Board changes

The Board was pleased to welcome Rebecca James to the role of Chief Executive Officer. Her experience gained as Chief Marketing and Enterprise Officer at Prospa and, prior to that, as Chief Marketing Officer at ME Bank has been a great fit for **flexigroup**. Her skill in the financial services sector and in building consumer brands is apparent and the team has responded well to her leadership.

The Board has seen marked progress in the execution of the transformation plan and are thankful for the sense of urgency that Rebecca and the broader leadership team have demonstrated, along with a keen focus on delivering results. You can read more about **flexigroup**'s strategy and future plans in the CEO's Report.

During the year the board was significantly strengthened with the addition of seasoned investor John Wylie. The investment by Tanarra Capital is a strong endorsement of the significant transformation program announced by **flexigroup** at the Half Year Results and the company's direction under the leadership of Rebecca James.

Regulatory, Risk and Compliance

The Board also maintains its focus on regulatory, risk and compliance management – which involves identifying past issues for remediation while proactively engaging with our regulators to future proof our responsible lending practices.

During **flexigroup**'s 30 year history in Australia, we have demonstrated a track record of adapting to and, in many cases, leading industry and regulatory change. We have well established risk and governance processes.

In the last twelve months, we have delivered our submission to the ASIC Review of Buy Now Pay Later; participated in the Senate Inquiry into consumer leasing and Buy Now Pay Later; and, subsequently, led engagement with industry bodies and peers on the possibility of self-regulation in the Buy Now Pay Later space. We will remain engaged with the community and our customers to ensure **flexigroup** is striking the right balance between credit access and convenience that is in line with appropriate responsible lending safeguards.

On behalf of the Board, I would like to thank our shareholders for their continued support, and our people for their ongoing hard work and commitment to ensure a superior experience to our retail partners and customers.

Sincerely,

Andrew Abercrombie
Chairman

27 August 2019

Chief Executive's Report.

We have already undertaken significant work to simplify our business, moving from 12 consumer products to five. On page 29 it can be seen that we are now very clear on the segments of the market where we believe **flexigroup** can deliver a unique, competitive and market leading offer. Namely: Buy Now Pay Later; Credit Cards; and SME lending.

Operational performance

During a busy 2019, **flexigroup** continued to drive good underlying growth in its core products:

- Buy Now Pay Later volumes were up 6% with the product suite now digitised and momentum flowing into 2020;
- Australian Credit Card volumes were up 10% and portfolio income growth was driven by strong usage;
- New Zealand Credit Card volumes were up 18% driven by a 34% increase in transactional spend;
- Australian consumer leasing was down 28% to $56m, offset by a 77% increase in Ireland consumer leasing to $46m;
- Commercial leasing volumes were up by a strong 27%, but cash NPAT in this segment was impacted by an impairment taken on one vendor's programs; and
- The Group's Cash NPAT for the 2019 financial year was $76.1m.

We are now looking to further differentiate our unique offering in Buy Now Pay Later, Credit Cards and Leasing with some important pivots identified in our strategic review. Our focus will be investment in innovation, technology and marketing to drive top-line growth and market share to deliver sustainable, long-term returns to shareholders.

Strategic review

In February I outlined a new strategy designed to transform **flexigroup** and ensure it grows its market share long into the future. Having reviewed the business in great detail, we found a number of factors which were impacting our ability to adapt and grow, and capture the $6.5b trans-Tasman market opportunity in our core product range.

To address these issues, we have identified the four steps to transformation set out below.

In the four months to the end of the 2019 financial year, we made pleasing progress against all of our strategic pillars and, at the time of publishing this report, we are seeing strong momentum into 2020.

Simplify our offering

We have already undertaken significant work to simplify our business, moving from 12 consumer products to five. On page 29 it can be seen that we are now very clear on the segments of the market where we believe **flexigroup** can deliver a unique, competitive and market leading offer. Namely: Buy Now, Pay Later; Credit Cards; and SME lending.

Lead in Buy Now Pay Later
The Buy Now Pay Later sector has experienced 250% growth in the last year alone and interest free shopping is now ubiquitous. In April 2019, we relaunched our Buy Now Pay Later offering, consolidating our two legacy products into one new consumer facing brand, **humm**.

Humm is the only product in the market that can offer instant finance for purchases up to $30,000, interest free.

Humm already accounts for 17% of the Buy Now Pay Later market and, at the end of the 2019 financial year, we had 65,000 seller locations. Since launching **humm** an additional 5,000 retail partners have signed up and we continue to receive great support for this innovative offering.

Our 2019 financial year, Buy Now Pay Later volumes were $574m and we are focused on growing volumes strongly into 2020.

Streamline originations with instant credit decisions
Our objective is to foster a credit platform that is agnostic to product and market and therefore easily scaled for growth. Significant work has been undertaken in the 2019 financial year to decommission legacy systems and deliver a sophisticated proprietary decision engine that makes best use of the 20 million data reference points we collect from our customers. While work on this continues, we are already experiencing the benefits of our investment with early improvements in arrears due to enhanced decision-making.

Expand our reach
After the close of the 2019 financial year, we announced a number of initiatives that we are rolling out in the year ahead to expand the reach of **flexigroup** into new market segments.

The first is **bundll**. **Bundll** is an extension to our Buy Now Pay Later offering. In partnership with Mastercard, we are launching an offer that will allow customers to Buy ANYWHERE Pay Later. That means, using the Mastercard network, customers can shop wherever they like (not just with our retail partners), bundle up their purchases and defer their interest – dramatically expanding the reach of interest free purchases. **Bundll** should be downloadable from the app store late in the 2019 calendar year.

The second is **cartt**. While our credit card business continues to go from strength to strength, we have not been maximising our reach because – until now – we have not gone direct to the consumer with our card offering. Under the new brand of **cartt** we will continue to have one of the most competitive offers in the market, which we will be able to market it directly to customers.

The third is **wiired**, a product designed specifically for Small and Medium Enterprises (SMEs) seeking a nimble and competitive leasing partner who can help finance technology investments for the business. **Wiired** lease and **wiired** money will be in market in FY2020.

Investments in team

Importantly, during the year, we took significant steps to strengthen and recognise our executive team, prioritising revenue, technology and risk.

We welcomed Elizabeth Minogue as our Chief Revenue Officer Australia, Natalie Nicholson as Group Chief People and Culture Officer, and Isobel Rogerson as Group Company Secretary. Andrew Murrell also joined us as Acting Chief Operating Office, leading the charge in our Simplification stream. We were pleased to announce the promotion of Chris Lamers to Deputy Group CEO, and Jonathan Kelly to become Chief Growth and Innovation Officer. Finally, since the end of the year, we have appointed Darrel van Dort as General Manager Digital and Data.

I would also like to call out each and every member of the **flexigroup** team in Australia, New Zealand and Ireland for their hard work, dedication and reliability. 2019 was a year for significant reflection, planning and change. On the whole, these challenges have been handled with gusto and I am incredibly excited about working with this team as we continue to deliver on our strategy into 2020 and beyond.

Regards,

Rebecca James
Chief Executive Officer

27 August 2019

The Board of Directors.

Andrew Abercrombie

Chairman, Founding Director, Non-Independent, Non-Executive LLB, BEc, MBA

Appointed November 2006

Andrew became a founding director of the original Flexirent business in 1991. He is an experienced commercial and tax lawyer and was a founding partner in a legal firm operating in both Sydney and Melbourne. Andrew left the partnership to complete an MBA at IMD in Switzerland. Following time abroad he returned to Australia and became involved in property investment and tax consulting. Andrew started Flexirent in 1990, and until 2003 was Chief Executive Officer. Andrew is currently involved in several philanthropic and think-tank ventures, together with private interests.

John Wylie AM, BComm, MPhil

Independent, Non-Executive

Appointed March 2019

John Wylie is the founder of investment firm Tanarra Group – which invests in venture capital, private equity, private credit and selected public companies. John was previously CEO of the Australian business of global financial services firm Lazard. He co-founded advisory and investment firm Carnegie Wylie & Company in 2000 which was acquired by Lazard in 2007, and before that was Chair of investment bank Credit Suisse First Boston in Australia.

Christine Christian BA, GAICD

Independent, Non-Executive

Appointed December 2016

Christine Christian is a leading Australian business executive with more than 30 years' experience in financial services, investment, private equity, credit risk and digital media including executive and advisory roles in Australia, China, India and the United States. Prior to her board career, Christine was CEO of Dun & Bradstreet Australia and New Zealand from 1997 to 2012, Chairman of Dun & Bradstreet Consumer Credit Services and Executive Director of Dun & Bradstreet India.

Rajeev Dhawan BComm, MBA

Independent, Non-Executive

Appointed November 2006

Currently a partner of Equity Partners, Rajeev has over 23 years' venture capital and private equity experience (through Hambro-Grantham; Colonial First State Private Equity and Equity Partners) with a focus on the mid-market segment. He has been a director of a number of listed and unlisted portfolio companies.

Jodie Leonard BBus, FAICD, FAMI, CPM

Independent, Non-Executive

Appointed December 2016

Jodie has over 25 years of global experience in corporate strategy, marketing and digital disruption, including senior positions in strategic marketing and corporate strategy in ASX, NYSE and FTSE listed companies. Her experience, in management or director roles, spans many industries including media, financial services, consumer goods, telecommunications, travel, tourism and professional services. Jodie sits on the Board of the RACV and BWX Ltd (ASX: BWX) (since December 2018).

Carole Campbell BEc, GAICD, FCA

Independent, Non-Executive

Appointed May 2018

Carole Campbell is a professional director with over 30 years' experience in a range of industries including professional services, financial services, media, mining and industrial services. Carole started her career with KPMG and has held senior finance roles with Macquarie Group, Westpac Institutional Bank, Seven West Media, Bis Industries and Merivale. Since November 2018 Carole has sat on the board of IVE Group Ltd (ASX: IGL).

Executive Leadership Team.

Rebecca James

Group Chief Executive Officer

Rebecca joined **flexigroup** in October 2018 as CEO, from her role as Chief Marketing and Enterprise Officer for Prospa. Prior to that Rebecca was Chief Marketing Officer for ME where she led the product and customer experience teams, and was voted #12 in the top 50 CMOs in Australia.

Prior to joining ME, Rebecca had a successful career at customer experience agency Lavender, including seven years as managing director.

Ross Aucutt

Chief Financial Officer

Ross has over 20 years of international financial services experience. He has held senior finance management roles with Royal Bank of Scotland Group plc, Westpac Banking Corporation and Barclays PLC.

Prior to joining **flexigroup** in 2017, Ross was Group Treasurer at Latitude Financial Services.

Ross holds a Masters of Finance from London Business School, and is a qualified Chartered Accountant.

Liz McCarthy

Chief Product Officer

Liz joined **flexigroup** in 2018 to lead the customer focus across the business-driving customer programs to maximise customer satisfaction, acquisition and retention. With over 20 year's senior management experience in both financial services and aviation industries, Liz had responsibility for product, operations, marketing, customer insight and user experience across all the **flexigroup** businesses.

Liz departed **flexigroup** on 16 August.

Libby Minogue

Chief Revenue Officer, AU

Libby is an experienced executive with expertise in driving strategy and digital transformation across sales, technology, product and consumer marketing. Libby joined **flexigroup** in April 2019, following three years at the REA Group where she was the Executive General Manager of Media, Content and Marketing. In addition to her role with **flexigroup**, Libby sits on the board of Tennis Australia and was Deputy Chair of the Interactive Advertising Bureau until December 2018. In 2014, she was the inaugural Winner of the B&T Women in Media Award for Strategy.

Matt Beaman

Group General Counsel and Group Head of Operational Risk & Compliance

Matt joined **flexigroup** in September 2013, bringing more than 20 years' private practice and in-house legal experience in banking and finance, structured and asset finance. Prior to joining **flexigroup**, Matt held roles in private-practice environments with leading domestic and international law firms. Matt also previously held the role of Chief Legal Counsel for CIT Group Asia-Pacific from 2005-2009 and General Counsel of Lloyds Banking Group Australia.

Tim Lord

Chief Credit Officer

Tim joined **flexigroup** in July 2018. Tim has an extensive background in credit and collections having spent 20 years with Dun & Bradstreet where he held a number of leadership roles, including President Australia/New Zealand.

After finishing with D&B in 2014, Tim formed Anteris Consulting, a specialist agency with a primary focus on credit risk. During his time consulting, Tim undertook numerous assignments for publicly listed companies and Government Agencies.

Natalie Nicholson

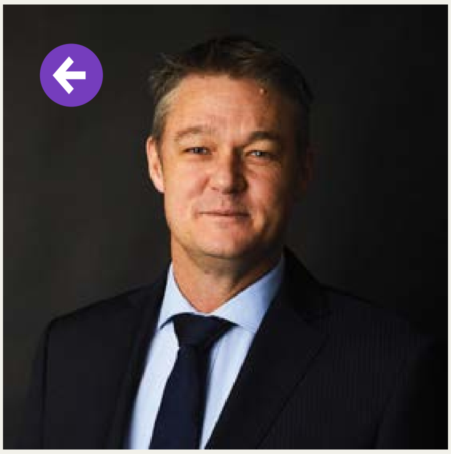
Chief People & Culture Officer

Natalie joined **flexigroup** in May 2019 in the role of Chief People & Culture Officer. With 20+ years of national and international expertise in HR and strategic commercial roles, Natalie was previously on the Executive teams at Challenger, CBA and ING. In 2017 she joined the Department of Prime Minister and Cabinet on a six-month secondment through Chief Executive Women and CBA. Natalie is a Graduate of AICD.

Chris Lamers

Deputy Group CEO & NZ CEO

Chris joined **flexigroup** in April 2017 as CEO of the NZ business, and was appointed Deputy Group CEO on 1 July 2019. Prior to this he was the Chief Marketing Officer at Sovereign where he established the online sales channel, customer engagement programs, and data analytics functions. Chris also held several roles with Loyalty New Zealand (Fly Buys), first as Head of Marketing, then as Head of Customer Engagement (incorporating marketing and sales) and lastly as Interim CEO.



Isobel Rogerson

Company Secretary

Isobel joined **flexigroup** in November 2018, following her time at ME Bank, where she was Company Secretary and General Counsel. Prior to ME Isobel had worked in various roles at UBS Australia, and in the National Australia Bank Wealth Management division.

Isobel worked in a private legal practice for a number of years before moving into financial services, obtaining her GAICD and FGIA.

DIRECTORS' REPORT.

Directors' Report.

We, the Directors, are pleased to present our report on the consolidated entity (**flexigroup** or the **Group**) consisting of FlexiGroup Limited (Company) and the entities it controlled as at 30 June 2019 or during the year ended on that date.

About **flexigroup**

flexigroup is a diversified financial services group providing, both directly and through a network of over 65,000 retailers and brokers, no interest ever payment products, leasing, vendor finance programs, interest free finance, credit cards, and other finance solutions to consumers and businesses. **flexigroup** operated during the year, and continues to operate, in Australia, New Zealand and Ireland, offering our financial solutions across a broad range of industries. During the year our principal activities continued to be:

- Consumer revolving finance and cards.
- Lease and rental financing services.
- No interest ever payment products.

Key developments

flexigroup welcomed Rebecca James as CEO on 2 October 2019, following the departure of Symon Brewis-Weston as CEO and Executive Director on 3 September 2019.

In February 2019 **flexigroup** announced a new strategy, designed to transform the organisation and to: simplify our offering, lead in Buy Now Pay Later, streamline our originations, and expand our reach, target market, audience and relevance. More details are provided on the following pages.

The consolidation of our brands and simplification of our business commenced with the launch in April 2019 of **humm**, a consolidation of our two legacy Buy Now Pay Later products. Further consolidation and rationalisation across the suite of other products is planned to occur over FY20 and FY21, together with product innovation, as **flexigroup** aims to cover the market of digital spending.

Directors

Set out below are the details of those persons who were directors of FlexiGroup Limited during the year and as at the date of this report, unless specified otherwise. Also included are their interests in shares and options:

Andrew Abercrombie
Chairman, Chair Nomination Committee
90,776,593 ordinary shares in FlexiGroup Limited

Christine Christian
Deputy Chair, Chair Risk and Compliance Committee
68,000 ordinary shares in FlexiGroup Limited

Rajeev Dhawan
275,371 ordinary shares in FlexiGroup Limited

Jodie Leonard
Chair Remuneration Committee
3,560 ordinary shares in FlexiGroup Limited

Carole Campbell
Chair Audit Committee
25,000 ordinary shares in FlexiGroup Limited

John Wylie AM
Appointed 21 March 2019
20,439,256 ordinary shares in FlexiGroup Limited

Symon Brewis-Weston
Resigned 3 September 2018

Company secretaries

Elizabeth Wray (resigned 26 March 2019)

Isobel Rogerson (appointed 22 November 2018)

Company Matters Pty Limited provided company secretarial and governance advisory services during the year.

	Board		Audit Committee		Risk & Compliance Committee		Nomination Committee		Remuneration Committee	
Meetings of Directors	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**
Andrew Abercrombie	13	13	+	+	+	+	1	1	+	+
Christine Christian	13	13	6	6	8	8	1	1	+	+
Rajeev Dhawan	13	13	+	+	8	8	1	1	7	7
Jodie Leonard	13	13	6	6	+	+	+	+	7	7
Carole Campbell	13	13	6	6	+	+	+	+	6	6
John Wylie	5	5	+	+	+	+	+	+	+	+
Symon Brewis-Weston	2	1	+	+	1	1	+	+	+	+

A = Number of meetings held during the time the director held office or was a member of the committee during the year.
B = Number of meetings attended.
+ = Not a member of the relevant committee.

4 Steps
to Transformation.

At our half year result we committed to a 4-step process to transform our business.

01
Simplify.

02
Lead.

Simplify

We aim to improve service while also reducing cost to income ratio to less than 40% over three years.

Our objectives:

- Simplify products by moving from 12 consumer facing brands to five in consumer finance, including grand fathering Consumer Leasing brands.
- Simplify systems by decommissioning legacy systems and moving to future state architecture.
- Simplify service by leading with digital first and improving the self-service experience.
- Simplify operations by realigning shared service functions to better support the Group.

Lead

We have ambitions to lead in Buy Now Pay Later. Humm is the only product in the market that can service transactions from $1 up to $30,000 completely interest free.

We see significant opportunity for **humm** in the following markets:

- retail (addressable market of $70b in annual AU/NZ sales);
- home improvement (addressable market of $65b in annual sales); and
- health (addressable market of $22b in annual sales).

Since launching in April 2019, **humm** has attracted 63,000 new customers and 5,000 new merchant signings, now boasting 65,000 merchants.

App downloads average 1,200 per day.

We will continue to build awareness of **humm** to drive volumes into 2020.

03
Streamline.

04
Expand.

Streamline

We are building a digital-first credit decision framework across the Group.

We will use our significant data and intelligence, coupled with Comprehensive Credit Reporting, to drive our credit decisions. Bringing our credit and fraud processes together into a digital-first credit decision framework is a priority for management, with progress already made in transitioning to a single platform which is product agnostic and scalable for growth.

Expand

We are expanding our reach, our target market, our audience and our relevance.

This started in 2019 with a new direct-to-consumer approach in Australia in both Buy Now Pay Later and credit cards for the first time.

In 2020 and beyond, we aim to better serve the millennial consumer based on their lifestyles and budgeting needs, consolidate our leadership position with the over 30's consumers and deliver an improved offering for SMEs. We are launching new products in Buy Now Pay Later – **bundll**; in credit cards – **cartt**; and in SME lending – **wiired** lease and **wiired** money.

Results and key performance indicators for the current and prior year are set out below on a Cash NPAT basis, adjusting for amortisation of acquired intangibles, impairment of assets and customer remediation costs.

REVIEW OF **OPERATIONS.**

Review of Operations – Group Performance.

Results and key performance indicators of the current and prior year are set out below on a Cash NPAT basis, adjusting statutory NPAT for the amortisation of acquired intangibles, impairment of goodwill and intangible assets, customer remediation costs, gain on sale of subsidiaries and historical tax and accounting matters.

Group Income Statement

A$m	Jun-19	Jun-18	Change %
Interest income	**357.5**	339.4	5%
Interest expense	**(100.6)**	(94.6)	6%
Other portfolio income	**115.2**	119.1	(3%)
Net income	**372.1**	363.9	2%
Receivables and customer loan impairment expenses	**(87.5)**	(66.5)	32%
Impairment of goodwill and intangible assets	**(10.5)**	(94.7)	(89%)
Depreciation and amortisation expenses	**(17.1)**	(17.5)	(2%)
Operating and other expenses	**(166.1)**	(169.7)	(2%)
Profit before income tax	**90.9**	15.5	486%
Income tax expense	**(29.2)**	(24.6)	19%
Statutory profit/(loss) after income tax	**61.7**	(9.1)	Large
Non-cash items:			
Amortisation of acquired intangible assets	**2.9**	4.5	(36%)
Impairment of goodwill and intangible assets	**7.5**	89.1	(92%)
Customer remediation	**0.2**	4.9	(96%)
Sale of Think Office Technology	**(2.2)**	–	(100%)
Historical tax and accounting matters	**6.0**	(3.4)	Large
Total non-cash items	**14.4**	95.1	(85%)
Group Cash NPAT[1,3]	**76.1**	86.0	(12%)
Basic earnings per share (cents)	**15.9**	(2.4)	Large
Cash earnings per share (cents)	**19.7**	23.0	(14%)
Volume	**2,556**	2,284	12%
Receivables and customer loans[2]	**2,640**	2,383	11%

1. Cash NPAT reflects the reported net profit after tax adjusted for material infrequent items and the amortisation of acquired intangibles. The analysis of these results is based on Cash NPAT to align the information to the way the Directors view the business and to better understand 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 guidance to shareholders and the market, and is calculated on a consistent basis each year.
2. Receivables and loans excludes provision for doubtful debts, unamortised transaction costs and other debtors.
3. Prior year Cash NPAT has been restated for the impacts of AASB15 *Revenue from contracts with customers.* Refer to note 36 of the financial statements.

Interest income

Interest income increased 5% to $357.5m. Key drivers of this result were strong growth in credit card spend and long-term credit card finance rolling into interest bearing. Customer loans growth in Australia and New Zealand Cards increased 14% and 15% respectively.

Interest expense

Interest expense increased by 6% on the prior year due to the increase in borrowings to fund the growth in receivables. Interest income growth was lower than interest expense growth due to strong growth in long-term interest free financing on credit card products, which is expected to convert to higher interest income in later periods.

Impairment losses on loans and receivables

The increase in impairment losses has been driven by:

- a change in accounting standards (AASB 9 *Financial Instruments*) from 1 July 2018, which requires a fundamentally different method of measuring loan loss provisioning based on an expected rather than incurred loss approach. The revised methodology considers exposure at default, probability of default and loss given default;
- a one time write-off in Commercial Leasing of $14m relating to exposures from an equipment finance vendor program;
- an increased provision from growth in the receivables portfolio; and
- write-offs of aged customer balances, particularly related to AU Cards following the collections issues outlined in FY18;
- offset by reduction in available credit limits and associated provision balances for legacy Lombard and Once products.

Impairment of goodwill and intangible assets

Capitalised software of $10.5m was impaired in the year as it became obsolete due to replacement with target state architecture or, in the case of Consumer Leasing, the carrying amounts were determined to be less than the recoverable amounts. The prior year impairment of goodwill and other intangible assets related to legacy products in the Consumer Leasing business, which were written off with the launch of Lisa and the decommissioning of FlexiRent.

Depreciation and amortisation

Depreciation and amortisation decreased 2% due to the sale of Think Office Technology (TOT) ($2.1m) and the run-down of existing acquired intangibles in NZ leasing and AU Cards. This was largely offset by a $2.0m higher amortisation of capitalised software assets.

Operating expenses

Operating expenses decreased 2% to $166.1m driven by:

- Lower employment expenses which were a result of the non-recurrence of restructuring costs included in the prior year of $3.6m.
- Other operating expenses were in line with the prior year, with savings in consulting, outsourcing and property costs being offset by investment in advertising/marketing and information technology costs.

Tax expense

The effective tax rate for the year was 32% mainly due to the correction of historical tax matters. In the prior year, the effective tax rate was impacted by the impairment of goodwill, which was a permanent tax difference.

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 three 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 $2.9m post tax has been amortised to the income statement (June 2018: $4.5m).

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.

Customer remediation costs

The customer remediation provision is a Cash NPAT adjustment as it is a material infrequent item and the Board believes it does not reflect the ongoing operations of the Group. The provision relates to ongoing discussions being held with the Australian Financial Complaints Authority (AFCA) regarding the Group's historic responsible lending practices in relation to its FlexiRent product, which ceased being sold in February 2018.

Historical tax and accounting matters

Historical tax and accounting matters relates to the settlement and provision for uncertain tax matters in relation to transactions that occurred in the past, as well as the correction of historical share based payment and cash flow hedge reserves. The Directors believe these are one-off in nature and do not reflect ongoing operations and as a result have been treated as a Cash NPAT adjustment. A release of any of these provisions will be treated in a consistent manner in future.

Group Balance Sheet

A$m	Jun-19	Jun-18	Change %
Cash and cash equivalents	143.1	125.3	14%
Receivables and customer loans[1]	2,567.8	2,352.2	9%
Investment in associate	13.7	–	100%
Other assets	10.5	10.9	(4%)
Current tax receivable	15.2	0.5	Large
Deferred tax assets	12.3	–	100%
Goodwill	244.3	236.5	3%
Other intangible assets	102.0	100.4	2%
Disposal group assets	–	12.5	(100%)
Total assets	3,108.9	2,838.3	10%
Payables	59.7	51.7	15%
Borrowings	2,387.7	2,124.7	12%
Provisions	22.5	14.6	54%
Other liabilities	17.6	7.4	138%
Current and deferred tax liabilities	5.3	21.0	(75%)
Disposal group liabilities	–	2.4	(100%)
Total liabilities	2,492.8	2,221.8	12%
Equity	616.1	616.5	(0%)
Gearing[2]	36%	36%	(0%)
ROE[3]	12.3%	13.4%	(1.1%)

1. Includes other debtors as disclosed in the statutory accounts.
2. Gearing is recourse (corporate) borrowings as a percentage of equity excluding intangible assets.
3. Calculated based on Cash NPAT as a percentage of average equity.

Receivables and customer loans

Receivables and customer loans (including other debtors) increased by 9% to $2,567.8m compared to June 2018 driven by:

- NZ Cards customer loans growth of $98.6m (15%)
- AU Cards customer loans growth of $91.1m (14%) and
- AU Commercial receivables growth of $51.8m (18%)

The growth was partially offset by the declining Consumer Leasing book and the increase in provision for doubtful debts on transition to AASB 9.

Goodwill

The increase in goodwill is due to the impact of exchange rates on NZD denominated goodwill balances from the New Zealand acquisitions of Fisher and Paykel and Telecom Rentals.

Other intangible assets

Other intangible assets include merchant and customer relationships, brand names and capitalised projects. These are amortised over the useful life ranging from three to 27 years. The balance has increased through investment in capitalised projects and movements in AUD/NZD exchange rates.

Disposal group assets and liabilities

Disposal group assets and liabilities at June 2018 relates to Think Office Technology. The Group exchanged its 100% interest in Think Office Technology for a 35% interest in Thinkex Holdings Pty Ltd. The Group equity accounts this investment and treats it as an associate. Refer to notes 4 and 11 of the financial statements.

Payables

Payables include trade creditors, interest accruals, Goods and Services Tax (GST) payable and sales incentive accruals. The increase in payables has been due to the timing of payment of trade creditors and GST payable, driven by year end falling on the weekend resulting in a larger number of transactions requiring settlement.

Borrowings

Borrowings have increased by 12% to $2,387.7m, driven by the growth in receivables and customer loans.

Provisions

Provisions include employee entitlements, customer remediation and undrawn credit commitments. The increase in provisions has been due to undrawn credit commitments related to the credit cards portfolio.

Other liabilities

Other liabilities include derivative financial instruments and deferred and contingent consideration payable. The increase is mainly due to an increase in the amount of the derivative instruments and the change in the fair value of the derivative financial instruments due to changes in the interest rates.

Funding

flexigroup maintains a conservative yet dynamic funding strategy: to retain committed funding facilities for all scale businesses, combined with an active debt capital markets presence in both Australia and New Zealand. The Group currently has revolving wholesale debt facilities in place with large domestic and international banks and has numerous institutional investors through its Asset Backed Securities (ABS) programs in both Australia and New Zealand.

At balance sheet date, the Group had $2,754.1m of wholesale debt facilities, with $433.3m undrawn and no indication that these facilities will not be extended. The majority of the wholesale debt facilities ($2,353.3m) have no bullet repayment on maturity, with outstanding balances repaying in line with receivables and customer loans held in these facilities 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 $198.4m (June 2018: $196.1m) of corporate debt facilities were drawn to $98.1m (June 2018: $104.3m) at balance sheet date. These facilities are secured by the assets of the Group and with maturity dates ranging from March 2020 to March 2022.

Gearing

The corporate debt gearing of 36% (June 2018: 36%) is consistent with the prior year. The Group continues to optimise its capital structure to maximise shareholder value by working to securitise a higher portion of its assets and to increase capacity in the warehouse funding facilities.

Return on equity (ROE)

ROE of 12.3% decreased 110 basis points compared to 30 June 2018 driven by the decrease in cash earnings from FY18.

Group Statement of Cash Flow

A$m	Jun-19	Jun-18	Change
Statutory profit/(loss) after tax	**61.7**	(9.1)	Large
Impairment loss on receivables and customer loans	**87.5**	66.5	32%
Impairment of goodwill and other intangible assets	**10.5**	94.7	(89%)
Depreciation and amortisation expenses	**17.1**	17.5	(2%)
Customer remediation	–	7.0	(100%)
Changes in other operating assets and liabilities	**(9.9)**	14.1	(170%)
Other non-cash movements	**(1.5)**	(2.0)	(25%)
Operating cash flow	**165.4**	188.7	(12%)

Consolidated Cash Flow

A$m	Jun-19	Jun-18	Change
Operating cash flow	**165.4**	188.7	(12%)
Purchase of intangibles and property, plant and equipment	**(26.7)**	(29.0)	(8%)
Business acquisitions	–	(9.2)	(100%)
Changes in customer loans and receivables	**(350.3)**	(304.1)	15%
Investing cash flow	**(377.0)**	(342.3)	10%
Dividends paid	**(28.8)**	(28.8)	0%
Proceeds from share issuance, net of transaction costs	**25.1**	–	100%
Treasury shares purchased on market	**(0.1)**	(0.2)	(50%)
Net movement in non-recourse borrowings	**236.1**	165.5	43%
Repayment of corporate borrowings	**(234.0)**	(168.8)	39%
Drawdown of corporate borrowings	**226.7**	149.3	52%
Financing cash flow	**225.0**	117.0	92%
Net increase/(decrease) in cash	**13.4**	(36.6)	Large

Cash inflows from operating activities are down on prior year, a decrease of 12% to $165.4m (June 2018: $188.7m). The decrease in cash inflows from operating activities is mainly due to higher tax payments in NZ which benefited from carried forward tax losses in the prior year, as well as higher interest paid on borrowings from the growth in customer loans.

Cash outflows from investing activities increased by 10% to $377.0m (June 2018: $342.3m). The increase was due to increase in customer loans and receivables from the Cards and Commercial businesses.

Cash inflows from financing activities increased 92% to $225.0m (June 2018: $117.0m), due to an increase in non-recourse borrowings and the proceeds from the issuance of new shares in March 2019.

FLEXIGROUP MAINTAINS A CONSERVATIVE YET DYNAMIC FUNDING STRATEGY.

Shareholder Returns

	Year ended 30 June				
	2019	2018	2017	2016	2015
TSR[1]	(13.88%)	17.14%	(8.30%)	(30.37%)	0.56%
Dividends per share (cents)	7.70	7.70	7.70	14.50	17.75
Cash EPS (cents)	19.68	23.00	24.60	25.00	26.70
Share price (high)	$2.34	$2.33	$2.58	$3.12	$4.00
Share price (low)	$0.98	$1.44	$1.55	$1.71	$2.70
Share price (close)	$1.63	$2.22	$1.83	$1.74	$2.91

1. TSR is calculated based on volume weighted average price (VWAP) in the 90 day period up to and including 30 June.

Earnings Per Share

	Year ended 30 June 2019 Cents	Year ended 30 June 2018 Cents
Basic earnings per share	15.9	(2.4)
Diluted earnings per share	15.9	(2.4)
Cash earnings per share	19.7	23.0

Dividends on Ordinary Shares

	2019		2018	
	Cents	$m	Cents	$m
Interim dividend for the year – paid in April 2019	3.85	14.4	3.85	14.4
Dividends paid during the half year				
Final dividend for 2019 (PY: 2018) to be paid in October 2019	3.85	15.2	3.85	14.4
Total dividends paid during the year	7.70	28.8	7.70	28.8
Total dividends declared for the financial year	7.70	29.6	7.70	28.8

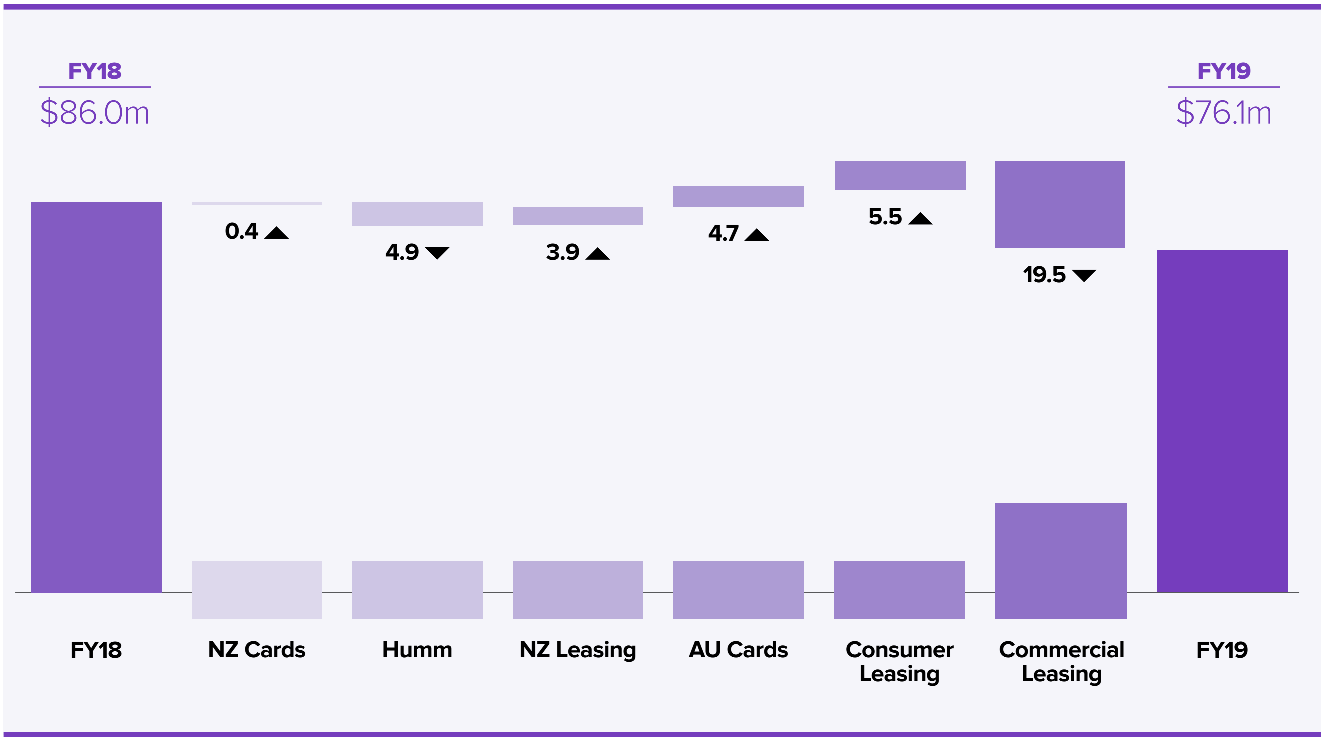
Segment Performance.

flexigroup's business consists of six operating segments, with each segment's cash NPAT summarised in the table below:

Segment Summary

A$m	Jun-19	Jun-18	Change %
NZ Cards	28.1	27.7	1%
Humm	26.7	31.6	(16%)
NZ Leasing	14.7	10.8	36%
Australia Cards	9.1	4.4	107%
Consumer Leasing	5.1	(0.4)	Large
Commercial Leasing	(7.6)	11.9	(164%)
Total Cash NPAT	76.1	86.0	(12%)

Below is period on period cash NPAT movement by reportable segment:



Segment Analysis.

New Zealand Cards

A$m	Jun-19	Jun-18	Change %
Net income	**97.8**	91.6	7%
Operating expenses	**(46.7)**	(35.3)	32%
Impairment losses on customer loans	**(12.5)**	(14.3)	(13%)
Cash NPAT	**28.1**	27.7	1%
Volume	**774.4**	666.2	16%
Closing customer loans	**748.4**	649.8	15%

Cash NPAT is $28.1m, a 1% increase on the prior year. The increase is due to the following factors:

- Net income increased by 7% to $97.8m, with volume and receivables significantly higher, driven by the growth in the scheme and Oxipay portfolios. Net income is steadily increasing as the portfolio matures with some margin compression being offset by continued volume growth.
- Operating expenses increased by 32% to $46.7m reflecting increased investment in product development and support for strong new business growth.
- Impairment losses decreased by 13% to $12.5m reflecting continued strong underwriting and collections performance.

Humm

A$m	Jun-19	Jun-18	Change %
Net income	**91.3**	92.9	(2%)
Operating expenses	**(27.4)**	(29.8)	(8%)
Impairment losses on customer loans	**(26.1)**	(18.0)	45%
Cash NPAT	**26.7**	31.6	(16%)
Volume	**574.4**	541.0	6%
Closing customer loans	**525.9**	493.0	7%

Cash NPAT is $26.7m, a 16% decrease on the prior year. The decrease resulted from the following factors:

- Net income remains stable, with growth offset by some margin compression as a result of an increase in average deal size and term.
- Operating expenses reducing, largely driven by digitisation and operational efficiencies.
- Impairment losses have increased, driven by new provision methodologies, volume and receivables growth. In addition, we experienced increased loss rate from the retired Oxipay product. Significant improvements have been made to upfront credit and fraud checks in the new **humm** product. 60 day arrears loss rate for **humm** was 1.4% at 30 June 2019.

New Zealand Leasing

A$m	Jun-19	Jun-18	Change %
Net income	**27.7**	30.7	(10%)
Operating expenses	**(7.2)**	(14.6)	(51%)
Impairment losses on customer loans	**(0.7)**	(1.3)	(46%)
Cash NPAT	**14.7**	10.8	36%
Volume	**80.1**	84.5	(5%)
Closing customer loans	**151.6**	155.7	(3%)

Cash NPAT is $14.7m, a 36% increase on the prior year. The increase resulted from the following factors:

- Net income was 10% lower due to a decline in sales volume.
- Operating expenses decreased 51% to $7.2m reflecting tight cost control and benefits from the integration with the NZ Cards business.
- Impairment losses decreased 46% to $0.7m reflecting the continued strong credit quality of the portfolio.

Australia Cards

A$m	Jun-19	Jun-18	Change %
Net income	**79.7**	57.3	39%
Operating expenses	**(39.8)**	(25.2)	58%
Impairment losses on customer loans	**(26.9)**	(25.8)	4%
Cash NPAT	**9.1**	4.4	107%
Volume	**811.3**	740.1	10%
Closing customer loans	**738.9**	647.8	14%

Cash NPAT is $9.1m, a 107% increase on the prior year. The increase is due to the following factors:

- Net income grew 39%, as a result of strong growth in receivables (in particular interest bearing receivables) and credit card usage driving both interest and fee income growth.
- Impairment losses were contained at $26.9m compared to $25.8m, a marginal increase of $1.1m, with increases from new provision methodology, offset by a credit reduction in legacy products, with elected customers migrating to SKYE product. Investment in improved collections systems and processes demonstrated benefits with late-stage delinquency rates improving.
- Operating expenses increased by 58% to $39.8m driven by:
  – Continued investment in improved collections systems and processes;
  – Additional servicing cost to support customer growth; and
  – Launch of new SKYE card product during first half of the financial year.

Consumer Leasing

A$m	Jun-19	Jun-18	Change %
Net income	**41.8**	51.3	(18%)
Operating expenses	**(34.4)**	(45.6)	(25%)
Impairment losses on receivables	**(2.1)**	(7.6)	(72%)
Cash NPAT	**5.1**	(0.4)	Large
Volume	**102.0**	104.0	(2%)
Closing receivables	**138.8**	152.0	(9%)

Cash NPAT is $5.1m, the increase on prior year resulting from the following factors:

- Net income was 18% lower driven by both the decline in the Australian Consumer Leasing portfolio and lower margin on the LISA product.
- Operating expenses decreased by 25% to $34.4m, due to strong cost management throughout the year and one-off prior year investment to support the growth in the Ireland Flexi-Fi business not repeated.
- Impairment losses decreased by 72% to $2.1m, driven by book run-off and improved recoveries from active management of arrears.
- The decrease in sales volume of 2% to $102.0m was driven by the Australian Consumer Leasing business. This was largely offset by growth in the Ireland Flexi-Fi business.

Commercial Leasing

A$m	Jun-19	Jun-18	Change %
Net income	**33.8**	40.1	(16%)
Operating expenses	**(23.6)**	(23.6)	0%
Impairment losses on receivables	**(19.2)**	0.5	Large
Cash NPAT	**(7.6)**	11.9	(164%)
Volume	**213.9**	147.8	45%
Closing receivables	**336.7**	284.9	18%

Cash NPAT is $7.6m loss, a significant decrease on the prior years. The decline in profits resulted from the following factors:

- Net income decreased by 16% to $33.8m, however up 11% when normalised for the sale of Think Office Technology (TOT).
- Operating expenses were flat at $23.6m, but increased 63% when normalised for TOT in FY18, driven by investment in sales teams and business development.
- Impairment losses increased to $19.2m, driven by a large write-off of $14m relating to an equipment finance vendor moving into liquidation. New provisioning methodologies and receivables growth gave rise to higher provisions.
- Sales volume has grown 45%, driven by Managed Services and Broker channels. As a result, closing receivables increased 18% on the prior year.

REMUNERATION REPORT.

Introduction from the Chair of the **Board Remuneration Committee.**

Dear Shareholder,

On behalf of the **flexigroup** Board, I am pleased to share with you this report of our Financial Year 2019 (**FY19**) **flexigroup** CEO and Executive team remuneration outcomes and Directors' remuneration.

2019 Overview

This year was punctuated with organisational highs and lows. By far the highs included the resetting of the corporate strategy and the unveiling of our new brand **humm**. By contrast, in February 2019, **flexigroup** revised down its profit guidance to be in the range of $76-$80m. The review of guidance occurred as a result of several disappointing factors including a major provision in the Australian Commercial Leasing business, and slower than budgeted growth in **flexigroup**'s AU Cards business. The review also took account of the impact of a higher than forecast arrears position.

In light of the revision in the profit guidance and the Board's intent to align remuneration to performance, no short-term incentive payments will be made to the Executive team for FY19. While the Board has ultimate discretion regarding payments of the incentives, they chose not to exercise their discretion to provide any Executive payments this year.

Aligning our Performance with Business Strategy

Despite the review of guidance, **flexigroup** was very pleased to announce to the market in February our three-year strategy. We are now six months in and there has been good progress to date.

The Group also continues to simplify and streamline its operations in support of better customer experience, greater efficiency, and ongoing product development and innovation.

Executive Remuneration

A review of Executive KMP remuneration for FY19 indicated that the majority of Executive KMPs were remunerated appropriately in line with their accountabilities and the size and complexity of their roles. As a result, appropriate adjustments were awarded to two Executive KMPs during the remuneration review process. In all other respects, the Executive remuneration structure was considered to be appropriate, which aligns with the support from our shareholders for the remuneration report at the 2018 Annual General Meeting.

Board Remuneration

Reflective of the increased time commitment required of the **flexigroup** Board members during the last year, fees for participation in Committees were introduced, effective from 1 July 2018. Any Board member who participates in a Committee receives a $10,000 fee plus superannuation in addition to their Director fee. The Chair of each committee receives a fee of $25,000 plus superannuation for their participation.

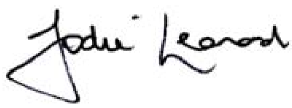
Key Management Personnel Changes in FY19

The Key Management Personnel (**KMP**) of **flexigroup** is made up of the Directors, the CEO and certain Executives who report directly to the CEO and have influence over planning and control business operations.

Details on the changes to KMP in the last twelve months are provided later in the report, but I note that Symon Brewis-Weston left the position of CEO of **flexigroup** in September 2018. The Board would like to thank Symon for his contribution to the Group and also thank Ross Aucutt, CFO, for acting in the role of CEO in the period between Symon's departure and the new CEO commencing. The Board welcomed Rebecca James as our new CEO in October, and she has already built considerable momentum behind our growth and transformation agenda.

Conclusion

The Board and management remain committed to **flexigroup**'s transformation and growth and are confident that proposed changes to the remuneration framework will continue to drive positive outcomes for the Group in the 2020 financial year and will support the acceleration of growth and change.



Jodie Leonard
Independent Non-Executive Director,
Chair of Remuneration Committee

27 August 2019

Governance of remuneration at flexigroup

Governance

Governance of our remuneration framework has been a key focus during the last year. We have further enhanced the conduct hurdles underpinning our review process, introducing additional key measures to assess Executive conduct during the year. We are confident that our remuneration framework:

- rewards our team for achieving high performance that is aligned to shareholder value;
- ensures that we meet strict governance standards and the requirements of our risk management framework; and
- drives ethical behaviour in our executive team ensuring performance is achieved in the right way, and sustainably.

The Remuneration Committee is responsible for ensuring that our remuneration framework meets the required governance standards. The Committee has regular meetings where the remuneration framework is discussed, ensuring that any risks or potential risks associated with the framework are identified and addressed in a timely manner. The Committee also regularly reviews the market to understand trends on how executive teams are rewarded, while also ensuring that any remuneration arrangements remain in line with accepted market practices.

As part of their remit, the Remuneration Committee undertakes a number of activities for **flexigroup**, including developing, reviewing and making recommendations to the Board on:

- the Key Performance Indicators (**KPIs**) for the Group and for the CEO;
- remuneration policies for the Group, including Directors, Executives and the broader organisation (Non-Executives), ensuring the policies comply with the Group's objectives and risk management framework;
- the individual remuneration arrangements for the CEO, Executive team and any other Executive KMP;
- overall Group remuneration budgets and STI Program for Non-Executive Group employees; and
- remuneration for Non-Executive Directors.

The Remuneration Committee consists of a majority of independent Non-Executive Directors as follows: Jodie Leonard (Chair), Carole Campbell, and Rajeev Dhawan.

Independent remuneration consultant

The Group aims to provide an Executive remuneration framework that is market competitive and complementary to the reward strategy at **flexigroup**. During the year, **flexigroup**'s Remuneration Committee engaged the services of Ernst & Young (EY) to provide advice regarding our Remuneration Framework and also received remuneration benchmarking advice.

The Board is satisfied that the recommendations were made with the required level of independence from Executive KMP and the recommendations were made free from undue influence by members of the Group's Executive KMP, as EY were engaged by, and reported directly to, the Chair of the Remuneration Committee in relation to these services.

Remuneration objectives and guiding principles

The objectives of our employee remuneration policies are to focus our employees on achieving **flexigroup**'s strategy – while also attracting, motivating and retaining talented employees. Ultimately, we want **flexigroup** to become an employer of choice in our geographies, and we want to be known as an employer that rewards ethical conduct.

We recognise that having the right people in place within the organisation is a key competitive advantage and contributor to our success. That means that it is important to us that our remuneration practices are competitive with organisations of a similar size and complexity. We also appreciate that we need to balance this with our focus on managing our operational expenditures to drive the best possible outcomes for our shareholders, while delivering our customer promises.

We have five key principles that underpin our Remuneration Policy.

Remuneration Policy
Key Principles.

Strategic Alignment	Attractive Remuneration	Transparency	Merit Based	Ethical Practices
Clear alignment of remuneration with strategic objectives	Provide market competitive remuneration to attract the right talent	Implement remuneration structures that are clear and well understood	Support merit based remuneration achievement across a diverse workforce	Ensure that remuneration outcomes reflect sustainable, ethical performance practices

Clear alignment of remuneration with strategic objectives – this principle ensures that our people are focusing on driving the short- and long-term goals of **flexigroup** – goals that are aligned with the interests of our shareholders. It means that our framework enables the payment of incentives only when they are directly linked to specific, measurable, strategic business objectives and when those objectives have been achieved.

Alignment to shareholders' interests is essential. When considering the design of the Remuneration Framework, including any incentive arrangements, the Board aims to ensure that all arrangements have profitability as a core component of plan design and a focus on sustained growth in shareholder wealth – as measured by growth in earnings per share (**EPS**) – and other financial and non-financial performance indicators. This is balanced with a focus on ensuring that participants' interests are also represented in the incentive design, through rewarding capability and experience while also providing recognition for individual Executive's contributions and efforts.

Provide market competitive remuneration to attract the right talent – **flexigroup** aims to balance commercial considerations and the offer of competitive remuneration packages to enable **flexigroup** to attract high calibre candidates who will make a positive impact on the performance of the Group.

Implement remuneration structures that are well understood – it is important that our policies relating to remuneration are clear, well communicated and readily accessible. This includes explicit reference to conduct and behavioural expectations of team members and how these impact on any payments made.

Support merit-based remuneration achievement across a diverse workforce – this principle ensures that we have adequate checks and balances in place whereby employees are rewarded consistently for like work against market relativities, irrespective of gender, age or other demographic factors, with the key differentiator in pay for individuals being performance.

Ensure that remuneration outcomes reflect sustainable, ethical performance practices – this principle ensures there are sufficient risk structures in place to safeguard that results are sustainable and adhere to ethical business practices. It also requires performance to be assessed in conjunction with the demonstration of positive behavioural standards in line with organisational values.

Key management personnel remuneration disclosed in this report

In 2019 financial year, KMP comprised Non-Executive Directors, the CEO and certain Executives who reported to the CEO and led significant parts of the business.

Key appointments were made to the **flexigroup** Board in the last year. Christine Christian, a current Independent Non-Executive Director was appointed to the role of Deputy Chair in August 2018, and John Wylie was appointed to the Board on 21 March 2019.

FY19 also saw changes in the Executive KMP. Verity Gilpin, GM Consumer Sales left the business in January 2019 and Ken Richards, GM Commercial Sales left in May 2019. We appointed Elizabeth (Libby) Minogue to the position of Chief Revenue Officer in April 2019 with responsibility for Sales and Marketing in Australia. We were also pleased to support the appointment of Chris Lamers to the role of Deputy Group CEO, effective from 1 July 2019. Chris will also have responsibility for Sales and Marketing in New Zealand, together with oversight of the Digital and Data and the Growth and Innovation teams.

Directors and Executive Key Management Personnel disclosed in this report

Name	Position	Term as KMP
Non-Executive and Executive Directors		
Andrew Abercrombie	Chair	Full Year
Christine Christian	Deputy Chair[3]	Full Year
Rajeev Dhawan	Independent, Non-Executive	Full Year
Jodie Leonard	Independent, Non-Executive	Full Year
Carole Campbell	Independent, Non-Executive	Full Year
John Wylie	Non-Executive	Appointed on 21 March 2019
Symon Brewis-Weston	Managing Director and CEO	Resigned 3 September 2018
Other KMPs		
Rebecca James	Chief Executive Officer	Appointed 2 October 2018
Chris Lamers	Chief Executive Officer – NZ	Full Year[1]
Ross Aucutt	Chief Financial Officer	Full Year[2]
Elizabeth Minogue	Chief Revenue Officer – AU	Appointed on 15 April 2019
Verity Gilpin	General Manager – Sales	Resigned 19 January 2019
Ken Richards	General Manager – Commercial	Ceased 10 May 2019

1. Deputy Group CEO and CEO NZ on and from 1 July 2019.
2. Acting Group CEO from 3 September 2018 to 1 October 2018.
3. Appointed Deputy Chair 30 August 2018.

How is Executive KMP remuneration structured?

The diagram below provides an overview of the different remuneration components within the framework for Executive KMP.

Remuneration Components.

Objective	Attract and retain the best talent	"At Risk" remuneration linked to short- and long-term company performance		
	Fixed remuneration elements	Reward short-term performance		Reward long-term performance
Remuneration component	**Fixed Remuneration** (FR)	**Short-Term Incentive** (STI)		**Long-Term Incentive** (LTI)
Purpose	FR is set in relation to the external market and takes into account size, criticality and complexity of the role, individual responsibilities, experience and skills	A percentage of fixed remuneration which is set against individual and Group risk-adjusted financial and non-financial targets that support the Group's strategy		LTI ensures alignment to long-term Group performance and is consistent with strategic business drivers and long-term shareholder return
Delivery	Base salary, superannuation and allowances (where applicable)	Annual cash payment 75%	Deferred into shares 25%	Performance share rights, which vest over a fixed period if performance hurdles (earnings per share and total shareholder return) are achieved

Remuneration mix

The remuneration mix for Executive KMP is weighted towards variable remuneration to ensure there is a significant focus on achieving transformational objectives.

CEO: 66% of the CEO's remuneration is performance-based pay and 41% of their remuneration is delivered as performance rights.

Other Executive KMP: 60% of their remuneration is performance-based pay and 40% of their remuneration is delivered as performance rights.

CEO

FIXED REMUNERATION	TARGET STI	MAXIMUM LTI
(33.7%)	(25.3%)	(41.0%)
	CASH (19.0%)	
	DEFERRED (6.3%)	

Other Executive KMP

FIXED REMUNERATION	TARGET STI	MAXIMUM LTI
(40.0%)	(20.0%)	(40.0%)
	CASH (15.0%)	
	DEFERRED (5.0%)	

Fixed remuneration

The Executive team members are offered competitive fixed remuneration amounts that reflect the key performance requirements of their roles. Fixed remuneration is reviewed annually in line with the financial year (1 July to 30 June), although a review may not necessarily result in any increases to remuneration. Any increases to Executive remuneration require Remuneration Committee and Board approval and come into effect from 1 July. As noted above, EY provided benchmark data for companies which are similar to the Group in terms of industry, size and complexity, against which the Executive remuneration was compared.

The fixed remuneration for Executive KMP is set out on page 59 of this report.

Short-Term Incentive (**STI**)

The Executive team participates in an STI scheme that is based on performance against key financial and non-financial measures.

The STI opportunity for the CEO is fixed at 75% of base remuneration plus superannuation, and for other Executive KMPs is fixed at 50% of fixed remuneration (**target**).

The structure of the STI is designed to achieve alignment of organisational performance to our strategic goals. The STI contains both Group goals based on the Group's strategic objectives, as well as business unit goals that are aligned to the Group's strategic objectives but unique to each business unit. The Group goals are consistent across the Group and were introduced to drive a collaborative approach within the organisation to achieve business success and shareholder value within the financial year.

During 2019, a target was set for performance against five Group goals. The policy allows for either partial payment (for performance under target) or a stretch payment (for performance over target) to be made, subject to the below principles:

- any partial payments made will consider the performance of the business overall and the closeness of the performance in the specific metric to the identified target; and
- any stretch payments made will consider the performance of the business overall. For a stretch payment to be made, all metrics will need to have achieved target or above.

STI outcomes are subject to both a quantitative and qualitative assessment, including a risk management overlay, which is embedded in the scorecard measurement process.

Discretion regarding any payments under the STI rests with the Board. The Board has the capacity to adjust STI outcomes (including reduce STI outcomes to zero if appropriate) as part of the assessment process.

STI Key Objectives for FY19

For the 2019 financial year the Board identified the below measures, as they are a critical link between achieving the Group's strategic objectives and increasing shareholder value.

Strict conduct hurdles were also put in place to ensure that any performance was generated as the result of sustainable business practices.

STI Goals	% of STI
Corporate goals	
Group Cash NPAT ($m)	30%
Group Receivables ($m)	10%
Cost to Income Ratio	10%
Net Promoter Score	5%
ROE	5%
Total of corporate goals	60%
Individual KPIs (mix of Business Unit Targets and Projects)	40%

Given the market announcement in February 2019 that **flexigroup** would reduce its 2019 profit guidance, the Board determined that no STI payments would be made to Executive KMPs for FY19, in either cash or deferred shares.

Update to Short-Term Incentive Scheme in FY20

It is planned to make structural changes to the STI structure in FY20. The changes are being introduced to ensure greater transparency of key metrics within the scheme and better align pay with performance. The new STI plan will continue to consider both Group performance and individual performance, with payments to also be subject to the following gateways:

- a Cash NPAT hurdle, which will be determined at the beginning of the financial year and will be aligned to market guidance; and
- assessment of conduct and behaviour, which will be measured across a key set of criteria and assessed by both the Risk and Compliance Committee and the Remuneration Committee.

The Group performance goals are determined by the Board at the beginning of the financial year, with clear linkage to key financial metrics, and a combination of transformation and strategic initiatives.

Results will be approved by the Board and will result in a **flexigroup** score being applied. Individual Executive KMPs have the ability to earn a personal multiplier on the **flexigroup** score aligned to delivery of the strategy and leadership of their functional area. The maximum multiplier is 1.25.

Any STI payments made to Executives will continue to have 25% paid into deferred shares, with a new tenure hurdle of two years.

Long-Term Incentive (LTI)

Long-term incentives to the CEO and Executives are provided via the **flexigroup** Long-Term Incentive Plan (LTIP). The **flexigroup** LTIP is part of **flexigroup**'s remuneration strategy and is designed to align the interests of **flexigroup** management with shareholders, and to assist **flexigroup** in the attraction, motivation and retention of Executives. In particular, the LTIP is designed to provide relevant Executives with an incentive for future performance, with conditions for the vesting and exercise of performance rights under the LTIP encouraging those Executives to remain with **flexigroup** and contribute to the future performance of the Group. The Group's founding shareholders approved the terms, the implementation and the operation of the LTIP on 20 November 2006.

Under the LTIP, eligible persons participating in the LTIP may be granted options and/or performance rights on terms and conditions determined by the Board from time to time. An option and a performance right are both rights to acquire a share, subject to the satisfaction of applicable vesting and/or exercise conditions. Options and performance rights granted under the plan carry no dividend or voting rights.

The Board is responsible for administering the LTIP in accordance with the LTIP Rules and the terms and conditions of specific grants of options and/or performance rights to participants in the LTIP. The Board may determine which persons will be eligible to participate in the LTIP from time to time, with those eligible persons invited to apply to participate in the LTIP. The Board may, in its discretion, accept such applications.

Long-Term Incentive Arrangements for 2019

The following sets out the key features of the awards to the CEO and senior Executives.

Current LTIP – Performance Rights

In 2019 Tranche 6 was approved and subsequently issued to the CEO and certain senior Executives. The Performance Rights allocated in each tranche will vest on, and become exercisable on or after, the applicable Vesting Date to the extent that certain performance-based conditions are achieved in the relevant Performance Period, and a tenure condition is satisfied. The Performance Rights issued in Tranches 1, 2, 3 and 4 have lapsed, whilst the Performance Rights in Tranches 5 and 6 remain on issue and will be tested based on FY21 and FY22 results respectively.

Tranche 4 performance rights had a minimum CAGR Cash EPS growth target of 4.5%, relative Total Shareholder Return (**TSR**) conditions similar to those disclosed on page 50 and volume growth vesting conditions based on performance indicators set by the Board. These conditions were measured based on a performance period of financial years 1 July 2016 to 30 June 2019, and the outcome of the assessment was that all rights would lapse.

The vesting outcomes for awards made to Executives under Tranche 4 of the **flexigroup** LTI Plan that reached vesting date are set out below:

Type of instrument	Performance period	Test date	TSR quartile in ranking group	TSR vested %	EPS vested %	Volume vested %	Lapsed %	Remain in plan
Performance rights	1 July 2016 to 30 June 2019	27 August 2019	4th Quartile	–	–	–	100	–

The Performance Periods applicable to each of the outstanding performance-based vesting conditions are as follows:

Tranche	Performance period	Testing date
5	2021 (1 July 2017 to 30 June 2021)	Results announcement date in 2021
6	2022 (1 July 2018 to 30 June 2022)	Results announcement date in 2022

Tranche 5 and 6 Performance Rights will be performance-tested against the following performance-based vesting conditions:

Percentage of rights	Performance condition
50% of each Tranche of Performance Rights	Cash EPS growth targets for the relevant performance period are met
50% of each Tranche of Performance Rights	Relative TSR for the relevant Performance Period compared to the S&P/ASX 200 Index (excluding materials and energy companies)

Cash EPS growth performance condition

The first performance-based vesting condition is based on growth on an adjusted Cash NPAT earnings per share measure used by the Group to track earnings per share on an underlying performance basis. The Group calculates this adjusted Cash NPAT earnings per share measure (**Cash EPS**) for a financial year as:

- the reported statutory profit after tax, adjusted for the after-tax effect of material infrequent items that the CEO and Board believe do not reflect ongoing operations of the Group, and the amortisation of acquired intangible assets;
- divided by the weighted average number of ordinary shares on issue during the year.

This is consistent with how the Group reports its Cash NPAT in its investor presentations.

The performance condition tests the growth in Cash EPS for the relevant financial year above the Cash EPS for the immediately preceding financial year, measured as a percentage (**Cash EPS Growth**).

The Cash EPS Growth condition for Tranche 5 and 6 will be satisfied for a Performance Period in accordance with the following table:

Cash EPS growth target	Percentage of performance rights available in given year satisfying condition
Compound annual growth rate in Cash EPS less than 4.0%	Nil
Compound annual growth rate in Cash EPS of 4.0%	30%
Compound annual growth rate in Cash EPS greater than 4.0% but less than 10.0%	Pro-rata between 30% and 100%
Compound annual growth rate in Cash EPS equal to or greater than 10.0%	100%

Relative TSR performance condition

The second performance-based vesting condition for each tranche of Performance Rights relates to the Group's TSR for the relevant performance period when compared to the peer group of companies in the S&P/ASX 200 Index (excluding materials and energy companies).

For each performance period, the TSR for the Group will be determined by calculating the amount by which the sum of:

- the 90-day volume weighted average price (**VWAP**) for **flexigroup** shares in the period up to and including the 30 June at the end of the relevant performance period; and
- the dividends paid on a share during the relevant performance period

  exceeds the 90-day VWAP for the Group's shares in the period up to and including 1 July at the beginning of the relevant performance period, expressed as a percentage.

Tranche 5 and 6 performance targets are as per the table below:

Relative TSR target	Percentage of performance rights available in given year satisfying condition
Less than 51st percentile of companies in S&P/ASX 200 Index (excluding materials and energy companies)	Nil
51st percentile of companies in S&P/ASX 200 Index (excluding materials and energy companies)	50%
Greater than 51st percentile but less than the 75th percentile of companies in S&P/ASX 200 Index (excluding materials and energy companies)	Pro-rata between 51% and 100%
Greater than or equal to 75th percentile of companies in S&P/ASX 200 Index (excluding materials and energy companies)	100%

The Board has the discretion to amend either the Cash EPS growth performance condition or the relative TSR performance condition at any time during the relevant performance period applicable to those Performance Rights if the Board believes it is appropriate to do so to reflect the Group's circumstances.

Vesting date and expiry date

Tranche	Vesting date	Expiry date
5	1 September 2021	15 March 2022
6	1 September 2022	15 March 2023

Vested Performance Rights that are not exercised before the relevant expiry date will lapse in accordance with the LTIP Rules.

Recipients of Vested Performance Rights are not permitted to enter into transactions which limit the economic risk of participating in the performance rights scheme.

Disposal restriction

The CEO and Executives may not dispose of, deal in, or grant a security interest over any interest in, a Performance Right without the prior written consent of the Board, which may be given subject to such conditions as the Board sees fit in relation to the proposed dealing.

The CEO and Executives may not dispose of, deal in, or grant a security interest over any interest in, a share allocated on exercise of a Vested Performance Right for any relevant period determined by the Board.

The Board has imposed a disposal restriction on the Shares that are the subject of this approval, which will be granted on the exercise of any Vested Performance Rights. The disposal restriction will be enforced by placing a sale restriction over the Shares that are allocated on the exercise of the Vested Performance Rights.

The disposal restrictions on those Shares will be lifted at the relevant Restriction Period End Date as set out below:

Tranches of shares allocated on exercise of vested performance rights tranches	% of shares allocated on vesting and exercise of performance rights	Restriction period end date
Tranche 5	100%	15 October 2022
Tranche 6	100%	15 October 2023

The Board may also implement any such other arrangements (including a holding lock) as it determines are necessary to enforce this restriction.

The Board has the discretion to amend or waive any disposal restrictions on the shares, the subject of this approval, which will be granted on the exercise of any Vested Performance Rights at any time until the disposal restriction ends, if the Board believes it is appropriate to do so to reflect the Group's or the employee's circumstances.

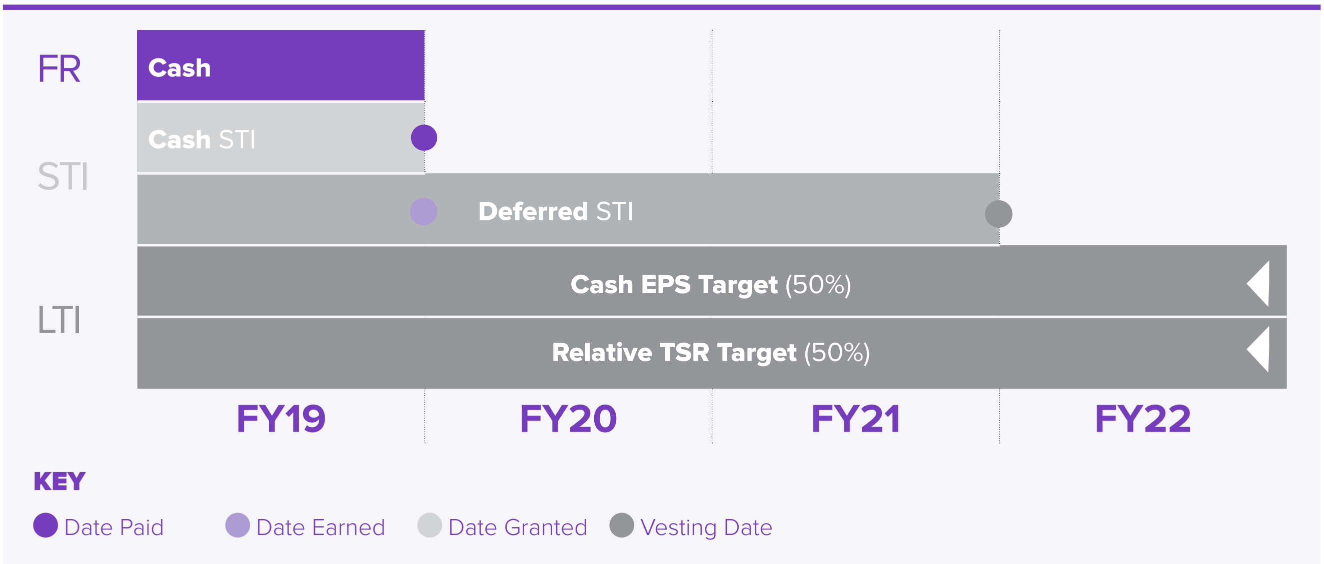
Once any Board imposed restriction is removed, and subject to the Group's Trading Policy, shares acquired on exercise of Vested Performance Rights may be dealt with freely.

Sign-On Incentive Rights

No sign-on rights were granted in 2019. Ms James received a sign-on cash incentive of $50,000, paid on 5 December 2018.

Remuneration timing

The remuneration components are structured to reward Executives progressively across different timeframes. The diagram below shows the period over which FY19 remuneration was planned for delivery and when the awards vest.



flexigroup has defined approval processes in place for all remuneration decisions. For our Executive KMP and direct reports to the CEO, any amendments to remuneration must be approved by the Board.

Remuneration for Executive KMP is reviewed annually in line with the financial year. In setting an individual's remuneration, the Board considers:

- external and internal relativities;
- individual and Group performance and incentivising transformational growth;
- recommendations from the Group CEO on the remuneration arrangements for the Executive team; and
- market data from comparable roles listed on the Australian Securities Exchange (ASX) against a peer group that is relevant and large enough to provide meaningful data.

Remuneration
Outcomes for 2019.

Incentives paid to the CEO and Executives are directly linked to the Group's financial performance. Outlined below are details for the CEO and Executive KMP payments relating to incentives.

STI performance outcomes

The below STIs are gross of the 25% deferred shares component.

Name	Position	STI target	STI outcome $
Rebecca James[1]	Chief Executive Officer	402,708	–
Chris Lamers[2]	Chief Executive Officer – NZ	205,896	–
Ross Aucutt	Chief Financial Officer	225,000	–
Elizabeth Minogue[3]	Chief Revenue Officer – AU	56,164	N/A
Symon Brewis-Weston[4]	Chief Executive Officer	105,180	–
Verity Gilpin[5]	General Manager – Sales	121,174	–
Ken Richards[6]	General Manager – Commercial	207,500	–

1. Appointed on 2 October 2018.
2. Deputy CEO and CEO NZ from 1 July 2019. NZD translated at the average exchange rate of 1.0685.
3. Commenced on 15 April 2019, but was not entitled to participate in STI opportunity.
4. Resigned effective 3 September 2018.
5. Resigned effective 19 January 2019.
6. Ceased employment effective 10 May 2019.

2018 deferred STI

The table below presents the equity that was granted under the FY18 deferred STI scheme. The deferred shares vest and are exercisable on 13 September 2019.

Executive KMP	Deferred STI value ($)	# Shares issued	Vesting date
Rebecca James (appointed 2 October 2018)	–	–	N/A
Chris Lamers	40,276	19,199	13-Sep-19
Ross Aucutt	43,427	20,701	13-Sep-19
Elizabeth Minogue (appointed 15 April 2019)	–	–	N/A
Symon Brewis-Weston (resigned 3 September 2018)	–	–	N/A
Verity Gilpin (resigned 19 January 2019)	42,577	20,296	N/A
Ken Richards (ceased 10 May 2019)	32,539	15,511	N/A

LTI performance outcomes

The vesting conditions attached to LTI awards at the grant date are chosen to align rewards to the CEO and Executives with the generation of shareholder value. The following table provides the Group's TSR, dividend, share price and Cash EPS over the last five years.

	Year ended 30 June				
	2019	**2018**	**2017**	**2016**	**2015**
TSR[1]	**(13.88%)**	17.14%	(8.30%)	(30.37%)	0.56%
Dividends per share (cents)	**7.70**	7.70	7.70	14.50	17.75
Cash EPS (cents)	**19.68**	23.00	24.60	25.00	26.70
Share price (high)	**$2.34**	$2.33	$2.58	$3.12	$4.00
Share price (low)	**$0.98**	$1.44	$1.55	$1.71	$2.70
Share price (close)	**$1.63**	$2.22	$1.83	$1.74	$2.91

1. TSR is calculated based on volume weighted average price (VWAP) in the 90-day period up to and including 30 June.

Details of options, performance and sign-on incentive rights

The terms and conditions of each grant of options, performance and sign-on incentive rights affecting remuneration in the previous, in this or future reporting periods are as below:

Grant date	Tranche number	Date vested and exercisable	Expiry date	Exercise price	Value per option, performance right at grant date ($)
1-Dec-14	3	1-Sep-17	15-Oct-19	Nil	2.49
	3	1-Sep-17	15-Oct-20	Nil	1.31
	4	1-Sep-18	15-Oct-21	Nil	2.35
	4	1-Sep-18	15-Oct-21	Nil	1.23
26-Nov-15	3	1-Sep-17	15-Oct-19	Nil	2.46
	3	1-Sep-17	15-Oct-19	Nil	1.04
	3	1-Sep-17	15-Oct-19	Nil	2.46
	4	1-Sep-19	15-Oct-21	Nil	2.17
	4	1-Sep-19	15-Oct-21	Nil	1.34
	4	1-Sep-19	15-Oct-21	Nil	2.17
27-Nov-17	5	1-Sep-21	15-Mar-22	Nil	1.36
	5	1-Sep-21	15-Mar-22	Nil	0.71
27-Nov-17	5	1-Sep-21	15-Mar-22	Nil	1.36
	5	1-Sep-21	15-Mar-22	Nil	0.71
15-Nov-18	6	1-Sep-21	15-Mar-23	Nil	1.29
	6	1-Sep-21	15-Mar-23	Nil	0.63
16-May-19	6	1-Sep-21	15-Mar-23	Nil	1.29
	6	1-Sep-21	15-Mar-23	Nil	0.65

Details of performance, deferred STI shares and sign-on incentive rights (referred to as "incentive rights") over ordinary shares in the Company provided as remuneration to each **flexigroup** Director and Executive KMP are set out below. When exercisable, an incentive right is convertible into one ordinary share of FlexiGroup Limited. Further information on the incentive rights is set out in note 24 to the financial statements.

Name	Number of incentive rights granted during the year	Value of incentive rights granted during the year $[1]	Number of incentive rights vested during the year	Number of incentive rights lapsed during the year	Financial years of issue of lapsed rights
Directors of FlexiGroup Limited					
Andrew Abercrombie	–	–	–	–	–
Christine Christian	–	–	–	–	–
Rajeev Dhawan	–	–	–	–	–
Jodie Leonard	–	–	–	–	–
Carole Campbell	–	–	–	–	–
John Wylie	–	–	–	–	–
Symon Brewis-Weston (resigned 3 September 2018)	–	–	36,000	605,843	2018
Other Key Management Personnel					
Rebecca James (appointed on 2 October 2018)	528,846	507,692	–	–	–
Chris Lamers	194,717	210,528	30,357	–	–
Ross Aucutt	200,207	217,548	9,796	–	–
Elizabeth Minogue (commenced 15 April 2019)	–	–	–	–	–
Verity Gilpin (resigned 19 January 2019)	20,296	42,577	19,198	324,361	2016 2018 2019
Ken Richards (ceased 10 May 2019)	15,511	32,539	12,245	162,240	2018 2019

1. This is based on the fair value of the shares on the date of issue.

The assessed fair value at grant date of incentive rights granted in 2019 is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration table on page 53. The fair values at grant date for deferred share incentives were internally determined, as the incentives were only subject to a tenure vesting condition. For performance rights issued on 15 November 2018 and 16 May 2019, the fair values at grant date were independently determined using a binomial tree option pricing methodology that takes into account the exercise price, the term of the performance rights, the impact of dilution, the share price at grant date and the expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the performance rights.

The model inputs for performance rights granted during the year ended 30 June 2019 included:

a. Exercise price: nil.
b. Grant date: 15 November 2018 and 16 May 2019.
c. Expiry date: 15 March 2023.
d. Share price at grant date: $1.51 (15 November 2018 tranche) and $1.52 (16 May 2019 tranche).
e. Expected price volatility of the Company's shares: 40%.
f. Expected dividend yield: 4.2% (15 November 2018 tranche) and 2.2% (16 May 2019 tranche).
g. Risk-free interest rate: 2.24%.

Shares provided on exercise of remuneration performance and sign-on rights

In the current year nil ordinary shares in the Company were issued because of the exercise of remuneration performance and sign-on incentive rights. The 61,000 (2018: 51,000) vested sign-on incentive rights were settled through on-market share purchases.

Additional Information.

Details of remuneration: STI cash payments, performance, and sign-on incentive rights

For each STI cash payment and grant of performance and sign-on incentive rights, the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. The performance and sign-on incentive rights vest in accordance with the vesting schedules detailed below. No performance and/or sign-on incentive rights will vest if the conditions are not satisfied, hence the minimum value of the rights yet to vest is nil. The maximum value of the rights yet to vest has been determined as the amount of the fair value at grant date of the rights that are yet to be expensed.

Name	2019 STI total payment $	STI outcome as % of target	STI % of target forfeited	LTI year granted	Prior year equity awards vested during 2019 %	Prior year equity awards forfeited during 2019 %	Financial years in which performance and sign-on incentive rights may vest	Maximum total value of grant yet to vest $
Executive Director								
Symon Brewis-Weston (resigned effective 3 September 2018)	–	0%	100%	2017 – Sign-on rights	50%	0%	–	–
				2018 – Deferred STI	0%	100%	–	–
				2018 LTIP tranche 5	0%	100%	–	–
Other Key Management Personnel								
Rebecca James	–	0%	100%	2019 LTIP tranche 6	–	–	2022	528,846
Chris Lamers	–	0%	100%	2017 – Sign-on rights	50%	–	–	–
				2018 – Deferred STI	100%	–	–	–
				2018 LTIP tranche 5	0%	–	2022	198,349
				2019 – Deferred STI	0%	–	2020	19,199
				2019 LTIP tranche 6	0%	–	2022	175,518
Ross Aucutt	–	0%	100%	2018 – Deferred STI	100%	–	–	–
				2018 LTIP tranche 5	–	–	2022	210,017
				2019 – Deferred STI	0%	–	2020	20,701
				2019 LTIP tranche 6	0%	–	2022	179,506
Elizabeth Minogue	–	0%	100%	N/A	N/A	N/A	N/A	N/A
Verity Gilpin	–	0%	100%	2016 LTIP tranche 4	–	100%	–	–
				2018 – Deferred STI	100%	100%	–	–
				2018 LTIP tranche 5	–	–	–	–
				2019 – Deferred STI	–	100%	–	–
Ken Richards	–	0%	100%	2018 – Deferred STI	100%	0%	–	–
				2018 LTIP tranche 5	–	100%	–	–
				2019 – Deferred STI	–	100%	–	–

Shares under performance rights

As at the date of this report, there were 2,182,610 unissued ordinary shares of FlexiGroup Limited subject to performance, sign-on and deferred STI rights. These unissued ordinary shares are the subject of performance and deferred STI rights with expiry dates between 13 September 2019 and 15 March 2023. No performance and sign-on incentive shareholder has any right under the performance share to participate in any other share issues of the Company or any other entity.

Non-Executive Directors

Fees and payments to Non-Executive Directors reflect the demands that are made on, and the responsibilities of, the Non-Executive Directors. Non-Executive Directors' fees and payments are reviewed as required and benchmarked where appropriate by the Board. Non-Executive Directors do not receive performance rights. Non-Executive Directors may opt each year to receive a percentage of their remuneration in FlexiGroup Limited shares which would be acquired on–market. Shareholders approved this arrangement on 20 November 2006 but no Directors have yet elected to participate in the arrangement.

Non-Executive Directors' fees

The current base remuneration was approved on 20 July 2011, with the exception of the fee for the Deputy Chair and the fees payable to members of Board Committees which were introduced in FY19. Non-Executive Directors' fees are determined within an aggregate Directors' fee pool limit of $1.2m. The following fee structure was applicable for the 2019 financial year:

Base fees (per annum)	
Chair	$250,000
Deputy Chair	$180,000
Other Non-Executive Directors	$120,000

Additional fees (per annum)	
Audit Committee – Chair	$25,000
Remuneration Committee – Chair	$25,000
Risk and Compliance Committee – Chair	$25,000
Committee fees – Members	$10,000
Fees for serving on NZ Board	$65,512

In addition to the above fees, Directors also receive compulsory superannuation contributions. As Mr Wylie is Tanarra Capital's nominated director payments are made to Tanarra Capital (including GST rather than superannuation). A Director is entitled to reimbursement for reasonable travel, accommodation and other expenses in attending meetings and carrying out their duties.

Under clause 10.10 of the Company's constitution, subject to the Listing Rules and *Corporations Act*, a Director at the request of the other Directors may be remunerated for performing additional or special duties for the Company. Under clause 10.11 of the Company's constitution, subject to the Listing Rules and *Corporations Act*, the Company may pay a former Director, or the personal representatives of a Director who dies in office, a retirement benefit in recognition of past services of an amount determined by the Directors. The Company may also enter into a contract with a Director providing for payment of the retiring benefit. No such contracts have been entered into to date. Despite having this clause in the Company's constitution, the Company does not intend to pay such benefits to Directors.

Amounts of remuneration

Details of the remuneration of the Directors and the Executive KMP (as defined in Australian Accounting Standards Board (**AASB**) 124 *Related Party Disclosures*) of FlexiGroup Limited and its subsidiaries are set out in the following tables. The cash bonuses are dependent on the satisfaction of performance conditions as set out in the section headed Short-Term Incentive above.

2019	Short-term employee benefits			Post-employment benefits	Long-term benefits		
	Cash salary and fees	STI cash payment	Other benefits	Superannuation	Long service leave	Share-based payments expense[1]	Total earnings
Name	$	$	$	$	$	$	$
Non-Executive Directors							
Andrew Abercrombie (Chairman)	253,258	–	–	20,531	–	–	273,789
Christine Christian (Deputy Chairman)	225,000	–	–	21,375	–	–	246,375
Rajeev Dhawan[2]	215,512	–	–	14,250	–	–	229,762
Jodie Leonard	154,996	–	–	14,725	–	–	169,721
Carole Campbell	151,295	–	–	14,373	–	–	165,668
John Wylie[7] (appointed 21 March 2019)	33,548	–	–	–	–	–	33,548
Subtotal Non-Executive Directors	1,033,609	–	–	85,254	–	–	1,118,863
Executive Director							
Symon Brewis-Weston (resigned 3 September 2018)[4]	130,817	–	526,641	5,133	–	(77,107)	585,484
Subtotal Executive Director	130,817	–	526,641	5,133	–	(77,107)	585,484
Other key management personnel							
Rebecca James (appointed 2 October 2018)	495,385	–	50,000	15,004	–	71,977	632,366
Chris Lamers[3]	405,792	–	–	15,910	–	57,487	479,189
Ross Aucutt	429,509	–	17,308	20,532	–	56,205	523,554
Elizabeth Minogue (commenced 15 April 2019)	102,038	–	–	4,370	–	–	106,408
Verity Gilpin (resigned 19 January 2019)[5]	230,007	–	0.0	12,390	–	(43,178)	199,219
Ken Richards (ceased employment 10 May 2019)[6]	358,793	–	0.0	17,741	–	(2,548)	373,986
Subtotal other key management personnel	2,021,524	–	67,308	85,947	–	139,943	2,314,722
Total key management personnel compensation (Group)	**3,185,950**	**–**	**593,949**	**176,334**	**–**	**62,836**	**4,019,069**

1. Remuneration for share-based payments represents amounts expensed during the year for accounting purposes. Negative amounts represent lapsed instruments due to failure to meet either performance vesting conditions or termination of employment. Included in the share-based payment expense is the FY2017 deferred STI amount that is settled in equity. The shares vested on 15 September 2018.
2. R Dhawan received additional fees for serving on the FXL NZ Board.
3. NZD translated at the average exchange rate of 1.069.
4. Cash payments in the year included $28,018 for accrued annual leave upon resignation, not included in the table above.
5. Cash payments in the year included $21,985 for accrued annual leave upon resignation, not included in the table above.
6. Cash payments in the year included $4,705 for accrued annual leave upon cessation of employment not included in the table above.
7. As Mr Wylie is Tanarra Capital's nominated director payments are made to Tanarra Capital (plus GST and excluding superannuation).

2018	Short-term employee benefits			Post-employment benefits	Long-term benefits		
	Cash salary and fees	STI cash payment[1]	Other benefits	Superannuation	Long service leave	Share-based payments expense[2]	Total earnings
Name	$	$	$	$	$	$	$
Non-Executive Directors							
Andrew Abercrombie (Chairman)	253,701	–	–	20,049	–	–	**273,750**
Christine Christian (Deputy Chairman)	157,978	–	–	15,008	–	–	**172,986**
Rajeev Dhawan[3]	199,100	–	–	12,390	–	–	**211,490**
Jodie Leonard	135,063	–	–	12,831	–	–	**147,894**
Carole Campbell	18,218	–	–	1,731	–	–	**19,949**
R J Skippen	60,417	–	–	5,740	–	–	**66,157**
Subtotal Non-Executive Directors	824,477	–	–	67,749	–	–	**892,226**
Executive Director							
Symon Brewis-Weston (resigned 3 September 2018)	767,454	132,891	–	20,049	–	141,224	**1,061,618**
Subtotal Executive Director	767,454	132,891	–	20,049	–	141,224	**1,061,618**
Other key management personnel							
Chris Lamers[4]	381,731	126,325	–	12,237	–	76,349	**596,642**
Ross Aucutt	429,951	135,000	–	20,049	–	21,125	**606,125**
Verity Gilpin	415,703	132,360	–	20,049	–	52,064	**620,176**
Ken Richards	382,799	101,156	–	20,049	–	21,341	**525,345**
Peter Lirantzis (ceased being a KMP 16 January 2018)	316,741	–	191,541	11,695	–	18,255	**538,232**
Subtotal other key management personnel	1,926,925	494,841	191,541	84,079	–	189,134	**2,886,520**
Total key management personnel compensation (Group)	**3,518,857**	**627,732**	**191,541**	**171,877**		**330,357**	**4,840,364**

1. This represents 75% of the 2017 STI payable in September 2018. The remaining 25% is deferred to the financial year commencing 1 July 2018 with a vesting date of 15 September 2019.
2. Remuneration for share-based payments represents amounts expensed during the year for accounting purposes. Negative amounts represent lapsed instruments due to failure to meet either performance vesting conditions or termination of employment. Included in the share-based payment expense is the FY2017 deferred STI amount that is settled in equity. The shares vested on 15 September 2018.
3. R Dhawan received additional fees for serving on the FXL NZ Board.
4. NZD translated at the average exchange rate of 1.085.

The relative proportions of ongoing remuneration that are linked to performance and those that are fixed are as follows:

Name	Fixed remuneration 2019 %	Fixed remuneration 2018 %	At Risk – STI 2019 %	At Risk – STI 2018 %	Rights 2019 %	Rights 2018 %
Executives of **flexigroup**						
Rebecca James	**88**	N/A	–	N/A	**12**	N/A
Ross Aucutt	**88**	74	–	22	**12**	3
Chris Lamers	**89**	66	–	21	**11**	13
Elizabeth Minogue	**100**	N/A	–	N/A	–	N/A
Symon Brewis-Weston	**100**	74	–	13	–	13
Verity Gilpin	**100**	70	–	21	–	9
Ken Richards	**100**	77	–	19	–	4
Peter Lirantzis	**N/A**	100	**N/A**	–	**N/A**	–

Mr Brewis-Weston, Ms V Gilpin, Mr K Richards, and Mr P Lirantzis' total remuneration is disclosed as 100% fixed remuneration in the year of their departure. They did not qualify for STI due to departure and their LTIs lapsed on departure.

Service agreements

Remuneration and other terms of employment for the Chief Executive Officer and the other Executive KMP are formalised in service agreements. Each of these agreements can provide for the provision of short-term performance incentives, eligibility for the **flexigroup** LTIP, other benefits including the use of a company motor vehicle, car insurance, tax advisory fees, payment of benefits forgone at a previous employer, relocation, living, tax equalisation, travel and accommodation expenses while an Executive is required to live away from their normal place of residence.

All employment agreements are unlimited in term but capable of termination at agreed notice by either the Company or the Executive. The Company can make a payment in lieu of notice. The notice period for each Executive is listed in the table below.

In the event of retrenchment, the Executives listed in the table below are entitled to the payment provided for in the service agreement. The employment of the Executives may be terminated by the Company without notice by payment in lieu of notice. Upon termination of employment, the Board exercises its discretion on payment of a pro-rata STI entitlement and early vesting of any unvested LTIs held by the above Executive KMP.

The service agreements also contain confidentiality and restraint of trade clauses.

The provisions of the agreements relating to notice period and remuneration are listed in the table below.

Name	Term of agreement and notice period[1]	Total Fixed Remuneration ($)[2]	Termination payments[3]
Rebecca James	6 months	720,531	6 months
Chris Lamers[4]	3 months	440,000	3 months
Ross Aucutt	3 months	450,000	3 months
Elizabeth Minogue	3 months	500,000	3 months
Symon Brewis-Weston (resigned 3 September 2018)	6 months	787,500	6 months
Verity Gilpin (resigned 19 January 2019)	3 months	435,750	3 months
Ken Richards (ceased 10 May 2019)	3 months	415,000	3 months

1. Notice applies to either party.
2. Base salaries and superannuation are for financial year ended 30 June 2019. Annual reviews are performed by the Remuneration Committee.
3. Base salary payable if the Company terminates employee with notice, and without cause.
4. Remuneration is in NZ$.

Other services obtained from related parties – rental of Melbourne premises

A controlled entity in the Group has rented a property in Melbourne owned by entities associated with Mr Andrew Abercrombie. The rental arrangements for these premises are based on market terms. The rent paid for these premises amounted to $187,284 (2018: $177,353). Refer to note 30(D) for further details.

Equity instrument disclosures relating to Directors and Key Management Personnel

Performance, deferred STI shares and sign-on incentive rights holdings (see tables below).

2019 Name	Balance at start of year	Granted as compensation	Vested	Lapsed	Balance at end of year	Vested and exercisable	Unvested
Executive Director							
Symon Brewis-Weston (resigned 3 September 2018)	641,843	–	(36,000)	(605,843)	–	–	–
Other Key Management Personnel							
Rebecca James (appointed 3 October 2018)	–	528,846	–	–	528,846	–	528,846
Chris Lamers	228,706	194,717	(30,357)	–	393,066	–	393,066
Ross Aucutt	219,813	200,207	(9,796)	–	410,224	–	410,224
Elizabeth Minogue (commenced 15 April 2019)	–	–	–	–	–	–	–
Verity Gilpin (resigned 19 January 2019)	323,263	20,296	(19,198)	(324,361)	–	–	–
Ken Richards (ceased 10 May 2019)	158,974	15,511	(12,245)	(162,240)	–	–	–

2018 Name	Balance at start of year	Granted as compensation	Exercised	Lapsed	Balance at end of year	Vested and exercisable	Unvested
Executive Director							
Symon Brewis-Weston	72,000	605,843	(36,000)	–	641,843	–	641,843
Other Key Management Personnel							
Chris Lamers	–	243,706	(15,000)	–	228,706	–	243,706
Ross Aucutt	–	219,813	–	–	219,813	–	219,813
Verity Gilpin	150,000	173,263	–	–	323,263	–	323,263
Ken Richards	–	158,974	–	–	158,974	–	158,974
Peter Lirantzis (ceased being KMP 16 January 2018)	120,000			(120,000)	–	–	–

Shareholding disclosures relating to Directors and Key Management Personnel

2019 Name	Balance at start of year	Received during the year on the exercise of rights	Other changes during the year	Balance at end of year
Non-Executive Directors				
Andrew Abercrombie (Chairman)	90,766,593	–	89,574	90,856,167
Christine Christian (Deputy Chairman)	10,000	–	58,000	68,000
Rajeev Dhawan	275,371	–	–	275,371
Jodie Leonard	3,560	–	–	3,560
Carole Campbell	–	–	25,000	25,000
John Wylie	–	–	20,439,256	20,439,256
Executive Director				
Symon Brewis-Weston	96,852	36,000	(132,852)	–
Other Key Management Personnel				
Rebecca James	–	–	–	–
Chris Lamers	15,000	30,357	(45,357)	–
Ross Aucutt	–	9,796	–	9,796
Elizabeth Minogue	–	N/A	–	–
Verity Gilpin	–	19,198	(19,198)	–
Ken Richards	–	12,245	(12,245)	–

2018 Name	Balance at start of year	Received during the year on the exercise of rights	Other changes during the year	Balance at end of year
Non-Executive Directors				
Andrew Abercrombie (Chairman)	90,766,593	–	–	90,766,593
Christine Christian (Deputy Chairman)	–	–	10,000	10,000
Rajeev Dhawan	275,371	–	–	275,371
Jodie Leonard	3,560	–	–	3,560
Carole Campbell	–	–	–	–
RJ Skippen	147,470	–	(147,470)	–
Executive Director				
Symon Brewis-Weston	50,852	36,000	10,000	96,852
Other Key Management Personnel				
Chris Lamers	–	15,000	–	15,000
Ross Aucutt	–	–	–	–
Verity Gilpin	–	–	–	–
Ken Richards	–	–	–	–
Peter Lirantzis	–	–	–	–

OTHER INFORMATION.

Other **information.**

Directors' indemnification

During the year ended 30 June 2019 **flexigroup** paid insurance premiums in respect of a contract for Directors' and Officers' Liability insurance. The policy prohibits **flexigroup** from disclosing the total amount of the premium and the nature of the liabilities covered by the insurance.

Indemnity of auditors

flexigroup has agreed to indemnify our auditors PricewaterhouseCoopers, to the extent permitted by law, against any claim by a third party arising from the Company's breach of their agreement. The indemnity stipulates that **flexigroup** will meet the full amount of any such liabilities including a reasonable amount of legal costs.

Proceedings on behalf of Company

No person has applied to the court under section 237 of the *Corporations Act* for leave of the court to bring proceedings on behalf of the Company, or intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

No proceedings have been brought or intervened in on behalf of the Company with leave of the court under section 237 of the *Corporations Act.*

Non-audit services

flexigroup may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important.

Details of the amounts paid to the auditor for audit and non-audit related services provided during the year are set out in note 32 of the financial statements.

The Board has considered the position and, in accordance with advice received from the Audit Committee, is satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act.* The Directors are satisfied that the provision of non-audit services by the auditor, as set out in note 32 did not compromise the auditor independence requirement of the *Corporations Act* for the following reasons:

- all non-audit services have been reviewed by the Audit Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermines the general principle relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

Declaration of interests

Other than as disclosed in the financial statements, no Director of the Company has received or become entitled to receive a benefit other than remuneration by reason of a contract made by the Company or a related corporation with a Director or with a firm of which he or she is a member, or with a company in which he or she has a substantial financial interest except that Flexirent Capital Pty Limited has rented premises in Melbourne owned by a company associated with Mr A Abercrombie. The lease is on standard market terms.

Environmental regulation

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

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 Annual Financial Statements. Some amounts in the Directors' Report and the Annual Financial Statements have been rounded off in accordance with that instrument to the nearest hundred thousand dollars.

Matters subsequent to end of the financial year

Other than the matters discussed in note 37, there are no other matters or circumstances that have arisen since 30 June 2019 which have significantly affected, or may significantly affect:

a. the Company's operations in future financial years;

b. the results of those operations in future financial years; or

c. the Company's state of affairs in future financial years.

Auditor's independence declaration

A copy of the auditor's independence declaration, as required by section 307C of the *Corporations Act,* is set out on page 76.

Auditor

PricewaterhouseCoopers continues to act as the Company's auditor in accordance with section 327 of the *Corporations Act 2001.*

This Report is made in accordance with a resolution of the Directors.

Andrew Abercrombie
Chairman
Sydney

27 August 2019

Our purpose, our values, our culture and our governance underpin the work we do, and importantly the way we do that work.

CORPORATE **GOVERNANCE.**

A framework for effective oversight.

flexigroup has reviewed its current corporate governance policies and practices against the Australian Securities Exchange (ASX) Corporate Governance Council's (ASX **CGC**) Corporate Governance Principles and Recommendations 3rd Edition (**Recommendations**) in respect of the year ended 30 June 2019. As recommended by the ASX CGC, further information in relation to corporate governance practices is set out in the Corporate Governance Statement, which is publicly available on the Company's website at, **flexigroup.com.au**

The Board has established a framework of processes and guidelines for the Company that includes corporate policies and monitoring procedures, financial and operational business risk management and internal control systems, and standards for ensuring lawful and ethical conduct.

Throughout the year, the Board's composition has changed with the appointment of Ms Christine Christian as Deputy Chair from August 2018 (as noted in the 2018 Annual Report), and Mr John Wylie AM's appointment as a Director on 21 March 2019. In addition, Mr Symon Brewis-Weston resigned as CEO and Executive Director on 3 September 2018.

Mr Abercrombie indirectly holds approximately 23% of the shares currently on issue in the Company and as a former CEO is not regarded as being an independent Director. The Board continues to believe that Mr Abercrombie is best placed to act as Chairman of both the Board and the Nomination Committee given his extensive corporate knowledge and understanding of the Company, and his industry associations.

Mr Wylie, through his role at Tanarra Capital, has an interest in approximately 5.1% of the shares currently on issue in the Company, and is not considered independent.

As at the date of this report, the Board is majority independent and consists of Mr Andrew Abercrombie (Chair), Ms Christine Christian (Deputy Chair), Mr Rajeev Dhawan, Ms Jodie Leonard, Ms Carole Campbell and Mr John Wylie AM. All Board Committees are chaired by Non-Executive Directors. The Company's Audit, Risk and Compliance, and Remuneration Committees are entirely independent in composition.

This summary corporate governance report is current as at 27 August 2019, and has been approved by the **flexigroup** Board.

THE BOARD HAS ESTABLISHED A FRAMEWORK... FOR ENSURING LAWFUL AND ETHICAL CONDUCT.

Our approach to sustainability and corporate responsibility is driven by a long-standing passion for supporting customers, retailers, businesses, schools, and our communities. In 1991, with printed paper and fax machines, flexigroup opened up a complete new world of financing. Nearly 30 years later, the digital age has changed the face of finance, and the world faces a new set of environmental and societal challenges. We know that as the world changes, we need to change with it. We are committed to continuing to make flexigroup a better and more sustainable company.

SUSTAINABILITY REPORT.

How we do things **at flexigroup.**

Our purpose and Code

Our purpose and Code are integral to the way we do business

At **flexigroup** we know what matters to people is living a rich life. A rich life is not a life of money and opulence. It's a life rich in opportunities, experiences, variety and empowerment. It's about our customers having the confidence to create the life they want and to live it. We enable our customers to use their money in ways that amplify their situation and their dreams.

The **flexigroup** Code is the set of behaviours we live and breathe in our day-to-day operations. The Code guides how we operate and behave – with our people, our customers and the communities in which we operate.

OUR PURPOSE

To make a richer, fuller life affordable for everyone

FEEL THEIR WORLD	FEED YOUR MIND	FOCUS ON IMPACT	FAMOUS FOR DELIVERY	#FTB
Know what drives our customers and makes them tick.	Push yourself to stay up to speed with what's hot and new.	Never lose sight of what you're here to do.	Get things nailed the first time.	There's no room for hierarchy – roll up your sleeves and get it done.

Code of Conduct

In conducting its business activities **flexigroup** is committed to maintaining the highest ethical standards. The **flexigroup** Code of Conduct applies to all Directors, officers, employees, contractors, consultants and associates of the Company. It outlines how the Company expects its representatives to behave and conduct business in the workplace. The Board of Directors, as the Company's highest governance body, ensures that **flexigroup**'s values and ethical standards are reflected in its day-to-day operations.

flexigroup takes its obligations regarding ethical behaviour very seriously. In addition to our Code of Conduct, the Company has policies in place for the disclosure of personal relationships where a potential conflict may arise, and has thorough processes in place for pre-employment and background checks, particularly for senior leaders and those employees accessing credit information, and making financial decisions.

Governance and risk management

Risk and Compliance Committee

The Board Risk and Compliance Committee meets at least six times annually to review and address risks which can impact the business. The Risk and Compliance Committee makes recommendations and reports directly to the Board. The Committee has a program of review for key policies and receives reporting from management committees covering key risk areas for **flexigroup.**

Risk Management Function

We recognise that effective risk management is critical to the ongoing success of **flexigroup**. It influences the experiences of our customers, our people, our financial performance, our reputation and our shareholders' expectations.

Risk management is a core function performed at all levels across the Group, and is generally considered by reference to three main risk classes of credit risk, liquidity and market risk, and operational and compliance risk. Each risk area is supported by a range of policies, controls, processes and procedures that allow us to identify and manage risk in all of **flexigroup**'s activities.

Credit Risk

Credit risk is the risk that a contracting party will not complete its obligations under a financial instrument and, as a result, cause the Group to incur a financial loss. **flexigroup** has a framework and supporting policies for managing credit risk, covering all stages of the credit cycle – origination, evaluation, approval, documentation, settlement, ongoing administration and problem management. The extension of credit to consumers is underpinned by our commitment to comply with all local legislation, codes of practice, and relevant guidelines and obligations to market our products responsibly, and ensure they meet the expectations of our customers and the communities in which we operate.

Liquidity and Market Risk

Liquidity risk is the risk that **flexigroup** cannot meet its financial liabilities or take advantage of investment opportunities at a reasonable cost in a timely manner. This risk could potentially arise as a result of:

- an inability to meet both expected and unexpected current and future cash flows and collateral needs without affecting either daily operations or the financial condition of **flexigroup**; and/or
- adverse changes to contractual debt facilities when they mature.

Market risk is the risk of an adverse impact on **flexigroup**'s earnings resulting from changes in market factors, such as interest rates and foreign exchange rates.

flexigroup has a Treasury management framework and policy that seeks to address key elements of liquidity and market risk. In addition, all liquidity and market risk is reported, discussed and approved each month at the Assets and Liabilities Committee meeting.

Operational and Compliance Risk

flexigroup's Operational and Compliance Risk Frameworks assist with the effective identification, management, and monitoring and reporting of the Group's risks. The Operational Risk Management Framework defines the organisational and governance structures, roles and responsibilities, principles, policies, processes and systems that we use to manage operational risk. The Compliance Management Framework sets out our approach to managing compliance obligations and mitigating compliance risk in order to achieve our compliance objective. These frameworks are revised and enhanced on a continual basis, including incorporating feedback from the Risk and Compliance Committee.

Our **People.**

flexigroup recognises the importance of attracting, building and retaining a highly skilled team and strives to create an equal, safe and positive workplace for all employees. **flexigroup** is dedicated to ensuring that we create and maintain a diverse work environment in which everyone is treated in a fair and respectful manner and where everyone feels responsible for the reputation and performance of the Company. The Company adopts and encourages diversity through an open and inclusive culture that values and respects all employees, customers and the communities in which we live and work.

Employee satisfaction

At **flexigroup**, we understand that employee engagement is key to maintaining a satisfied workforce. During the reporting period, **flexigroup** undertook an employee engagement survey. The results of the survey are shared in a transparent manner with all employees and are used to build engagement and employee advocacy.

Diversity and inclusion

Diversity and inclusion are deeply embedded into the operations of **flexigroup**. They are defining factors of the workforce we are committed to maintaining, enhancing our capability and reputation, allowing us to attract, engage and retain talented people.

Proudly supporting a diverse range of customers across Australia, New Zealand and Ireland, our workforce is reflective of our customer base, and forms part of our competitive advantage. Through a skilled and diverse workforce, we can deliver exceptional experiences for our customers.

With a firm focus on being an employer of choice, we are committed to the principles of equal employment opportunity. We embrace merit- and values-based principles, and seek to recruit, promote and remunerate based on performance, capabilities, and behaviours, with supporting policies in place to ensure inclusion and diversity underpin our operating model and business processes. We work with our partner agencies to make them aware of our diversity agenda when recruiting for new roles.

Equal employment opportunity, bullying, harassment, discrimination and victimisation policy

flexigroup has a zero-tolerance approach to bullying, harassment, discrimination and victimisation in the workplace, and fosters a culture where all employees are treated with respect, dignity and fairness, in an environment that promotes honesty and integrity. The Company does not tolerate any form of discrimination, including on the basis of gender, race, religion, cultural background, colour, marital status, sexual orientation, gender identity, age, disability, personal associations, political beliefs, family responsibilities, pregnancy, membership or non-membership of a trade union.

The Equal Employment Opportunity, Bullying, Harassment, Discrimination and Victimisation Policy is closely aligned with the key principles of the **flexigroup** Code of Conduct and is provided to all employees on commencement, and is available on the employee intranet. The policy sets out the types of behaviours and conduct that constitute bullying, harassment, discrimination and victimisation, establishes guidelines for dealing with a complaint, if one arises, and explains the consequences if a breach of policy is committed.

Gender diversity

flexigroup retained its compliance with the *Workplace Gender Equality Act* 2012 during the reporting period, demonstrating our continued focus on ensuring there is strong and practical support for gender diversity.

Following a gender equity pay analysis in 2018, **flexigroup** continued to monitor gender pay equality in both the recruitment and the annual review processes to ensure we identify and address any gender equity pay gaps.

During the reporting period, **flexigroup** maintained the number of female employees at 37%. At 30 June 2019, 50% of the Board and 42% of the Executive team were female.

Domestic violence policy

flexigroup is committed to supporting employees who are experiencing domestic violence and have adopted a Domestic and Family Violence Support Policy.

flexigroup supports employees who are victims of domestic violence with leave options including, depending on their location, the provision of five to 10 additional paid leave days per year, access to unpaid leave, and leave to support family members who are victims of domestic violence. We also offer additional support through flexible working arrangements that provide our employees the option of changing their working hours, the duties they perform, or where possible, the location of their role.

In addition to the policy, training is also provided to people leaders to better understand the ways in which our people can support colleagues impacted by domestic violence.

Parental leave policy

In Australia, in addition to the government paid parental leave scheme, **flexigroup** offers paid parental leave for both primary and secondary carers. This allows for primary care givers to receive six weeks of paid leave with the choice of receiving either an additional four weeks of paid leave, or continue to have their superannuation entitlement paid for any unpaid leave taken as part of their parental leave, up to a maximum of 46 weeks.

Cultural awareness

Operating in three locations globally, **flexigroup** employees are representative of a wide range of cultures and backgrounds. To raise awareness for the varying cultures across the Group, we focus on creating a better understanding and appreciation of people from the diverse countries we live and work in through employee events and awareness campaigns throughout the year.

By raising awareness, we can improve how we interact with our customers and with each other.

Mental health first aid training

Bringing our full and true selves to work is vital – and this means creating an environment where it's OK to not be OK, to ask for help and to look to a colleague for support – whether it's about work or not.

As part of our commitment to supporting the mental wellbeing of our employees, as an organisation we shifted our focus from simply raising awareness about mental health to making it part of our day-to-day dialogue. This has included rolling out mental health training to people leaders, providing free 24/7 counseling to employees – and importantly, talking about mental health regularly.

We also understand that mental and physical wellbeing work hand in hand, so we provide gym access along with a range of other free activities throughout the year including meditation, massages, yoga and nutrition courses.

flexigroup has almost 80% leaders across the business accredited in providing Mental Health First Aid.

100%

of female **flexigroup** employees returned from parental leave during the reporting period.

Flexible work arrangements include:

- **Flexible hours of work** — including work from home options or variable hours
- **Time-in-lieu arrangements**
- **Compressed working weeks**
- **Part-time work**

Flexible working arrangements

Flexibility in working arrangements is strongly supported by **flexigroup** as part of our commitment to diversity and inclusion in the workforce. During the previous reporting period, 26% of employees availed of a flexible working arrangement.

In addition to flexible work arrangements, **flexigroup** offers employees the opportunity to apply for Annual Leave Extra which gives them the ability to purchase an additional week of annual leave to use during the year.

Employee learning and development

Maintaining and improving employee skills and capabilities is a key element of **flexigroup**'s success and development. To enhance the knowledge base and skills of our employees, a range of training programs was conducted throughout the reporting period. These workshops included: unconscious bias, change management, career development and employment law, and a range of development workshops include Storytelling, and Leading Through Change.

Leadership development

flexigroup's 'Stepping into Leadership' program was part of the Company's practical steps to build capability and succession planning within the organisation. The program was designed to give front line employees the skills and confidence to step into leadership roles, reducing our need to recruit externally for front line leadership roles.

Values training

The Company's values have been embedded across the organisation in policies and processes as well as in training rolled out to leaders and executives. In the last year, 644 of our people attended training sessions to build their capability and enable them to further embed the values within their teams. The classroom training – supplemented by an e-book – was cross-functional, focused on reflection and social collaborative learning with peers and leaders.

Induction

flexigroup is committed to ensuring new employees are set up for success through a robust induction. The induction process covers company history, organisational structure, product overview, Executive Team Meet and Greet, values, policies and processes, health and wellbeing, department overviews and career development within the Company. This training can include classroom workshops and online modules.

Customer Fundamentals programs

Customer Fundamentals is **flexigroup**'s program for all team members who work in customer service and contact centre roles. The objective of Customer Fundamentals is to provide team members working with customers an organised and logical learning path that provides them with the skills and knowledge to provide a great customer experience. This training program is currently offered over a nine-month period and provides agents with a mix of soft and technical skills using a blended approach of learning delivery (i.e. eLearn, classroom sessions and on-the-job learning). In 2019, **flexigroup** offered eligible employees approximately 1,000 hours of Customer Fundamentals.

Sales Fundamentals program

The Sales Fundamentals program supports our sales team to expand their catalogue of product knowledge and selling techniques. The blended learning program includes, product and competitor information, insights from world experts in sales techniques, on-the-job activities, social learning opportunities, and mentoring. Over 50 participants engaged in this program with over 2,000 hours of learning completed.

flexiacademy

The upgrade of flexiacademy, our Learning Management System, has provided **flexigroup** with the ability to meet the demands for more sophisticated learning requirements. The new platform, has enabled access across the entire group as well as over 3,000 partners in our retailer network. The system provides unique learning experiences through easy to use programs (interactive solutions, virtual classroom delivery and blended learning programs) with automatically generated emails, greater reporting capability for essential regulatory requirements as well as learner engagement, satisfaction, participation and capability. Over 12,000 hours of learning has been delivered through the system.

Compliance

Compliance courses provide employees with an understanding of the legal boundaries that the organisation works within. These training courses enable team members to act within the stipulated framework and make correct decisions. It also helps employees avoid costly errors that could result in significant fines or other legal sanctions for **flexigroup**.

The courses delivered in 2019 include:

- Anti-money laundering and counter terrorism financing
- *Consumer* and *Competition Act*
- Privacy and spam
- Equal opportunity, bullying and discrimination
- Code of Conduct

Performance assessments of employees

Performance assessments are a key part of the professional development of employees at **flexigroup**. Mid-year and full-year performance assessments are undertaken along with development planning for each employee.
The process includes:

- **Structured performance objectives:** At the start of each financial year, managers set performance objectives that are linked to business priorities. Performance against these objectives, and the continued relevance of the objectives, are reviewed throughout the year.
- **Values-based performance:** As a values-based organisation, we discuss not only achievement of performance objectives, but also the demonstration of behaviours.
- **Structured development plans:** Managers discuss development goals with team members based on the performance and behaviour objectives for their current role. These conversations are also used to establish a broader understanding of employee career aspirations.
- **Measurement of performance objectives and values:** Identifying and recognising the varying contributions of our people is an important objective of the annual review process. We do this through the evaluation conversations we have, and through applying ratings. Ratings provide the benchmark for performance expectations and development requirements.

  At mid-year and full-year, employees are given two ratings: a performance rating and a values rating, both of which are communicated after calibration conversations have occurred.
- **Calibration process:** Following full-year review conversations with relevant team members, the business holds calibration sessions. The objective of this process is to ensure that ratings are consistently applied by leaders across the Company.

Health and safety

flexigroup is committed to ensuring the health, safety and wellbeing of its employees, consultants, contractors and any visitors to its premises. The Company ensures that it fully complies with all applicable laws and internal regulations (including occupational health and safety laws).

We recognise that as an organisation we must work together to create a safe and healthy workplace. As part of the organisational approach to health and safety, employees are instructed to immediately report to their manager any unsafe situations or conditions.

Our **Customers.**

Providing financial services to our 1.7m customers, **flexigroup** strives for excellence in both the products we offer and the customer service we provide.

Customer service

We are committed to creating excellent customer experiences, and all interactions with customers are based on a foundation of integrity and respect. To support customer service excellence, all employees in customer facing roles receive extensive training on our products, along with dedicated soft skills training including active listening, speaker responsibilities, listener responsibilities, telephone standards and etiquette, effective communication and conflict management. Calls are recorded for training and quality assurance purposes.

Complaints management

We place great importance on effectively managing customer complaints. We have a Complaint Management Policy supported by a robust complaints management process which logs, categorises and investigates all complaints. We strive to respond to all customer complaints in an efficient and timely manner.

flexigroup has a dedicated hotline for customer complaints and each dispute that is received by the complaints team is investigated and addressed on a case-by-case basis. All complainants are treated equally and fairly in line with the Complaint Management Policy.

Supporting vulnerable customers

We understand that some of our customers' circumstances may change resulting in financial hardship. To support customers affected by a change in circumstances and financial difficulty, **flexigroup** offers a Financial Hardship Support program. As part of this, our dedicated Hardship team will work closely with the customer to understand their situation and develop a feasible repayment plan which can include variations to the customer's credit contracts. This is underpinned by the Financial Hardship Policy **flexigroup** has in place, which sets out guidelines on how to appropriately manage customers in financial difficulty.

Protecting customer privacy

flexigroup is dedicated to protecting the personal information of its customers in line with relevant legislation and codes in all locations where it operates, including the *Privacy Act 1988 (Cth).*

flexigroup has published a Privacy and Credit Reporting Privacy Policy – available on **flexigroup**'s website – outlining the types of personal information (including credit-related information) we collect, and the purposes for which we do that, how we manage all personal information collected, how customers can seek access to and correction of that information and if necessary, how customers can make a complaint relating to our handling of that information.

In order to ensure that the privacy and information of our customers is protected, **flexigroup** has established a Cyber and Information Security Steering Committee comprised of business and technology stakeholders that meets monthly and is tasked with enforcing the Privacy and Credit Reporting Privacy Policy and ensuring that all necessary steps are taken to protect customer information from potential cyber security threats.

During the reporting period, the Company did not receive any substantiated complaints concerning breaches of customer privacy.

Our **Environment.**

Green bonds

In 2016, **flexigroup** was the first Australian company to issue a green asset-backed security to fund its solar panel installation financing. Following this successful issuance, **flexigroup** has issued three further securitisations of similar loans in 2017, 2018 and 2019. The Australian Government's Clean Energy Finance Corporation continues to be a regular investor in these bonds.

flexigroup closed its latest transaction including green bonds under its Flexi ABS Trust securitisation program, Flexi ABS Trust 2019-1, in March 2019. Following the success of the Flexi ABS Trust 2018-1 issuance in May 2018 – which was the first Australian asset-backed securities transaction in the Australian market to include a subordinated tranche of green bonds **flexigroup** further expanded the green tranches of bonds included in the latest transaction to include a third green tranche. The introduction of a subordinated 'A' rated tranche of green bonds represents another first for **flexigroup** and the Australian asset-backed securities market. According to distribution data provided by NAB, over 70% of the combined Class A2-G, Class B-G and Class C-G bonds were allocated to ESG focused investors.

Across all transactions, the green tranches were also Climate Bond Certified by the Climate Bonds Standard Board based in London.

FLEXIGROUP WAS THE FIRST AUSTRALIAN COMPANY TO ISSUE A GREEN ASSET-BACKED SECURITY TO FUND ITS SOLAR PANEL INSTALLATION FINANCING.

Environmental initiatives

flexigroup is continuously seeking to adopt measures that can assist the Company in improving its environmental performance.

Printing

To manage and reduce paper waste through printing, **flexigroup** requires all users to swipe their access card to release a print job. It also sets printers to automatically print documents on two sides and in black and white. This simple step saw **flexigroup** reduce its total print jobs by 25% in 2019 compared to the comparable previous period.

Recycling

The Company has also adopted a recycling system whereby designated bins separate waste in line with industry recycling standards. This supports the diversion of workplace waste from landfill.

During the year **flexigroup**'s Sydney office introduced Simply Cups, Australia's first coffee cup recycling program. Simply Cups works with innovators to recycle and up-cycle takeaway coffee cups into recycled, and recyclable, products, creating a circular economy that gives coffee cups a second life as new products.

Building Ratings

flexigroup's head office located at 179 Elizabeth Street, Sydney has attained a 4-star NABERS Energy rating and a 3-star NABERS Water rating.

NABERS is a national rating system that measures the environmental performance of Australian buildings by measuring the energy efficiency, water usage, waste management and indoor environment quality of a building or tenancy and its impact on the environment. The rating scale ranges from one to six stars with six stars indicating market leading performance and one star indicating that the building under review has considerable scope for improvement.

flexigroup's new Adelaide office opened in June 2019 and is in a 4.5 Greenstar rated building, with the building owner having the goal of securing a 5-star rating during the 2020 financial year. This is supported by solar panels installed on the roof of the building providing an alternative source of renewable energy that supports a decrease in the business' carbon footprint.

Our **Communities.**

From our employees who make up our global **flexigroup** family, through to our customers and the communities in which we operate, people drive Who we are, What we do and Why we do it. As part of its commitment to corporate social responsibility, **flexigroup** is proud to support the important work being undertaken in addressing social issues including mental health, suicide and domestic violence.

Employee volunteering

Caring for the communities we are a part of is something our people are passionate about. To fuel this purpose-led passion, **flexigroup** offers a volunteering program whereby employees can take one to two days paid leave annually to volunteer for a cause that inspires them. Causes our people proudly supported in 2019 included Eat My Lunch, City Mission, Sustainable Coastlines, Special Children's Christmas Party and Cure Kids. During the reporting period, 1,000 hours were donated to the community.

Community and charitable partnerships

flexigroup has established a range of relationships with organisations in the communities in which we operate to support the important work they do.

LIVIN

flexigroup is a proud supporter of LIVIN, whose mission is to break the stigma associated with mental health.
In 2019 we supported the cause through volunteering, raising awareness and donations throughout Mental Health Month and integrating LIVIN information into employee welcome packs.

GWS Giants Care Program

GWS Giants Care program supports communities across Western Sydney by delivering Health, Harmony, Education and Employment initiatives. **flexigroup**'s relationship with GWS Giants is as one of eight foundation partners who made a three-year commitment to Giants Care to help double the club's community engagement outcomes, which will impact positively on current and future generations.

Fiver for a Farmer

Through **flexigroup** fundraising initiatives, employees supported farmers with credit at local stores to help buy hay and food for stock to support regional communities.

Wesley Mission

Through **flexigroup** employee donations, 50 food and gift Christmas hampers supported people in need throughout crisis shelters in Sydney.

Oz Harvest

flexigroup employee fundraising supported the purchase of food to feed families in need.

Variety for Kids

flexigroup employees raised funds to support sick and disadvantaged children in the community.

Cancer Council

flexigroup employees raised funds to support people facing cancer.

Irish Women's Hockey Team

flexigroup in Ireland is a proud sponsor of the Irish Women's Hockey team, providing essential funding to the team which enables them to perform at the highest level against the best teams in the world.

Movember

Given its focus on mental health, suicide prevention and prostate and testicular cancer, **flexigroup** is an active participant and fundraiser for the annual Movember Challenge, raising funds for health projects for men here, in New Zealand, and around the world.

Lifeline

flexigroup is a proud supporter of Lifeline and the work they do for suicide prevention in New Zealand and we recognise the important role business and the workplace can play in addressing the issue. To support the important work of Lifeline, **flexigroup** responded to a funding shortage donating $72,000 as part of 'The 72 Club campaign' and a further $10,000 to support Lifeline through the Christmas period.

Women's Refuge

In line with our policy and support for employees impacted by domestic violence, **flexigroup** actively fundraised for Women's Refuge throughout the year with a range of employee initiatives.

Auditor’s Independence Declaration

Auditor's Independence Declaration

As lead auditor for the audit of FlexiGroup Limited for the year ended 30 June 2019, 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 audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

Rob Spring
Partner
PricewaterhouseCoopers

Sydney
27 August 2019

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30 JUNE 2019
ABN 75 122 574 583

These financial statements are the consolidated financial statements for the Group consisting of FlexiGroup Limited and its subsidiaries. A list of major subsidiaries is included in note 29. The financial statements are presented in Australian dollars.

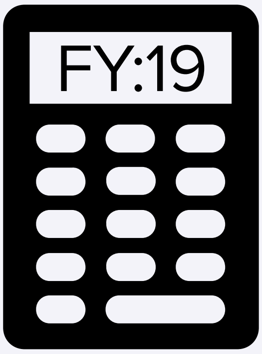
FlexiGroup Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 7, 179 Elizabeth Street, Sydney NSW 2000

A description of the nature of the consolidated entity's operations and its principal activities is included in the Operating and Financial Review in the Directors' Report on page 26, which is not part of these financial statements.

The financial statements were authorised for issue by the Directors on 27 August 2019. The Directors have the power to amend and reissue the financial statements.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at a minimum cost to the Company. All press releases, financial statements and other information are available at our Investor Centre on our website: **flexigroup.com.au**



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Consolidated Income Statement

A$m	Notes	2019	2018
Interest income		**357.5**	339.4
Interest expense		**(100.6)**	(94.6)
Other portfolio income	5	**115.2**	119.1
Net income		**372.1**	363.9
Employment expenses		**(90.5)**	(91.9)
Receivables and customer loan impairment expenses	25(C)	**(87.5)**	(66.5)
Impairment of goodwill and intangible assets	6(A)	**(10.5)**	(94.7)
Depreciation and amortisation expenses	6(B)	**(17.1)**	(17.5)
Operating expenses	6(C)	**(75.6)**	(77.8)
Profit/(loss) before income tax		**90.9**	15.5
Income tax expense	7(A)	**(29.2)**	(24.6)
Profit/(Loss) for the year attributable to shareholders of FlexiGroup Limited		**61.7**	(9.1)

Earnings per share for profit attributable to the ordinary equity holders of the Company:		Cents	Cents
Basic earnings per share	22(A)	**15.9**	(2.4)
Diluted earnings per share	22(A)	**15.9**	(2.4)

The above Consolidated Income Statement should be read in conjunction with the accompanying notes.

The June 2019 financial results reflect the adoption of AASB 9 and AASB 15. As permitted by AASB 9, the Consolidated Entity has not restated previously reported financial periods. The impact of AASB 15 has been adopted from 1 July 2017. Refer to note 36 for the impact to the Group of the initial adoption of AASB 9 and AASB 15.

Consolidated Statement of Comprehensive Income

A$m	2019	2018
Profit/(Loss) for the year	61.7	(9.1)
Other comprehensive income		
Items that may be reclassified to profit and loss		
Exchange differences on translation of foreign operations	9.9	(9.6)
Changes in the fair value of cash flow hedges, net of tax	(9.5)	0.8
Other comprehensive income/(loss) for the year, net of tax	0.4	(8.8)
Total comprehensive income/(loss) for the year attributable to shareholders of FlexiGroup Limited	62.1	(17.9)

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

The June 2019 financial results reflect the adoption of AASB 9 and AASB 15. As permitted by AASB 9, the Consolidated Entity has not restated previously reported financial periods. The impact of AASB 15 has been adopted from 1 July 2017. Refer to note 36 for the impact to the Group of the initial adoption of AASB 9 and AASB 15.

Consolidated Statement of Financial Position

Assets

A$m	Notes	2019	2018
Cash and cash equivalents	8	**143.1**	125.3
Inventories	9	**1.8**	2.6
Receivables	10	**595.1**	599.9
Customer loans	10	**1,972.7**	1,752.3
Investment in associate	11	**13.7**	–
Current tax receivable		**15.2**	0.5
Plant and equipment	12	**8.7**	8.3
Goodwill	13	**244.3**	236.5
Other intangible assets	14	**102.0**	100.4
Deferred tax asset	7(E)	**12.3**	–
Assets of disposal group held for sale	4	**–**	12.5
Total assets		**3,108.9**	2,838.3

Liabilities

A$m	Notes	2019	2018
Payables	15	**59.7**	51.7
Borrowings	16	**2,387.7**	2,124.7
Current tax liabilities		**5.3**	12.7
Provisions	17	**22.5**	14.6
Derivative financial instruments	18	**17.6**	6.4
Deferred and contingent consideration		**–**	1.0
Deferred tax liabilities	7(E)	**–**	8.3
Liabilities of disposal group held for sale	4	**–**	2.4
Total liabilities		**2,492.8**	2,221.8
Net assets		**616.1**	616.5

Equity

A$m	Notes	2019	2018
Contributed equity	19	**390.1**	362.8
Reserves	20(A)	**2.8**	2.1
Retained earnings	20(B)	**223.2**	251.6
Total equity		**616.1**	616.5

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

The June 2019 financial results reflect the adoption of AASB 9 and AASB 15. As permitted by AASB 9, the Consolidated Entity has not restated previously reported financial periods. The impact of AASB 15 has been adopted from 1 July 2017. Refer to note 36 for the impact to the Group of the initial adoption of AASB 9 and AASB 15.

Consolidated Statement of Changes in Equity

2018

A$m	Notes	Contributed equity	Reserves	Retained earnings	Total
Balance at the beginning of the year		361.2	17.0	293.6	671.8
Change from initial application of AASB 15		–	–	(8.9)	(8.9)
Correction of error[1]		–	(4.8)	4.8	–
Re-stated balance at 30 June 2017		361.2	12.2	289.5	662.9
Loss for the year		–	–	(9.1)	(9.1)
Other comprehensive income		–	(8.8)	–	(8.8)
Total comprehensive income for the year		–	(8.8)	(9.1)	(17.9)
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	(0.3)	–	–
Expired options and rights transferred from share based payment reserve		1.4	(1.4)	–	–
Share based payment expense		–	0.5	–	0.5
Other changes		–	(0.1)	–	(0.1)
Dividends provided for or paid	21	–	–	(28.8)	(28.8)
Balance at the end of the year		362.8	2.1	251.6	616.5

1. Correction to reverse hedge accounting applied to swaps acquired as part of Fisher & Paykel Finance Holdings Limited in New Zealand as the hedge relationships were not re-designated at Group level.

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

The June 2019 financial results reflect the adoption of AASB 9 and AASB 15. As permitted by AASB 9, the Consolidated Entity has not restated previously reported financial periods. The impact of AASB 15 has been adopted from 1 July 2017. Refer to note 36 for the impact to the Group of the initial adoption of AASB 9 and AASB 15.

Consolidated Statement of Changes in Equity continued

2019

A$m	Notes	Contributed equity	Reserves	Retained earnings	Total
Balance at the beginning of the year		362.8	10.3	254.5	627.6
Change from initial application of AASB 15		–	–	(11.1)	(11.1)
Correction of error[1]		–	(8.2)	8.2	–
Re-stated balance at 30 June 2018		362.8	2.1	251.6	616.5
Changes from initial application of AASB 9		–	–	(59.3)	(59.3)
Re-stated balance at 1 July 2018		362.8	2.1	192.3	557.2
Profit for the year		–	–	61.7	61.7
Other comprehensive income		–	0.4	–	0.4
Total comprehensive income for the year		–	0.4	61.7	62.1
Issuance of shares		25.2	–	–	25.2
Treasury shares purchased on market		(0.1)	–	–	(0.1)
Transfer to share capital from share based payment reserve or treasury shares		0.4	(0.4)	–	–
Share based payment expense (net of tax)		–	0.7	–	0.7
Dividends provided for or paid	21	1.8	–	(30.8)	(29.0)
Balance at the end of the year		390.1	2.8	223.2	616.1

1. Correction to reverse hedge accounting applied to swaps acquired as part of Fisher & Paykel Finance Holdings Limited in New Zealand as the hedge relationships were not re-designated at Group level.

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

The June 2019 financial results reflect the adoption of AASB 9 and AASB 15. As permitted by AASB 9, the Consolidated Entity has not restated previously reported financial periods. The impact of AASB 15 has been adopted from 1 July 2017. Refer to note 36 for the impact to the Group of the initial adoption of AASB 9 and AASB 15.

Consolidated Statement of Cash Flows

Cash flows from operating activities

A$m	Notes	2019	2018
Interest and fee income received from customers		**494.7**	487.3
Payment to suppliers and employees		**(180.0)**	(180.1)
Borrowing costs		**(105.3)**	(97.1)
Income taxes paid		**(44.0)**	(21.4)
Net cash inflow from operating activities	23	**165.4**	188.7

Cash flows from investing activities

A$m	Notes	2019	2018
Payment for purchase of plant and equipment and software		**(26.7)**	(29.0)
Payment for deferred consideration relating to business acquisitions		**–**	(9.2)
Net movement in:			
Customer loans		**(317.7)**	(307.1)
Receivables due from customers		**(32.6)**	3.0
Net cash outflow from investing activities		**(377.0)**	(342.3)

Cash flows from financing activities

A$m	Notes	2019	2018
Dividends paid		**(28.8)**	(28.8)
Proceeds from equity raising, net of transaction costs		**25.1**	–
Treasury shares purchased on market		**(0.1)**	(0.2)
Drawdown of corporate borrowings		**226.7**	149.3
Repayment of corporate borrowings		**(234.0)**	(168.8)
Net movement in:			
Non-recourse borrowings		**232.6**	181.5
Loss reserve on non-recourse borrowings		**3.5**	(16.0)
Net cash inflow from financing activities		**225.0**	117.0
Net increase/(decrease) in cash and cash equivalents		**13.4**	(36.6)
Cash and cash equivalents at the beginning of the year		**128.2**	167.3
Effects of exchange rate changes on cash and cash equivalents		**1.5**	(2.5)
Cash and cash equivalents at the end of the year	8	**143.1**	128.2

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

The June 2019 financial results reflect the adoption of AASB 9 and AASB 15. As permitted by AASB 9, the Consolidated Entity has not restated previously reported financial periods. The impact of AASB 15 has been adopted from 1 July 2017. Refer to note 36 for the impact to the Group of the initial adoption of AASB 9 and AASB 15.

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1. Summary of significant accounting policies

This note provides a list of all significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity (the Group) consisting of FlexiGroup Limited and its subsidiaries.

A. BASIS OF PREPARATION

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001 (Cth)* (Corporations Act). FlexiGroup Limited is a for-profit entity for the purpose of preparing the financial statements.

i. Compliance with IFRS

The consolidated financial statements of FlexiGroup Limited also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

ii. New Australian Accounting Standards and amendments to Accounting Standards that are effective in the current period

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 July 2018:

- AASB 9 *Financial Instruments*
- AASB 15 *Revenue from Contracts with Customers*
- AASB 2016-5 *Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions*
- AASB 2017-1 *Amendments to Australian Accounting Standards – Transfers to Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments*
- Interpretation 22 *Foreign Currency Transactions and Advance Consideration.*

The Group has changed its accounting policies and made certain retrospective adjustments following the adoption of AASB 9 and AASB 15. This is disclosed in note 36. Most of the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

iii. New Accounting Standards and amendments to Accounting Standards and Interpretations that are not yet effective for the reporting period

AASB 16 *Leases* (AASB 16) replaces the current AASB 117 *Leases Standard* and is applicable for the Group's financial reporting period commencing on 1 July 2019. AASB 16 sets out a comprehensive model for identifying, and the subsequent measurement of, lease arrangements. A contract contains a lease if it conveys the right to control the use of an identified asset for a period of time. Contracts that are determined to be a lease within the scope of AASB 16 from the lessee's perspective will require the recognition of a 'right-of-use' (ROU) asset and a related lease liability, being the present value of future lease payments. This will result in an increase in the recognised assets and liabilities in the Group's Statement of Financial Position as well as a change in the recognition of interest expense on the lease liability and depreciation on the ROU asset. The pattern of expense recognition will also change with higher costs in the earlier stages of the lease as a result of the interest expense being determined on a lease liability that amortises over the lease term. Classification of leases from the Group's perspective as lessor is expected to remain unchanged under AASB 16. An initial assessment has been performed based on operating leases that existed in the current reporting period. Based on this assessment the Group expects to recognise ROU assets of approximately $15.5m on 1 July 2019, de-recognise existing rent free provisions of $3.8m and recognise lease liabilities of $19.3m. Retained earnings impact on adoption is expected to be insignificant. The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the statement of financial position at the date of initial application is 5.5%. A schedule of current operating lease commitments is disclosed in note 26. The lease asset class that will have the most impact to the Group are property leases in Sydney, Auckland, Adelaide, Dublin and Melbourne.

Interpretation 23 – Uncertainty over Income Tax Treatments is effective for period beginning 1 January 2019. The implementation of this interpretation will increase disclosure of tax adjustments from uncertain positions with tax authorities and the resolution once private rulings or application of tax legislation has been finalised.

AASB 2018-1 *Amendments to Australian Accounting Standards* – Annual Improvements 2015-2017 Cycle. This Standard is applicable for the Group's financial reporting period commencing on 1 July 2019 and makes amendments to (i) AASB 3 *Business Combinations* (August 2015) to clarify that an entity remeasures its previously held interest in a joint operation when it obtains control of the business; (ii) AASB 11 *Joint Arrangements* (July 2015) to clarify that an entity does not remeasure its previously held interest in a joint operation when it obtains joint control of the business; (iii) AASB 112 *Income Taxes* (August 2015) 112 to clarify that an entity accounts for all income tax consequences of dividend payments according to where the entity originally recognised the past transactions or events that generated the distributable profits; and (iv) AASB 123 *Borrowing Costs* (August 2015) to clarify that an entity treats any borrowing originally made to develop a qualifying asset as part of general borrowings when the asset is ready for its intended use or sale. An initial assessment has been performed and the Group expects the impact to be immaterial.

iv. Disclosure

The Statement of Financial Position has been prepared in order of liquidity, including the comparatives.

v. Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value and disposal group held for sale is accounted for at fair value.

B. PRINCIPLES OF CONSOLIDATION

i. Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of FlexiGroup Limited ("Company" or "parent entity") as at 30 June 2019 and the results of all the subsidiaries for the year then ended. FlexiGroup Limited and its subsidiaries together are referred to in these financial statements as the Group or the consolidated entity.

Subsidiaries are all entities (including special purpose entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

1. Summary of significant accounting policies continued

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(H)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

ii. Investment in associates

An associate is an entity over which the Group has significant influence, but not control. In the consolidated financial report, it is equity accounted. It is initially recorded at cost and adjusted for the Group's share of the associate's post acquisition profits or losses and other comprehensive income, less any dividends received.

The carrying amount of equity accounted investments is tested for impairment in accordance with the policy described in note 1(S).

iii. Employee Share Trust

The consolidated entity utilises a trust to administer the consolidated entity's employee share scheme. The trust is consolidated into the consolidated entity.

C. SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer. Operating segments are described in note 3.

D. FOREIGN CURRENCY TRANSLATION

i. Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is FlexiGroup Limited's functional and presentation currency.

ii. Transactions and balances

Foreign currency transactions are translated into the functional currency using average exchange rates for the respective month. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in the Consolidated Income Statement. They are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investments in foreign operations.

Foreign exchange gains and losses are presented in the Consolidated Income Statement on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

iii. Group companies

The results and financial position of all Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each Statement of Financial Position presented are translated at the closing rate at the date of the Statement of Financial Position,
- income and expenses for each Income Statement and Statement of Comprehensive Income are translated at average exchange rates for the respective month (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange difference is recognised in the Income Statement, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign entities and as a result are expressed in the functional currency of the foreign operation and translated at the closing rate.

E. REVENUE RECOGNITION

The Group has adopted AASB 15 from 1 July 2017, replacing the previous standard, AASB 118 Revenue. Under AASB 118, revenue is recognised when risks and rewards have transferred from the seller to the buyer. AASB 15 has introduced a single, principle-based five-step recognition and measurement model. The five steps are:

1. Identify the contract with a customer;
2. Identify the separate performance obligations;
3. Determine the transaction price;
4. Allocate the transaction price to each performance obligation identified in Step 2; and
5. Recognise revenue when a performance obligation is satisfied.

Where there is variable consideration in calculating a transaction price, revenue will only be recognised if it is highly probable that a significant revenue reversal will not subsequently occur. AASB 15 applies to contracts with customers except for revenue arising from items such as financial instruments, insurance contracts and leases. The majority of the Group's revenue arises from financial instruments and leases.

The Group does not expect to have any contract where the period between the transfer of the promised goods or services to the customers and payment by the customers exceeds one year. Therefore, the Group does not adjust any of the transaction prices for the time value of money.

The significant changes to the Group as a result of adopting AASB 15 are in relation to upfront and annual fees. Certain fees in relation to the lending and loan arrangement are no longer recognised upfront but when the performance obligation to the customer is delivered, which is generally over the life of these contractual arrangements. Where the performance obligation is the Group providing a lending and loan arrangement over a contractual period, these fees previously recognised upfront will be amortised over the expected contract life of the contacts.

Revenue is recognised for the major business activities as follows:

i. Interest income

- Finance lease interest income

  Finance lease interest income is recognised by applying discount rates implicit in the lease to lease balances receivable at the beginning of each payment period. Initial direct costs incurred in the origination of the lease are included as part of receivables in the Statement of Financial Position and form part of the effective interest rate calculation.

- Interest income on customer loans

  Interest income on loans is recognised in the Income Statement using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset and of allocation of the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

- Interest income

  Interest income on bank and loss reserve balances is recognised using an effective interest method.

- Merchant service fees

  Merchant services fees are amortised over the expected life of the contractual arrangements based on the percentage of the receivables outstanding.

ii. Other portfolio income

Other portfolio income includes:

- Account servicing fees

  Account servicing fees are earned for managing and administering facilities for customers. Revenue is recognised over the service period on an accruals basis.

- Transaction processing fees

  Fees are recognised when transactions are carried out for customers and in the case of dishonoured payments, at the time charged to customers.

- Leasing related income

  a. Equipment protection plan revenue

  The Group operates an equipment protection and debt waiver plan entitled Protect Plan. Protect Plan revenue is recognised on an accruals basis. A provision for outstanding expected claims is recognised in the Statement of Financial Position for the cost of Protect Plan claims which have been incurred at year end, but have not yet been notified to the Group, or which have been notified to the Group but not yet paid.

  b. Secondary lease income and sale of goods

  Secondary lease income, including rental income on extended rental assets, is recognised on an accruals basis. Proceeds from the sale of rental assets are recognised upon disposal of the relevant assets.

- Other fees

  a. Cheque guarantee revenue

  Revenue is recognised when the service associated with the guarantee has been provided on an accruals basis. All monthly fees are recognised as revenue in the month to which they relate.

  b. Premium revenue

  Premium revenue includes amounts charged to the insured party but excludes GST and other amounts collected on behalf of third parties.

  Premium revenue is recognised in the Income Statement when it has been earned. The unearned portion of premium revenue is recognised as an unearned premium liability on the Statement of Financial Position.

  c. General insurance acquisition costs

  Acquisition costs incurred in obtaining general insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the Income Statement in subsequent reporting periods.

  Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the general insurance contracts to which they relate. The pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

F. INSURANCE

i. Assets backing general insurance liabilities

As part of its investment strategy the Group actively manages its money market deposits to ensure that sufficient liquid funds are available to meet the expected pattern of future cash flows arising from general insurance liabilities. The Group has determined that its money market deposits are held to back general insurance liabilities. These liabilities are stated at amortised costs using the effective interest rate method and are accounted for in the receivables financial statement line item on the Statement of Financial Position.

ii. Outstanding claims liability

The liability for outstanding claims is measured as the central estimate of the present value of expected future payments against claims incurred at the balance date under general insurance contracts issued by the Group, with an additional risk margin to allow for the inherent uncertainty in the central estimate.

The expected future payments include those in relation to claims reported but not yet paid; claims incurred but not reported (IBNR); claims incurred but not enough reported (IBNER) and anticipated claims handling costs.

Claims handling costs include costs that can be associated directly with individual claims, such as legal and other professional fees, and costs that can be indirectly associated with individual claims, such as claims administration costs.

The expected future payments are discounted to present value using a risk free rate.

The outstanding claims liability has been determined using the Bornhuetter-Ferguson (incurred claims) methodology (an actuarial method). It has been assumed that future incurred claims patterns for each group of businesses will continue to follow observed historic patterns.

1. Summary of significant accounting policies continued

G. INCOME TAX

The income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated based on the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate based on amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset when there is a legally enforceable right to offset and an intention to either settle the liability simultaneously.

Current and deferred tax is recognised in the Income Statement except to the extent that it relates to items recognised in Other Comprehensive Income or directly in equity. In this case, the tax is also recognised in Other Comprehensive Income or directly in equity respectively.

Tax consolidation legislation

FlexiGroup Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set-off in the consolidated financial statements.

The head entity, FlexiGroup Limited, and the controlled entities in the Tax Consolidated Group account for their own current and deferred tax accounts. These tax amounts are measured as if each entity was a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, FlexiGroup Limited also recognises the current tax liabilities (assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the Tax Consolidated Group.

Assets or liabilities arising under the Tax Funding Agreement with the members of the Tax Consolidated Group are recognised as amounts receivable from or payable to other entities in the Group. Details about the tax funding agreement are disclosed in note 7(H). Any difference between the amounts assumed and amounts receivable or payable under the Tax Funding Agreement are recognised as a contribution to (or distribution from) members of the Tax Consolidated Group.

H. BUSINESS COMBINATIONS

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquired entity and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired, and after the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

I. LEASE RECEIVABLES – GROUP IS LESSOR

The Group has classified its leases as finance leases for accounting purposes. Under a finance lease, substantially all the risks and benefits incidental to the ownership of the leased asset are transferred by the lessor to the lessee. The Group recognises at the beginning of the lease term an asset at an amount equal to the aggregate of the present value (discounted at the interest rate implicit in the lease) of the minimum lease payments and an estimate of the value of any unguaranteed residual value expected to accrue to the benefit of the Group at the end of the lease term.

J. EXPECTED CREDIT ALLOWANCES/PROVISION FOR DOUBTFUL DEBTS

The Group has two classes of assets subject to the new accounting standard AASB 9 *Financial Instruments: Impairment* being finance lease receivables and customer loans. The revised expected credit model is outlined in note 36.

As AASB 9 has been applied prospectively from 1 July 2018, provision for doubtful debts in the comparative period have been prepared accordance with the requirements of AASB 139 *Financial Instruments: Recognition and Measurement*, based on the following:

- Losses on lease and loan receivables are recognised when they are incurred, which requires the Group to identify objective evidence that the receivable is impaired, and make a best estimate of incurred losses inherent in the portfolio. The method for calculating the best estimate of incurred losses depends on the size, type and risk characteristics of the related financing receivable. For the majority of the receivables, the assessment is made collectively at a portfolio level, however individually significant receivables are assessed individually.
- The estimate requires consideration of historical loss experience, adjusted for current conditions, and judgements about the probable effects of relevant observable data, including present economic conditions such as delinquency rates, financial health of specific customers and market sectors, and both the current and forecast employment rate. The underlying assumptions, estimates and assessments used to provide for losses are updated periodically to reflect the Group's view of current conditions, which can result in changes to assumptions. Changes in such estimates can significantly affect the provision for doubtful debts.

K. OTHER DEBTORS

Other debtors are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest rate method, less any provision for impairment. Other debtors are generally due for settlement within 30 days. They are included as receivables in the Statement of Financial Position.

L. LEASES – USED BY THE GROUP

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property or the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the Income Statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Income Statement on a straight-line basis over the period of the lease.

In the event of the Group sub-leasing any of its operating leases, the lease income is recognised on a straight-line basis over the lease term.

M. CASH AND CASH EQUIVALENTS

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash.

N. FINANCIAL ASSETS

From 1 July 2018, AASB 9 has three classification categories for financial assets; amortised cost, fair value through other comprehensive income (FVTOCI) and fair value through profit or loss (FVTPL). The classification is based on the business model under which the financial instrument is managed and its contractual cash flows. The Group has applied the following policies for the newly adopted classification categories under AASB 9:

- Amortised cost – A financial asset will be measured at amortised cost if both of the following conditions are met:
  - the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows
  - the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

Loans and receivables are measured at amortised cost.

- FVTOCI – A financial asset will be measured at FVTOCI if both of the following conditions are met:
  - the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets
  - the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

The Group had no assets in this category at 30 June 2019.

- FVTPL – All financial assets that are not measured at amortised cost or FVTOCI will be measured at FVTPL. All financial assets that are equity instruments will be measured at FVTPL unless the Group irrevocably elects to present subsequent changes in the fair value in other comprehensive income. The Group does not expect to make this election.

The Group had no assets in this category at 30 June 2019.

Before the adoption of AASB 9 *Financial Instruments*, the comparative period of these financial statements reflect Investments accounted for with AASB 139 *Financial Instruments: Recognition and Measurement*. The Group classified its investments into the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity investments; and
- available for sale financial assets.

1. Summary of significant accounting policies continued

The classification depends on the purpose for which the investment was acquired. Management determines the classification of its investments at initial recognition.

i. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading which are acquired principally for the purpose of selling in the short-term with the intention of making a profit. Derivatives are also categorised as held for trading unless they are designated as hedges.

The Group had no assets in this category at 30 June 2018.

ii. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivables. Loans and advances were initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

The Group's use of this class of asset is consistent with all other group of assets.

iii. Held to maturity investments

Held to maturity investments are non-derivative financial assets quoted in an active market with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held to maturity financial assets, the whole category would be tainted and reclassified as available for sale.

The Group had no assets in this category at 30 June 2018.

iv. Available for sale financial assets

Available for sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. Investments are designated as available for sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to longterm.

The Group had no assets in this category at 30 June 2018.

O. DERIVATIVES AND HEDGING ACTIVITIES

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group designates all derivatives held at 30 June 2019 and 30 June 2018 as hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges) or hedges of a net investment in a foreign operation (net investment hedges).

At the inception of the hedging transaction, the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of derivative financial instruments used for hedging purposes are disclosed in note 18. Movements in the hedging reserve in shareholders' equity are shown in note 20(A).

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in Consolidated Income Statement within other income or other expense.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for instance when the interest payment that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in Consolidated Income Statement within interest expense.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to Consolidated Income Statement.

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in Consolidated Income Statement and are included in other income or other expenses.

Hedges of net investment in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument related to the effective portion of the hedge is recognised in Other Comprehensive Income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement within other income or other expenses. Gains and losses accumulated in equity are reclassified to the Income Statement when the foreign operation is partly disposed or sold.

P. INVENTORIES

Inventories are measured at lower of cost and net realisable value. The cost of inventories is based on the first-in, first-out principle. Inventories comprise of parts and toners, returned rental equipment and extended rental equipment after the end of the contractual rental period.

Q. PLANT AND EQUIPMENT

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All repairs and maintenance are charged to the Income Statement during the reporting period in which they are incurred.

Depreciation is calculated using the straight line or diminishing value method to allocate their cost or revalue amounts, net of their residual values, over their estimated useful lives, as follows:

Assets	Method	Depreciation Rate
Computers	Diminishing value	50%
Plant and equipment	Diminishing value	30%
Motor vehicles	Diminishing value	25%
Leasehold improvements	Straight line/ Diminishing value	14%-33%
Furniture and fittings	Diminishing value	15%-25%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount of the asset disposed. These are included in the Income Statement.

R. INTANGIBLES

i. Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is not amortised. Instead, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segments (note 3).

ii. IT development and software

Costs incurred on software development projects (relating to the design and testing of new or improved software products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technical feasibility and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including direct labour. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Capitalised development costs are recorded as an intangible asset and amortised using straight line method from the point at which the asset is ready for use over its useful life from three to 10 years. Software maintenance costs are expensed as incurred.

In the current year the Group reviewed capitalised software and determined that $10.5m was obsolete due to replacement by future state architecture or impaired as the recoverable amount of the Consumer Leasing business was less than the carrying amount.

The Group has re-considered the useful life of capitalised software as further investment in target state architecture will replace currently capitalised projects and further software will become obsolete in the next twelve to eighteen months. These capitalised software projects will be amortised over a shortened remaining useful life.

Depreciation is calculated using the straight line method to allocate the cost, net of realisable value over estimated remaining useful life.

Assets	Method	Depreciation Rate
Software development	Straight line	10%-33%

iii. Merchant and customer relationships

Merchant and customer relationships acquired as part of a business combination are recognised separately from goodwill. The assets are measured at fair value at the date of acquisition less accumulated amortisation and impairment losses. Amortisation is calculated based on the timing of the projected cash flows of the relationships.

- Merchant relationships from three to 27 years.
- Customer relationships from three to 15 years.

S. IMPAIRMENT OF ASSETS

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows, which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting period.

Refer to notes 13 and 14 for impairment recognised in the current and prior year.

T. ASSETS HELD FOR SALE

Non-financial assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally, measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro-rata basis, except no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognised in profit or loss.

1. Summary of significant accounting policies continued

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of Consolidated Income.

U. TRADE AND OTHER PAYABLES

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

V. BORROWINGS

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Income Statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not an incremental cost relating to the actual draw-down of the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility.

Borrowings are removed from the Statement of Financial Position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or other expenses.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in Consolidated Income Statement, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

W. PROVISIONS

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

X. EMPLOYEE BENEFITS

i. Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised as a provision in the Statement of Financial Position. All other short-term employee benefit obligations are presented as payables.

ii. Other long-term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method.

Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on government bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows.

iii. Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

iv. Share-based payments

Share-based compensation benefits are provided to certain employees. Information relating to these schemes is set out in note 24.

The fair value of such instruments is recognised as employment expenses in the Income Statement with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the relevant party becomes unconditionally entitled to the instruments.

Fair values at grant date are independently determined using a binomial tree option pricing methodology that takes into account the exercise price, the term of the options, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the options.

The fair value of the instruments granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number and value of instruments that are expected to become exercisable. The share-based payment expense recognised each period takes into account the most recent estimate.

Upon the exercise of instruments, the balance of the share-based payments reserve relating to those instruments is transferred to share capital and the proceeds received (if any), net of any directly attributable transaction costs, are credited to share capital.

Y. CONTRIBUTED EQUITY

Ordinary shares and subordinated perpetual notes are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of FlexiGroup Limited as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of FlexiGroup Limited.

Z. DIVIDENDS

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Group, on or before the end of the financial year but not distributed at balance date.

AA. EARNINGS PER SHARE

i. Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to equity holders of the Company, less preference dividends accrued or paid,
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

ii. Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

AB. GOODS AND SERVICES TAX (GST)/VALUE ADDED TAX (VAT)

Revenues, expenses and assets are recognised net of the amount of associated GST/VAT, unless the GST/VAT incurred is not recoverable from the relevant taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST/VAT receivable or payable. The net amount of GST/VAT recoverable from, or payable to, the relevant taxation authority is included with other receivables or payables in the Statement of Financial Position.

Cash flows are presented on a gross basis. The GST/VAT components of cash flows arising from investing or financing activities, which are recoverable from, or payable, to the relevant taxation authority are presented as operating cash flows.

AC. 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 financial statements. Amounts in the financial statements have been rounded off in accordance with that Instrument to the nearest hundred thousand dollars, or in certain cases, to the nearest dollar.

AD. PARENT ENTITY FINANCIAL INFORMATION

The financial information for the parent entity, FlexiGroup Limited, disclosed in note 34 has been prepared on the same basis as the consolidated financial statements, except as set out below.

i. Investments in subsidiaries

Investments in subsidiaries are accounted for at cost less allowance for impairment in the financial statements of FlexiGroup Limited.

ii. Tax consolidation legislation

FlexiGroup Limited and its wholly owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, FlexiGroup Limited, and the controlled entities in the tax consolidated Group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated Group continues to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, FlexiGroup Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated Group.

The entities have also entered into a tax funding agreement as detailed in note 7(H).

2. Critical accounting estimates and judgements

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

i. Expected credit losses/Provision for doubtful debts

The Group estimates expected losses on its loans and lease receivables in accordance with the policy set out in notes 1(J) and 36.

ii. Assessment of impairment of goodwill, investments in subsidiaries, investment in associates and capitalised software

Under accounting standards, the Group is required to perform an annual assessment as to whether there has been any impairment of its goodwill. In addition, the Group is required to perform an impairment assessment of other assets in the event it identifies an indicator of impairment. Details of the basis of performance of the assessment and the assumptions made are set out in notes 1(R) and 13.

iii. Estimation of unguaranteed residuals on leases

The Group estimates the value of unguaranteed lease residuals based on its prior experience for similar contracts. Where applicable, residual values are set at rates ranging between 0% and 20% depending on asset type and the duration of the contract.

iv. Acquired intangible assets

The assets and liabilities of businesses acquired through a business combination are to be measured at their acquisition date fair values. The Group applies judgements in selecting valuation techniques and setting valuation assumptions to determine the acquisition date fair values and to estimate the useful lives of these assets as set out in notes 1(H) and 1(S).

v. Fair value of disposal group held for sale

The disposal group held for sale is recognised and measured at fair value, being the lower of its value in use or its estimated recoverable amount through sale less costs to sell. The fair value of the disposal group held for sale is disclosed at note 4.

vi. Fair value of financial instruments

All derivatives are recognised and measured at fair value. The derivatives are valued using valuation techniques that utilise observable market inputs. The fair value of financial instruments is included within note 25(E).

vii. Share based payment expense

In determining the share based payments expense for the period, the Group makes various assumptions in determining the fair value of the instruments, the probability of non-market vesting conditions being met and the likelihood of employees meeting tenure conditions. Refer note 1(X)(iv) and note 24.

viii. Taxation

Judgement is required in determining provisions held in respect of uncertain tax positions. The Group estimates its tax liabilities based on its understanding of the relevant tax law in each of the countries in which it operates and seeks independent advice to support the assessment where required.

ix. Provision for customer remediation

Judgement is required in determining provisions held in respect of customer remediation obligations. The Group estimates these provisions based on its understanding of likely outcome, considering expert opinions and on-going discussions with regulatory bodies. Refer note 27.

3. 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 infrequent 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; **humm** (a consolidation of Certegy Ezi-pay and Oxipay products into a single Buy Now Pay Later business), AU Cards, Consumer Leasing (consisting of Lisa, SmartWay, FlexiWay, FlexiFi and Flexirent), Commercial Leasing, NZ Leasing (Telecom Rentals) and NZ Cards (including Farmers, Q Card, Flight Centre Mastercard and Oxipay NZ).

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 CEO for the reportable segments for the year ended 30 June 2019 is as below:

3. **Segment information** continued

B. OPERATING SEGMENTS

2019

A$m	Humm	AU Cards	Consumer Leasing	Commercial Leasing	NZ Leasing	NZ Cards	Total
Interest income	82.6	81.1	32.7	31.1	19.6	110.4	357.5
Other portfolio income[1]	27.8	22.5	18.1	14.3	14.1	18.4	115.2
Interest expense	(19.1)	(23.9)	(9.0)	(11.6)	(6.0)	(31.0)	(100.6)
Net income	91.3	79.7	41.8	33.8	27.7	97.8	372.1
Operating expenses	(27.4)	(39.8)	(34.4)	(23.6)	(7.2)	(46.7)	(179.1)
Impairment losses on receivables and customer loans	(26.1)	(26.9)	(2.1)	(19.2)	(0.7)	(12.5)	(87.5)
Impairment of other intangible assets	(0.9)	(0.2)	(4.4)	(1.0)	–	(4.0)	(10.5)
Amortisation of acquired intangible assets	(1.1)	–	–	–	(0.6)	(2.4)	(4.1)
Profit before income tax	35.8	12.8	0.9	(10.0)	19.2	32.2	90.9
Income tax expense	(10.5)	(3.8)	(5.2)	3.9	(4.9)	(8.7)	(29.2)
Statutory profit for the year	25.3	9.0	(4.3)	(6.1)	14.3	23.5	61.7
Recurring non-cash adjustments:							
Amortisation of acquired intangible assets	0.8	–	–	–	0.4	1.7	2.9
Impairment of other intangible assets	0.6	0.1	3.2	0.7	–	2.9	7.5
Customer remediation	–	–	0.2	–	–	–	0.2
Sale of Think Office Technology	–	–	–	(2.2)	–	–	(2.2)
Historical tax and accounting matters	–	–	6.0	–	–	–	6.0
Cash net profit after tax	26.7	9.1	5.1	(7.6)	14.7	28.1	76.1
Total segment assets at 30 June 2019	597.5	750.9	226.7	356.5	186.6	990.7	3,108.9

1. Other portfolio income:

Account servicing fees	12.7	18.1	1.9	–	–	11.6	44.3
Transaction processing fees	14.9	14.5	4.0	–	–	7.3	40.7
Leasing related income	–	–	11.4	9.6	13.9	–	34.9
Cost of Sales	(1.2)	(11.7)	–	–	–	(6.0)	(18.9)
Share of profit after tax from investment in associate	–	–	–	1.3	–	–	1.3
Gain on sale of Think Office Technology	–	–	–	2.5	–	–	2.5
Other income	1.4	1.6	0.8	0.9	0.2	5.5	10.4
Total other portfolio income	27.8	22.5	18.1	14.3	14.1	18.4	115.2

2018

A$m	Humm	AU Cards	Consumer Leasing	Commercial Leasing	NZ Leasing	NZ Cards	Total
Interest income	80.8	61.4	40.5	26.8	24.0	105.9	339.4
Other portfolio income[1]	30.9	16.3	20.0	23.0	13.3	15.6	119.1
Interest expense	(18.8)	(20.4)	(9.2)	(9.7)	(6.6)	(29.9)	(94.6)
Net income	92.9	57.3	51.3	40.1	30.7	91.6	363.9
Operating expenses	(29.8)	(25.2)	(45.6)	(23.6)	(14.6)	(35.3)	(174.1)
Impairment losses on receivables and customer loans	(18.0)	(25.8)	(7.6)	0.5	(1.3)	(14.3)	(66.5)
Impairment of goodwill and intangible assets	–	–	(94.7)	–	–	–	(94.7)
Customer remediation	–	–	(7.0)	–	–	–	(7.0)
Amortisation of acquired intangible assets	(1.1)	(0.5)	(0.2)	(0.9)	(1.0)	(2.4)	(6.1)
Profit before income tax	44.0	5.8	(103.8)	16.0	13.8	39.6	15.5
Income tax expense	(13.2)	(1.8)	9.3	(4.8)	(3.9)	(10.2)	(24.6)
Statutory profit for the year	30.8	4.0	(94.5)	11.2	9.9	29.4	(9.1)
Recurring non-cash adjustments:							
Amortisation of acquired intangible assets	0.8	0.3	0.1	0.7	0.9	1.7	4.5
Impairment of goodwill and intangible assets	–	–	89.1	–	–	–	89.1
Customer remediation program	–	–	4.9	–	–	–	4.9
Other	–	–	–	–	–	(3.4)	(3.4)
Cash net profit after tax	31.6	4.4	(0.4)	11.9	10.8	27.7	86.0
Total segment assets at 30 June 2018	563.6	671.2	175.4	346.8	168.9	912.4	2,838.3

1. Other portfolio income:

Account servicing fees	1 6.5	14.0	3.0	–	–	11.7	45.2
Transaction processing fees	15.9	13.0	4.0	–	–	5.2	38.1
Leasing related income	–	–	13.0	8.3	13.3	–	34.6
Cost of Sales	(2.3)	(10.7)	–	–	–	(7.4)	(20.4)
Share of profit after tax from investment in associate	–	–	–	–	–	–	–
Gain on sale of Think Office Technology	–	–	–	–	–	–	–
Other income	0.8	–	–	14.7	–	6.1	21.6
Total other portfolio income	30.9	16.3	20.0	23.0	13.3	15.6	119.1

4. Disposal group held for sale

On 17 July 2018 (with an effective accounting date of 1 July 2018), FlexiGroup Australia Holdings Pty Ltd, a fully owned subsidiary of **flexigroup**, sold its investment in Australian Print Holdings Pty Limited (trading as Think Office Technology 'TOT'), a fully owned subsidiary entity, to Thinkex Holdings Pty Limited ('Thinkex') in exchange for 35% of shares in Thinkex. TOT, with a book value of $10.1m, was sold for $13.8m, being the fair value of assets contributed to the joint venture, resulting in a profit on sale of $2.5m ($2.3m after selling costs). Refer to note 11 for further information.

A. ASSETS AND LIABILITIES OF DISPOSAL GROUP HELD FOR SALE

The assets and liabilities of the disposal group were recognised as held for sale and measured at the lower of fair value less costs to sell and the carrying amount. The carrying values are presented in the table below:

A$m	2019	2018
Cash and cash equivalents	–	2.9
Inventories	–	1.9
Receivables	–	1.3
Plant and equipment	–	2.0
Goodwill	–	1.9
Other intangible assets	–	2.3
Deferred tax assets	–	0.2
Total assets of disposal group held for sale	–	12.5
Payables	–	1.1
Provisions	–	0.8
Deferred tax liabilities	–	0.5
Total liabilities of disposal group held for sale	–	2.4

B. MEASUREMENT OF FAIR VALUE OF THE DISPOSAL GROUP HELD FOR SALE

The valuation technique used to arrive at fair value for the disposal group is based on Enterprise Value/EBIT multiple adjusted for the relative size, growth and margins relative to benchmark companies. The fair value estimate was calculated at $13.8m.

5. Other portfolio income

A$m	2019	2018
Account servicing fees	44.3	45.2
Transaction processing fees	40.7	38.1
Leasing related income	34.9	34.6
Cost of Sales	(18.9)	(20.4)
Share of profit after tax from investment in associate	1.3	–
Gain on sale of Think Office Technology	2.5	–
Other income	10.4	21.6
Total other portfolio income	115.2	119.1

6. Expenses

A. IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS

A$m	2019	2018
Impairment of goodwill	–	75.9
Impairment of other intangible assets	10.5	18.8
Total impairment of goodwill and intangible assets	**10.5**	94.7

B. DEPRECIATION AND AMORTISATION EXPENSES

A$m	2019	2018
Depreciation of plant and equipment	2.5	3.1
Amortisation of other intangible assets	14.6	14.4
Total depreciation and amortisation expenses	**17.1**	17.5

C. OPERATING AND OTHER EXPENSES

A$m	2019	2018
Advertising and marketing	14.7	9.1
Cost of goods sold	–	3.8
Customer remediation	0.3	7.0
Information technology and communication	18.8	15.5
Operating lease rental expenses	3.9	5.5
Other occupancy, equipment and related costs	3.0	3.6
Outsourced operation costs	7.9	11.1
Professional, consulting and other service provider costs	19.6	19.5
Other	7.4	2.7
Total operating and other expenses	**75.6**	77.8

7. Income tax expense

A. INCOME TAX EXPENSE

A$m	2019	2018
Current tax	20.6	38.0
Deferred tax expense	3.7	(13.4)
Under/(over) provision in prior years	4.9	–
Total income tax expense	**29.2**	24.6

B. NUMERICAL RECONCILIATION OF INCOME TAX EXPENSE TO PRIMA FACIE TAX PAYABLE

A$m	2019	2018
Profit before income tax expense	90.9	15.5
Tax at the Australian tax rate of 30%	27.3	4.7
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Impairment of goodwill	–	22.8
Permanent differences[1]	(1.7)	(2.1)
Effect of differences in tax rates in a foreign jurisdiction	(1.3)	(0.8)
Adjustment of current tax of prior periods	4.9	–
Income tax expense	**29.2**	24.6

1. Includes interest on preference shares, gain on sales to Thinkex, income from investment in associates and other non-deductible costs.

C. AMOUNT RECOGNISED DIRECTLY IN EQUITY

A$m	2019	2018
Share based payments	(0.1)	–
Cash Flow Hedge	3.4	(1.7)
Deferred income tax expense related to items taken directly to equity	**3.3**	(1.7)

7. Income tax expense continued

D. DEFERRED TAX EXPENSE REPRESENT MOVEMENTS IN DEFERRED TAX ASSETS/ LIABILITIES

A$m	2019	2018
Difference between lease principal to be returned as assessable income and depreciation on leased assets to be claimed as a tax deduction	(7.3)	(4.5)
Initial direct transaction costs	(1.5)	(1.4)
Other intangible assets	2.8	(2.0)
Plant and equipment	(0.1)	–
Provisions and other liabilities	7.5	(10.9)
Expected Credit Allowance/Provision for doubtful debts	(19.0)	–
Provision for employee liabilities	0.1	(0.2)
Cash Flow Hedge	(3.5)	1.8
Opening Retained Earnings adjustments – AASB 9	24.7	–
Opening Retained Earnings adjustments – AASB 15	–	3.8
Deferred tax expense	3.7	(13.4)

E. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets

A$m	2019	2018
Provisions and other liabilities	13.1	21.2
Expected Credit Allowance/Provision for doubtful debts	34.2	15.2
Provision for employee liabilities	2.1	2.2
Cash Flow Hedge	5.0	1.5
Reclassified to disposal group held for sale (note 4)	–	(0.2)
Total deferred tax assets	54.4	39.9

Deferred tax liabilities

A$m	2019	2018
Difference between lease principal to be returned as assessable income and depreciation on leased assets to be claimed as a tax deduction	20.7	28.1
Initial direct transaction costs	4.8	6.3
Plant and equipment	1.4	1.5
Other intangible assets	15.2	12.4
Reclassified to disposal group held for sale (note 4)	–	(0.5)
Others	–	0.4
Total deferred tax liabilities	42.1	48.2
Net deferred tax assets/(deferred tax liabilities)	12.3	(8.3)

A$m	2019	2018
Amounts expected to be settled within 12 months	21.2	11.2
Amounts expected to be settled after more than 12 months	(8.9)	(19.5)
Net deferred tax assets/(deferred tax liabilities)	12.3	(8.3)

F. CARRY FORWARD TAX LOSSES

As at 30 June 2019, the balance of carry forward losses and the associated deferred tax asset were both $Nil (2018: $Nil).

G. SIGNIFICANT ESTIMATES – UNCERTAIN TAX POSITION

During the year, the Group conducted a comprehensive review into a number of key tax matters and this resulted in the making of voluntary disclosures to the relevant taxation authorities in Australia and New Zealand. The Australian Taxation Office (ATO) has also commenced its Streamlined Assurance Review as part of its Top 1,000 Tax Performance Program and the Group is currently working closely with the ATO to respond to their questions and requests for information. The Group expects this review to be completed in the first half of FY20.

Other than the matters highlighted above, as at 30 June 2019, the Group does not have any uncertain tax matters.

H. TAX CONSOLIDATED LEGISLATION

FlexiGroup Limited and its wholly-owned Australian entities implemented the tax consolidation legislation from December 2006. The accounting policy on implementation of the legislation is set out in note 1(G). On adoption of the tax consolidation legislation, the entities in the Tax Consolidated Group entered into a Tax Sharing Agreement which, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, FlexiGroup Limited.

The entities have also entered into a Tax Funding Agreement under which the wholly-owned entities fully compensate FlexiGroup Limited for any current tax payable assumed and are compensated by FlexiGroup Limited for any current tax receivable and deferred tax assets relating to the unused tax losses or unused tax credits that are transferred to FlexiGroup Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the Tax Funding Agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of the financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as intercompany receivables.

8. Cash and cash equivalents

A$m	2019	2018
Cash at bank and on hand	**143.1**	125.3

Reconciliation to cash at the end of the year

The above figures reconcile to cash at the end of the financial year, as shown in the statement of cash flows, as follows:

A$m	2019	2018
Balance as above	**143.1**	125.3
TOT cash balance disclosed in disposal group held for sale	–	2.9
Balance per statement of cash flows	**143.1**	128.2

Included in cash at bank are amounts of $112.9m (2018: $100.1m) which are 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.

9. Inventories

A$m	2019	2018
Equipment, parts and accessories	–	2.0
Rental equipment	1.8	0.6
Total inventories	1.8	2.6

10. Receivables and customer loans

A$m	2019	2018
Finance lease receivables	574.5	586.1
Other debtors	20.6	13.8
Total receivables	595.1	599.9
Customer loans	1,972.7	1,752.3
Total receivables and customer loans	2,567.8	2,352.2

Finance lease receivables

A$m	2019	2018
Gross investment in finance lease receivables	684.0	684.9
Guaranteed residuals	8.1	7.9
Unguaranteed residuals	34.7	42.9
Unamortised initial direct transaction costs	16.7	24.3
Unearned future income	(139.5)	(157.3)
Net investment in finance lease receivables	604.0	602.7
Provision for doubtful debts/ expected credit allowance	(29.5)	(16.6)
Net investment in finance lease receivables	574.5	586.1

Maturity profile of net investment in finance lease receivables before provision for doubtful debts or expected credit allowance:

A$m	2019	2018
Due within one year	327.1	365.2
Due after one year but not later than five years	415.6	393.4
Due greater than five years	0.8	1.4
Unearned future income	(139.5)	(157.3)
Net investment in finance lease receivables	604.0	602.7

Movement in ECL allowance/provision for doubtful debts (finance lease receivables):

A$m	2019	2018
Carrying amount at beginning of the year	16.6	24.0
AASB 9 adoption	14.7	–
Restated balance as at 1 July 2018	31.3	24.0
Provided for during the year, less write-offs previously provided for	(1.8)	(7.4)
Carrying amount at end of the year	29.5	16.6

Customer loans

A$m	2019	2018
Gross customer loans	2,160.4	1,894.6
Unearned future income	(107.3)	(106.4)
Net loan receivables	2,053.1	1,788.2
Provision for doubtful debts/ Expected credit allowance	(80.4)	(35.9)
Net investment in customer loans	1,972.7	1,752.3

Maturity profile of net customer loans before provision for doubtful debts or expected credit allowance:

A$m	2019	2018
Due within one year	1,409.9	1,238.6
Due after one year but not later than five years	733.7	634.9
Due greater than five years	16.8	21.1
Unearned future income	(107.3)	(106.4)
Net load receivables	2,053.1	1,788.2

Movement in ECL allowance/provision for doubtful debts (customer loans):

A$m	2019	2018
Carrying amount at beginning of the year	35.9	28.4
AASB 9 adoption	48.0	–
Restated balance as at 1 July 2018	83.9	28.4
Provided for during the year, less write-offs previously provided for	(3.5)	7.5
Carrying amount at end of the year	80.4	35.9

Transition impact

The Consolidated Entity adopted AASB 9 on 1 July 2018 without a restatement of the Group's comparative financial information. On transition to AASB 9 on 1 July 2018 the Group's total credit impairment allowances increased by $84m as a result of the following principle differences between AASB 139's incurred credit loss requirements and AASB 9's Expected Credit Loss (ECL) impairment requirements:

- ECL is required for fully performing lease and customer receivables,
- ECL is equivalent to lifetime expected losses for all loans that have experienced a significant increase in credit risk since origination,
- ECL is required for undrawn facilities,
- the need to take into consideration the impact of forward looking factors on ECL estimates,
- the requirement to hold model and other macro overlays.

Model inputs

The Group has developed credit portfolios at a product or sub-product level based on shared risk characteristics using a collectively assessed approach. Overlays are considered for larger single name exposures.

The key model inputs used in measuring the ECL include:

- Exposure at Default (EAD): represents the estimated exposure in the event of a default. The EAD is estimated taking into consideration drawn position at reporting date, expected repayments and future drawdowns of unutilised commitments up to when the exposure is expected to default.
- Probability of Default (PD): The development of PDs for retail and wholesale exposures is developed at a product or sub-product level considering shared credit risk characteristics. In calculating the PD, three to five years of historical delinquency transition metrics are used to develop a point in time PD estimate.
- Loss Given Default (LGD): The LGD is the magnitude of the expected credit loss in a default event. The LGD is estimated using three years of historical recovery and three to five years of cure rate experience.

10. Receivables and customer loans continued

Method of determining Significant Increase in Credit Risk (SICR)

The Group applies a combination of quantitative and qualitative factors to assess whether a SICR has occurred. These include:

- Forbearance status;
- Watch list status – loans on the watch list are individually assessed for stage 2 classification; and
- More than 30 days past due backstop for stage 1 to stage 2 transfers.

Definition of default

The Group's definition of default determines the reference point for the calculation of the ECL components, and in particular the PD. Default is generally defined as the point when the borrower is unlikely to pay its credit obligations in full or the borrower is more than 90 days past due.

Forward Looking information (FLI)

The inclusion of FLI in calculating ECL allowances adjusts PD factors and market based macro overlays. The Group has identified a number of key indicators that are considered in modelling the ECL, the most significant of which are unemployment rate, gross domestic product and interest rates. The predicted relationships between these key indicators and the key model inputs in measuring the ECL have been developed by analysing historical data as part of the model build, calibration and validation process. These indicators are assessed semi-annually with the input from Group Treasury who recommend scenarios and the probability weighted assessment of these. Three possible scenarios are applied in FLI, Central estimate, Best Case, Worst Case. The forward looking inputs and model scenarios are applied either to the product specific PD factors or incorporated in a market specific macro overlay provision. Final determination of FLI is based on a combination of publicly available data (range of market economists and official data sources) and internal forecasts/judgements. The Group's Asset and Liability Committee provides ultimate approval for FLI inputs.

There has been no change in the scenarios since transition (best case, worst case, central estimate), however the probabilities assigned thereto from the date of transition to AASB 9 to 30 June 2019 have increased to the downside.

The key assumptions applied for Australia and New Zealand macro-economic overlay are set out below:

Scenario	Weighting	Expectation
Central estimate	Probable	Australia & New Zealand – economic conditions are expected to deteriorate in the next twelve months with lower GDP growth and higher unemployment, but recover by June 2021. The RBA and RBNZ are expected to cut their cash rates to provide further support for economic activity.
Best case	Remote/ possible	Australia & New Zealand – marginally higher GDP growth over forecast period following the RBA and RBNZ commencing an easing cycle. Some recent improvement in house prices in Australia, however uncertainty remains over consumer sentiment and household consumption.
Worst case	Possible	Australia & New Zealand – a severe recession in 2020/2021 is considered low, but possible following a retraction in GDP forecasts for the next twelve months and a some uptick in AU and NZ unemployment rates. This is mitigated by continued low interest rates and further recent rate cuts. The worst case scenario assumes unemployment returns to peak levels experienced during global financial crisis.

Modification of financial assets

The Group sometimes modifies the terms of leases or customer loans provided to customers due to commercial renegotiations with a view to maximizing recovery.

Such restructuring activities include extended payment term arrangements, payment holidays, and payment forgiveness are based on indicators or criteria which, in the judgement of management, indicates the payments will most likely continue. The policies are kept under continuous review.

Write-off policy

The Group writes off financial assets in whole or in part when it has exhausted all practical recovery efforts and/or the assessed cost of further recovery action is considered prohibitive or uneconomical. The Group has a pre-defined work out strategy for late-stage arrears including insourced collection activities, outsourced collection activities and debt sales.

Indicators that there is no reasonable expectation of recovery include:

i. ceasing enforcement activity due to for example bankruptcy, fraud, compliance issues, debt being uneconomical to pursue; and

ii. realisation of the security to recover remaining outstanding amounts beyond which amounts are deemed unrecoverable and

iii. sale of debt to external parties beyond earlier workout strategies.

Products are written off at pre-defined points of late-stage arrears, except where further investigation is underway or opportunities for recovery still exist. These are:

- Revolving cards products – 180 days in arrears
- Buy-now pay later products – 120 days in arrears
- Leasing products – 120 days in arrears

11. Investment in associate

As part of the sale transaction (refer note 4), the Group received a 35% equity stake in Thinkex Holdings Pty Limited.

Entity name	Country of incorporation	Percentage of shares held	
		2019	2018
Thinkex Holdings Pty Limited	Australia	35.0%	–

A$m	2019	2018
Profit from continuing operations	1.3	–
Other comprehensive income	–	–
Total comprehensive income	1.3	–

12. Plant and equipment

A$m	2019	2018
Cost	15.5	14.5
Accumulated depreciation	(6.8)	(6.2)
Net book amount	8.7	8.3

Movement in plant and equipment at net book amount:

A$m	2019	2018
Balance at the beginning of the year	8.3	8.4
Additions	2.9	5.4
Transfer from/(to) assets in a disposal group held for sale (note 4)	–	(2.0)
Disposals	–	(0.4)
Depreciation (note 6)	(2.5)	(3.1)
Balance at the end of the year	8.7	8.3

13. Goodwill

A. CARRYING VALUE

A$m	2019	2018
Cost	244.3	236.5
Net book amount	244.3	236.5

Movement in goodwill at net book amount

A$m	2019	2018
Balance at the beginning of the year	236.5	321.4
Impairment of Consumer Leasing segment goodwill	–	(75.9)
Transfer from/(to) assets in disposal group held for sale (note 4)	–	(1.9)
Effect of movements in exchange rates	7.8	(7.1)
Balance at the end of the year	244.3	236.5

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	2019	2018
Humm/BNPL	30.7	30.7
Australia Cards	18.9	18.9
New Zealand Leasing	18.4	17.6
New Zealand Cards	176.3	169.3
Total goodwill	244.3	236.5

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. If an asset is impaired, it is written down to its recoverable amount. The recoverable amount is based on a value in use calculation using cash flow projections based on the Board approved three-year plan. Cash flows for a further two-year period were extrapolated using declining growth rates such that the long-term terminal growth was determined at 2%-2.5%, which does not exceed the long-term average for the sectors and economies in which the CGUs operate.

13. Goodwill continued

The key assumptions used in determining value in use for 30 June 2019 are:

Assumption	How determined
Forecast revenues and expenses	Forecast revenues and expenses beyond the 2021-22 financial year forecast period have been extrapolated using declining growth rates such that the long-term terminal growth rates are as follows: • Certegy – 2.5% (2018: 2.5%) • Australia Cards – 2.5% (2018: 2.5%) • New Zealand Leasing – 2.0% (2018: 2.0%) • New Zealand Cards – 2.0% (2018: 2.0%)
Long-term growth rate	The above long-term growth rate for each of the CGUs 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 each 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. Geared cash flows are used to calculate recoverable amounts for all CGUs. The pre-tax discount rates used for impairment testing are as follows: • Certegy – 17.1% (2018: 18.4%) • Australia Cards – 16.8% (2018: 18.7%) • New Zealand Leasing – 13.7% (2018: 14.7%) • New Zealand Cards – 17.3% (2018: 18.2%)

Sensitivity analysis

The Group has conducted sensitivity analysis of +/- 100 basis point movements on the growth rates and discount rates assumptions above to assess the effect on recoverable amount of changes in the key assumptions.

The Group is satisfied that all the assumptions on which the recoverable amounts are based are fair and reasonable, and that currently, there are no reasonable changes to these assumptions that would cause the aggregate carrying amount to exceed the aggregate recoverable amount of any of the Group's CGUs as at 30 June 2019.

Prior financial year impairment

At the interim reporting date for the 2018 financial year, an assessment of the Consumer Leasing CGU was performed, resulting 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 was retired in February 2018 and the receivables portfolio will 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.

14. Other intangible assets

A$m	IT development & software	Merchant & customer relationships & other rights	Brand name	Total
At 1 July 2017	62.1	47.8	4.5	114.4
Additions	23.8	–	–	23.8
Impairment[1]	(18.4)	(0.4)	–	(18.8)
Amortisation (note 6)	(8.7)	(5.7)	–	(14.4)
Transfer to disposal group held for sale (note 4)	–	(2.3)	–	(2.3)
Effect of movements in exchange rates	(0.6)	(1.5)	(0.2)	(2.3)
At 30 June 2018	58.2	37.9	4.3	100.4

A$m	IT development & software	Merchant & customer relationships & other rights	Brand name	Total
At 1 July 2018	**58.2**	**37.9**	**4.3**	**100.4**
Additions	**24.0**	–	–	**24.0**
Impairment[2]	**(10.5)**	–	–	**(10.5)**
Amortisation (note 6)	**(10.4)**	**(4.2)**	–	**(14.6)**
Effect of movements in exchange rates	**1.0**	**1.5**	**0.2**	**2.7**
At 30 June 2019	**62.3**	**35.2**	**4.5**	**102.0**

1. Impairment relates to the write down of intangible assets relating to the Consumer Leasing CGU. Refer to note 13 for further details.
2. Impairment relates to the write down of capitalised software as assets are replaced by future state architecture and revised forecasts indicate that software assigned to the Consumer Leasing segment is impaired.

15. Payables

A$m	2019	2018
Trade payables	59.7	51.7
Total payables	59.7	51.7

16. Borrowings

Secured

A$m	2019	2018
Corporate debt	98.1	104.3
Secured loans	2,320.8	2,058.7
Total secured borrowings	2,418.9	2,163.0
Loss reserve	(31.2)	(38.3)
Total borrowings	2,387.7	2,124.7

Maturity profile of borrowings, net of loss reserve:

A$m	2019	2018
Due within one year	1,438.0	1,327.0
Due after one year but not later than five years	949.7	797.7
Total borrowings	2,387.7	2,124.7

Assets pledged as security

The loans subject to recourse funding arrangements are secured by rentals and payments receivable in respect of the underlying lease and loan receivable contracts. Under the terms of some of the recourse funding arrangements, the funders retain a part of the gross amount funded as security against credit losses on the underlying loans. This amount is referred to as a 'loss reserve' and represents a reduction in the amount borrowed.

Financing arrangements

Unrestricted access was available at balance date to the following lines of credit before loss reserves:

A$m	2019	2018
Total loan facilities available	2,952.5	2,782.4
Loan facilities used at balance date	(2,418.9)	(2,163.0)
Loan facilities unused at balance date	533.6	619.4

17. Provisions

A$m	2019	2018
Annual leave	4.4	3.8
Long service leave	2.4	2.4
Outstanding claims liability	0.6	1.2
Unearned premium liability	0.5	0.2
Customer remediation	1.5	7.0
Undrawn Credit Commitments (refer note 25)	13.1	–
Total provisions	22.5	14.6

18. Derivative financial instruments

A$m	2019	2018
Interest rate swaps used for hedging	17.6	6.4

Risk exposures and fair value measurements

Information about the Group's exposure to credit risk, foreign exchange and interest rate risk and about the methods and assumptions used in determining fair values is provided in note 25. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of derivative financial liabilities mentioned above.

19. Contributed equity

A. SHARE CAPITAL

A$m	2019 number of shares	2018 number of shares	2019 $m	2018 $m
Ordinary shares – fully paid	**394,286,499**	374,050,685	**339.2**	313.7
Subordinated perpetual notes	**49,129,075**	49,129,075	**50.9**	49.1
Total share capital	**443,415,574**	423,179,760	**390.1**	362.8

B. MOVEMENT IN ORDINARY SHARES

	Number of shares	$m
1 July 2017	374,145,403	312.1
Treasury shares purchased on market	(146,618)	(0.2)
Transfer from treasury shares on vesting of sign-on rights	51,900	0.1
Transfer from share capital reserve	–	0.3
Expired options and rights transferred from share based payment reserve	–	1.4
30 June 2018	374,050,685	313.7

	Number of shares	$m
1 July 2018	**374,050,685**	**313.7**
Treasury shares purchased on market	**(45,000)**	**(0.1)**
Transfer from treasury shares on vesting of share options	**166,867**	**0.1**
Transfer from share based payment reserve	**–**	**0.4**
Issuance of shares	**20,113,947**	**25.1**
30 June 2019	**394,286,499**	**339.2**

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy and entitled to vote, is entitled to one vote, and upon a poll each share is entitled to one vote. There is no current on market buy back of shares, other than shares purchased by the Share Plan Trust to satisfy vested share based payments.

19. Contributed equity continued

C. SUBORDINATED PERPETUAL NOTES

FlexiGroup Limited issued unsecured subordinated perpetual notes as part of the consideration for the acquisition of Fisher & Paykel Finance. The face value of the note issued was $49.1m, the A$ equivalent of NZ$55.0m. Interest is payable on the perpetual notes at the sole and absolute discretion of the issuer commencing on 18 March 2018 and has been capitalised as part of the note. Interest payable or capitalised has been accounted for as a dividend in equity. In the unlikely event that no interest is paid or capitalised on the perpetual notes in any given year, the Group may not pay or declare any ordinary dividends to the ordinary shareholders.

In limited circumstances upon a change of control, the noteholder may elect to convert the perpetual notes having an aggregate principal amount equal to the face value into 28.5 million ordinary shares. Prior to conversion, the perpetual notes have no right to share in any surplus assets or profits, ordinary dividends and no voting rights.

D. PERFORMANCE AND SIGN-ON INCENTIVE RIGHTS

Information relating to the **flexigroup** Employee Options and Performance Rights Plan, including details of performance and sign-on incentive rights exercised and lapsed during the financial year and performance and sign-on incentive rights outstanding at the end of the financial year, is set out in note 24.

E. MOVEMENT IN TREASURY SHARES

Treasury shares are shares in FlexiGroup Limited that are held by the **flexigroup** Tax Deferred Employee Share Plan Trust for the purposes of issuing shares under the **flexigroup** Long-Term Incentive Plan (see note 24).

	Number of shares	$m
1 July 2017	131,775	0.3
Treasury shares purchased on market	146,618	0.2
Transfer from treasury shares on vesting of sign-on rights	(51,900)	(0.1)
30 June 2018	226,493	0.4

	Number of shares	$m
1 July 2018	**226,493**	**0.4**
Treasury shares purchased on market	**45,000**	**0.1**
Transfer from treasury shares on vesting of share options	**(166,867)**	**(0.1)**
30 June 2019	**104,626**	**0.4**

F. CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and to maintain an optimal capital structure to facilitate growth in the business. Consistent with others in the industry, the Group monitors capital on the basis of its gearing ratio. In order to maintain or adjust its capital structure, the Group considers the issue of new capital, return of capital to shareholders and its dividend policy as well as its plans for acquisition and disposal of assets.

20. Reserves and retained earnings

A. RESERVES

A$m	2019	2018
Share-based payment reserve	0.7	0.4
Foreign currency translation reserve	14.2	4.3
Share capital reserve	–	–
Cash flow hedge reserve	(12.1)	(2.6)
	2.8	2.1

Movements: Share-based payment reserve

A$m	2019	2018
Balance at 1 July	0.4	1.4
Transfer to share capital	(0.4)	(1.4)
Share-based payment expense (net of tax)	0.7	0.5
Other changes	–	(0.1)
Balance at 30 June	0.7	0.4

Movements: Foreign currency translation reserve

A$m	2019	2018
Balance at 1 July	4.3	13.9
Other comprehensive income	9.9	(9.6)
Balance at 30 June	14.2	4.3

Movements: Share capital reserve

A$m	2019	2018
Balance at 1 July	–	0.3
Transfer to share capital	–	(0.3)
Balance at 30 June	–	–

Movements: Cash flow hedge reserve

A$m	2019	2018
Balance at 1 July	(2.6)	(3.4)
Other comprehensive income	(9.5)	0.8
Balance at 30 June	(12.1)	(2.6)

B. RETAINED EARNINGS

Movements in retained profits were as follows:

A$m	2019	2018
Restated balance at 30 June	251.6	293.6
Correction of error	–	4.8
Adoption of AASB 15	–	(8.9)
Adoption of AASB 9	(59.3)	–
Restated balance at 1 July	192.3	289.5
Net profit for the year	61.7	(9.1)
Dividends (note 21)	(30.8)	(28.8)
Balance at 30 June	223.2	251.6

Note the 1 July 2017 Retained earnings balance and Cash flow hedge reserve disclosed are after the restatements for the correction of the error (refer Statement of Changes in Equity) and change in accounting policy (refer note 36).

C. NATURE AND PURPOSE OF RESERVES

i. Share-based payment reserve

The share-based payment reserve is used to recognise:

- the fair value of options and rights issued to Directors and employees but not exercised,
- the fair value of shares issued to Directors and employees, and
- other share-based payment transactions.

ii. Foreign currency translation reserve

Foreign currency translation of the foreign controlled entities is taken to the foreign currency translation reserve as described in note 1(D). The reserve is recognised in profit and loss when the net investment is disposed of.

iii. Cash flow hedge reserve

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised in Other Comprehensive Income as described in note 1(O). Amounts are reclassified to profit or loss when the associated hedge transaction affects profit or loss.

21. Dividends

A. FINAL DIVIDENDS PAID

	Parent entity	
A$m	2019	2018
Ordinary shares		
2018 final dividend paid on 12 October 2018: 3.85 cents (2017 final dividend paid on 13 October 2017: 3.85 cents) per ordinary share franked to 100%	14.4	14.4

B. INTERIM DIVIDENDS PAID

A$m	2019	2018
Ordinary shares		
2019 interim dividend paid on 12 April 2019: 3.85 cents (2018 interim dividend paid on 13 April 2018: 3.85 cents) per ordinary share franked to 100%:	14.4	14.4
Preference shares		
Unsecured subordinated perpetual notes	2.0	–
Total dividends accrued and paid[1]	30.8	28.8

1. All dividends are franked at a tax rate of 30%.

C. FINAL DIVIDENDS PROPOSED BUT NOT RECOGNISED AT YEAR END

A$m	2019	2018
2019: 3.85 cents (2018: 3.85 cents) per ordinary share franked to 100%	15.2	14.4

D. FRANKED DIVIDENDS

The franked dividends recommended after 30 June 2019 will be franked out of existing franking credits, or out of franking credits arising from the payment of income tax in the year ended 30 June 2019.

	Consolidated		Parent entity	
A$m	2019	2018	2019	2018
Franking credits available for subsequent financial years based on a tax rate of 30% (2017: 30%)	63.1	48.3	63.1	48.3

The above amounts are calculated from the balance of the franking account as at the end of the reporting period, adjusted for franking credits and debits that will arise from the settlement of liabilities or receivables for income tax and dividends after the end of the year. The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of subsidiaries were paid as dividends.

22. Earnings per share

A. EARNINGS PER SHARE

Cents	2019	2018
Total basic earnings per share attributable to the ordinary equity shareholders of the Company	15.9	(2.4)
Total diluted earnings per share attributable to the ordinary equity shareholders of the Company	15.9	(2.4)

B. RECONCILIATION OF EARNINGS USED IN CALCULATING EARNINGS PER SHARE

A$m	2019	2018
Profit attributable to the ordinary equity shareholders of the Company used in calculating basic and diluted earnings per share:		
Profit/(loss) for the year	61.7	(9.1)
Less: preference share dividend (net of tax)	(1.4)	–
Profit/(loss) after preference share dividend	60.3	(9.1)

C. WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES

A$m	2019	2018
Weighted average number of ordinary shares used in calculation of basic earnings per share	379,677,933	374,061,938
Add: potential ordinary shares considered dilutive	–	–
Weighted average number of ordinary shares used in calculating diluted earnings per share	379,677,933	374,061,938

Information concerning the classification of securities

Performance, sign-on incentive and deferred STI rights

Performance, sign-on incentive and deferred STI rights granted to employees under the **flexigroup** incentive plans are settled through an on-market share purchase. The rights are not considered to be dilutive. The rights have not been included in the determination of basic and diluted earnings per share. Details relating to the rights are set out in note 24.

23. Cash flow information

A. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

A$m	2019	2018
Net profit/(loss) for the year after tax	61.7	(9.1)
Receivables and loan impairment expenses	87.5	66.5
Depreciation and amortisation	17.1	17.5
Customer remediation	–	7.0
Impairment of goodwill and other intangible assets	10.5	94.7
Share-based payment/expense	0.7	0.5
Exchange differences	(0.2)	(0.3)
Other non-cash movements	(2.0)	(2.2)
Net cash inflows from operating activities before changes in operating assets and liabilities	175.3	174.6

Change in operating assets and liabilities:

A$m	2019	2018
Decrease/(increase) in other receivables	2.4	5.4
(Increase)/decrease in current tax receivables	(14.7)	–
(Decrease)/increase in payables	6.0	3.2
Decrease/(increase) in inventories	0.8	0.1
Increase/(decrease) in current tax liabilities	(8.3)	16.5
Increase/(decrease) in net deferred tax liabilities	3.9	(11.1)
Net cash inflows from operating activities	165.4	188.7

23. Cash flow information continued

B. NET DEBT RECONCILIATION

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

A$m	2019	2018
Cash and cash equivalents	**143.1**	125.3
Borrowings – repayable within one year	**(1,438.0)**	(1,327.0)
Borrowings – repayable after one year	**(980.9)**	(836.0)
Net debt	**(2,275.8)**	(2,037.7)
Cash and liquid investments	**143.1**	125.3
Gross debt – fixed interest rates	**(116.1)**	(160.0)
Gross debt – variable interest rates	**(2,302.8)**	(2,003.0)
Net debt	**(2,275.8)**	(2,037.7)

A$m	Cash at bank	Borrowings due within 1 year	Borrowings due after 1 year	Total
Net debt as at 1 July 2017	167.3	(1,200.0)	(830.0)	(1,862.7)
Cash flows	(39.5)	(154.7)	(7.3)	(201.5)
Foreign exchange adjustments	(2.5)	27.7	1.3	26.5
Net debt as at 30 June 2018	**125.3**	**(1,327.0)**	**(836.0)**	**(2,037.7)**
Cash flows	**16.3**	**(96.2)**	**(125.5)**	**(205.4)**
Foreign exchange adjustments	**1.5**	**(14.8)**	**(19.4)**	**(32.7)**
Net debt as at 30 June 2019	**143.1**	**(1,438.0)**	**(980.9)**	**(2,275.8)**

24. Share-based payments

A. LONG-TERM INCENTIVE PLAN

The establishment of the **flexigroup** Long-Term Incentive Plan (LTIP) was approved by the founding shareholders on 20 November 2006. The LTIP is designed to provide relevant employees with an incentive for future performance, with conditions for the vesting and exercise of options and performance rights under the LTIP encouraging those executives to remain with **flexigroup** and contribute to the future performance of the Company. Under the plan, participants are granted either an option or right, which only vests if certain performance standards are met.

The Board may determine which persons will be eligible to participate in the LTIP from time to time. Eligible persons may be invited to apply to participate in the LTIP. The Board may in its discretion accept such applications.

The table below shows options, performance rights, sign-on incentive and deferred STI rights granted under the incentive plans:

Consolidated and parent entity – 2019

Tranche	Grant date	Expiry date	Exercise price	Balance at start of the period	Granted during the period	Exercised during the period	Forfeited during the period	Balance at end of the period	Vested and exercisable at the end of the period
				Number	Number	Number	Number	Number	Number
Tranche 4	1/12/14	15/10/18 15/10/19 31/10/20 31/10/21	$0.00	359,500	–	–	(359,500)[1]	–	–
Tranche 4	26/11/15	15/10/18 15/10/19 31/10/20 31/10/21	$0.00	320,000	–	–	(320,000)[2]	–	–
Sign-on Rights	22/11/16	15/10/18 15/10/19	$0.00	36,000	–	(36,000)	–	–	–
Sign-on Rights	3/07/17	1/10/18 1/10/19	$0.00	25,000	–	(25,000)	–	–	–
2017 Deferred STI	6/09/17	15/10/18	$0.00	106,548	–	(57,567)	(48,981)	–	9,796
Tranche 5	27/11/17	15/03/22	$0.00	1,730,052	–	–	(914,536)	815,516	–
2018 Deferred STI	5/09/2018 12/9/2018	13/09/19	$0.00	–	102,484	–	(50,198)	52,286	–
Tranche 6	15/11/18	15/03/23	$0.00	–	528,846	–	–	528,846	–
Tranche 6	16/05/19	15/03/23	$0.00	–	785,962	–	–	785,962	–
Total				**2,577,100**	**1,417,292**	**(118,567)**	**(1,693,215)**	**2,182,610**	**9,796**
Weighted average exercise price				**$0.00**					

1. Includes 143,800 performance rights that are TSR lapsed and remain in payments reserve.
2. Includes 128,000 performance rights that are TSR lapsed and remain in payments reserve.

24. Share-based payments continued

Consolidated and parent entity – 2018

Tranche	Grant date	Expiry date	Exercise price	Balance at start of the period	Granted during the period	Exercised during the period	Forfeited during the period	Balance at end of the period	Vested and exercisable at the end of the period
				Number	Number	Number	Number	Number	Number
Tranche 3	3/06/11	31/12/16	$0.00	19,375[1]	–	–	(19,375)[1]	–	–
	3/06/11	31/12/16	$2.11	426,437[1]	–	–	(426,437)[1]	–	–
	5/08/11	31/12/16	$0.00	12,498[1]	–	–	(12,498)[1]	–	–
	19/03/12	31/12/16	$2.18	37,500[1]	–	–	(37,500)[1]	–	–
	23/04/12	31/12/16	$2.27	7,500[1]	–	–	(7,500)[1]	–	–
	10/08/12	31/03/16	$3.05	571,100[1]	–	–	(571,100)[1]	–	–
Tranche 4	1/12/14	15/10/18	$0.00	1,812,000[2]	–	–	(1,452,500)[2]	359,500	–
		15/10/19							
		31/10/20							
		31/10/21							
Tranche 4	26/11/15	15/10/18	$0.00	765,200[3]	–	–	(445,200)[3]	320,000	–
		15/10/19							
		31/10/20							
		31/10/21							
Sign-on rights	22/11/16	15/10/18	$0.00	72,000		(36,000)	–	36,000	–
		15/10/19							
Sign-on rights	3/07/17	1/10/18	$0.00	–	40,000	(15,000)	–	25,000	–
		1/10/19							
2017 Deferred STI	6/09/17	15/10/18	$0.00	–	117,193	–	(10,645)	106,548	–
Tranche 5	27/11/17	15/03/22	$0.00	–	1,730,052	–	–	1,730,052	–
Total				3,723,610	1,887,245	(51,000)	(2,982,755)	2,577,100	–
Weighted average exercise price				$0.00	$0.00	$0.00		$0.00	

1. The instruments that are TSR performance lapsed or expired remain in share based payments reserve.
2. Includes 843,200 performance rights that are TSR lapsed and remain in share based payments reserve.
3. Includes 253,200 performance rights that are TSR lapsed and remain in share based payments reserve.

The weighted average share price at the date of exercise of sign-on incentive rights exercised during the year ended 30 June 2019 was $2.16 (2018: $1.55). The weighted average remaining contractual life of performance, deferred STI and sign-on incentive rights outstanding at the end of the year was 2.32 years (2018: 2.41 years).

Fair value of performance, sign-on and deferred STI rights

The fair values at grant date for sign-on and deferred share incentives were internally determined, as the incentives were only subject to a tenure vesting condition. For performance rights issued on 15 November 2018 and 16 May 2019, the fair values at grant date were independently determined using a binomial tree option pricing methodology that takes into account the exercise price, the term of the performance rights, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the performance rights.

The model inputs for performance rights granted during the year ended 30 June 2019 included:

a. Exercise price: nil
b. Grant date: 16 May 2019 and 15 November 2018
c. Expiry date: 15 March 2023
d. Share price at grant date: $1.51[1] and $1.52[2]
e. Expected price volatility of the Company's shares: 40%
f. Expected dividend yield: 4.2%
g. Risk-free interest rate: 2.24%[1] and 2.2%[2]

The model inputs for performance rights granted during the year ended 30 June 2018 included:

a. Exercise price: nil
b. Grant date: 27 November 2017
c. Expiry date: 15 March 2022
d. Share price at grant date: $1.63
e. Expected price volatility of the Company's shares: 35%
f. Expected dividend yield: 4.8%
g. Risk-free interest rate: 2%

Shares provided on exercise of performance rights

Refer to the remuneration section of the Directors' report for vesting conditions associated with outstanding performance rights for tranche 5 and 6.

Nil (2018: Nil) ordinary shares in the Company were issued as a result of the exercise of any remuneration performance and sign-on incentive rights. The vested 61,000 (2018: 51,000) sign on incentive rights were settled through an on market share purchase and did not result in an increase in issued share capital.

1. 15 November 2018 tranche.
2. 16 May 2019 tranche.

B. EMPLOYEE SHARE PLAN

The Employee Share (Taxed Upfront) Plan ("ESP") is a general employee share plan pursuant to which grants of shares may be offered to employees of **flexigroup** on terms and conditions as determined by the Board from time to time. Nil shares were issued under this plan in 2019.

48,300 shares under **flexigroup**'s 2016 ESP vested on 22 February 2019.

The Board is responsible for administering the ESP in accordance with the ESP Rules and the terms and conditions of specific grants of shares to participants in the ESP. The ESP Rules include the following provisions:

Eligibility

The Board may determine which persons will be eligible to be offered the opportunity to participate in the ESP from time to time. The Board may make offers to eligible persons for participation in the ESP.

Terms of offer

The Board has the discretion to determine the specific terms and conditions applying to each offer, provided that the terms of the offer do not vary the disposal restrictions imposed on shares under the ESP Rules which provide that shares acquired under the ESP cannot be transferred, sold or otherwise disposed of until the earlier of:

- The time when the participant is no longer employed by the Group or by the company that was the employer of the participant as at the time the shares were acquired, or
- The third anniversary of the date on which the shares were acquired.

The offer does not include any provisions for forfeiture of shares acquired under the ESP in any circumstances.

Consideration for grant

The Board may determine the price at which the shares will be offered to an employee. Shares may be granted at no cost to the employee, or the Board may determine that market value or some other price is appropriate.

Allocation of shares

Shares allocated under the ESP may be existing shares or newly issued shares. Allocated shares must be held in the name of the employee. Any shares that are issued under the ESP will rank equally with those traded on the ASX at the time of issue. A participant under the ESP is entitled to receive distributions/dividends made in respect of, and exercise voting rights attaching to, shares held under the ESP (whether or not the shares are subject to disposal restrictions).

Restrictions on shares

Shares acquired under the ESP will be subject to the disposal restrictions described above. **flexigroup** will implement such arrangements (including a holding lock) as it determines are necessary to enforce this restriction.

Once the restriction is removed, and subject to **flexigroup**'s Trading Policy, shares acquired under the ESP may be dealt with freely. Details of **flexigroup**'s Trading Policy are contained in the Corporate Governance Statement.

Employee gift offer

There were no employee gift offers in the year ended 30 June 2019 (2018: Nil).

C. EXPENSES ARISING FROM SHARE-BASED PAYMENT TRANSACTIONS

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

A$m	2019	2018
Performance, sign-on incentive and deferred STI rights issued under incentive plans	**736,377**	500,000

25. Financial risk management

Overview

The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk.

The Group uses derivative financial instruments – interest rate swaps – to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes i.e. not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and foreign exchange risk, and ageing/credit scorecard analysis for credit risk.

Risk management is primarily carried out by the Finance, Treasury, Credit and Operational Risk and Compliance departments.

Market risk

Market risk is the risk of an adverse impact on Group earnings resulting from changes in market factors, such as interest rates and foreign exchange rates.

A. INTEREST RATE RISK

Interest rate risk results principally from the repricing risk or differences in the repricing characteristics of the Group's receivable portfolio and borrowings.

The Group's lease receivables and customer loans consist of:

- Fixed rate consumer and commercial instalment lease contracts. The interest rate is fixed for the life of the contract. Lease contracts are typically originated with maturities ranging between one and five years and generally require the customer to make equal monthly payments over the life of the contract. The majority of leases are funded within two weeks of being settled with the rental stream discounted at a fixed rate of interest to determine the borrowing amount.
- An interest free consumer loan portfolio where the payments are fixed for the term of the loan.
- Revolving credit card portfolios where the payments may vary for the term of the loan.

Borrowings to fund the receivables are a mix of fixed rate borrowings and variable rate borrowings where the rates are reset regularly to current market rates. Interest rate risk is managed on these borrowings by entering into interest rate swaps, whereby the Group pays fixed rate and receives floating rate.

The contracts require settlement monthly of net interest receivable or payable. The settlement dates coincide with the dates on which interest is payable on the underlying debt. The gain or loss from remeasuring the hedging instruments at fair value is recognised in Other Comprehensive Income and deferred in equity in the hedging reserve, to the extent that the hedge is effective. It is reclassified into the Income Statement if the hedging relationship ceases. In the year ended 30 June 2019, nil amounts were reclassified into profit or loss (2018 – Nil) and included in Interest Expenses. There was no material hedge ineffectiveness in the current or prior year.

At the end of the reporting period, the Group had the following variable rate borrowings outstanding:

	2019		2018	
	Weighted average interest rate %	A$m	Weighted average interest rate %	A$m
Floating rate borrowings	**2.13%**	**2,302.8**	2.00%	2,003.0
Interest rate swaps (notional principal amount)	**2.03%**	**(1,323.8)**	2.79%	(1,046.6)
Unhedged variable borrowings		**979.0**		956.4

Interest rate risk sensitivity analysis

The analysis demonstrates the impact of 100 basis point change in interest rates, with all other variables held constant. A sensitivity level of +/- 100 basis point change is determined considering the range of interest rates applicable to the following variable rate financial assets and financial liabilities in the Group:

A$m	2019	2018
Credit card customers loans	**698.7**	604.8
Cash and cash equivalents	**143.1**	125.3
Loss reserve on borrowings	**31.2**	38.3
Floating rate borrowings	**2,302.8**	2,003.0
Interest rate swaps (notional principal amount)	**(1,323.8)**	(1,046.6)

Based on the variable rate financial assets and financial liabilities held at 30 June 2019, if interest rates had changed by, +/- 100 basis points from the year-end rates with all other variables held constant, the impact on the Group's after-tax profits and equity on above exposures would have been $0.7m lower/$0.7m higher (2018: $1.3m lower/$1.3m higher.

Cash flow hedges

The Group hedges a portion of the variability in future cash flows attributable to the interest rate risk on floating rate borrowings 58% (2018 – 52%) using interest rate swaps. There were no forecast transactions for which cash flow hedge accounting had to be ceased as a result of the forecast transaction not occurring in the current or prior period.

B. FOREIGN EXCHANGE RISK

Foreign exchange risk is the risk there will be an impact on the Group's profit after tax and equity from movements in foreign exchange rates.

Changes in value would occur in respect of translating the Group's capital invested in overseas operations into Australian dollars at the reporting date (translation risk).

The Group's only material exposure to this risk arises from its investment in its New Zealand and Ireland businesses. The foreign exchange gain or loss on translation of the investment in foreign subsidiaries to Australian dollars at the end of the reporting period is recognised in Other Comprehensive Income and accumulated in the foreign currency translation reserve, in shareholders' equity.

The Group designated NZ$59.5m (2018: NZ$73.5m) of the corporate debt as a hedging instrument against the net assets of the acquired entity (Fisher and Paykel Finance). At the end of the financial year NZ$21.0m (2018: NZ$14.0m) was outstanding. This creates a natural hedge between the underlying intercompany funding arrangements. Movements in foreign currency are accounted for in Other Comprehensive Income as a translation reserve in equity to the extent that the hedging relationship remains effective. The reserve will be reclassified to profit and loss on disposal of the hedged entity.

C. CREDIT RISK

Credit risk is the risk that a contracting party will not complete its obligations under a financial instrument and, as a result, cause the Group to incur a financial loss. The Group has exposure to credit risk on all financial assets included in its Statement of Financial Position. The Group's maximum exposure to credit risk on its financial assets is its carrying amount.

To manage credit risk, the Group has developed a comprehensive credit assessment process. Loans and receivables consist mainly of lease and loan contracts provided to consumer and commercial customers. Credit underwriting typically includes the use of either an application score-card and credit bureau report or a detailed internal risk profile review for each application, including a review of the customer against a comprehensive credit database. Internal credit review and verification processes are also used depending on the applicant.

At origination, a credit assessment system along with information from two national credit bureaux determines the creditworthiness of applications based on the statistical interpretation of a range of application information. These credit risk assessments are supported by reviews of certain applications by dedicated credit staff who apply the Group's credit and underwriting policy within specific approval authorities. Portfolio performance and credit risk of new applications is monitored monthly by management. The Group has a specialist collections function, which manages all delinquent accounts.

A primary measure of delinquency used by the Group is the proportion of contracts with an outstanding payment that is 30, 60, 90+ days past due. For the purposes of measurement of past due amounts, an account is considered delinquent if it is overdue on a contractual payment by one day. The total principal owing on the contract is defined as the past due amount.

Counterparty risk is where the Group incurs credit exposures to banks as a consequence of hedging of interest rate risks. Credit limits for counterparties are based on external ratings and the Group manages and controls its credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and by monitoring exposures in relation to such limits. Determination of the fair value of the derivatives includes credit valuation adjustment (CVA) to reflect the credit worthiness of the counterparty.

25. Financial risk management continued

Loans and receivables

The majority of the Group's lease and loan receivable balances are high volume low value lease and loan receivables advanced to individual customers and small businesses. In the vast majority of cases no externally assessed credit rating is available for these counterparties. The ECL allowance as a percentage of gross carrying amount was determined as follows for 30 June 2019 and the transition date, 1 July 2018:

A$m	Current	Stage 1	Stage 2	Stage 3	Total
30 June 2019					
Finance lease receivables					
Expected loss rate	2%	15%	41%	64%	
Gross carrying amount	631.2	29.8	8.4	14.6	684.0
Loss allowance	12.3	4.5	3.4	9.3	29.5
Customer loans					
Expected loss rate	2%	12%	39%	66%	
Gross carrying amount	1,949.8	121.7	52.1	36.8	2,160.4
Loss allowance	34.9	14.3	20.2	24.1	93.5
1 July 2018					
Finance lease receivables					
Expected loss rate	2%	17%	46%	67%	
Gross carrying amount	643.7	20.8	8.0	12.4	684.9
Loss allowance	15.7	3.6	3.7	8.3	31.3
Customer loans					
Expected loss rate	3%	11%	49%	74%	
Gross carrying amount	1,711.3	107.5	39.1	36.7	1,894.6
Loss allowance	47.5	11.5	19.1	27.0	105.1

For impaired lease receivables, the Group has a right to recover the leased asset and for impaired loan receivables the Group, in certain instances, has access to collateral. Given the portfolio contains a large number of small accounts, it is not practical to assess the value of the collateral.

For the majority of its receivables, the Group does not identify any individual receivables as significant, and accordingly for those receivables, the allowance for losses is calculated on a collective basis. A small portion of the Group's receivables are individually significant (primarily in the Commercial portfolio). At 30 June 2019, there were no significant single individual exposures that were considered to be impaired.

Other than in a small number of circumstances where further investigation is underway, the Group writes off past due receivables between 120 and 180 days past due (2018: 120 and 180 days past due) depending on the portfolio. Refer to note 10.

Expected credit losses

The table below presents the gross exposure and related Expected Credit Loss (ECL) allowance for each class of asset and off-balance sheet item subject to impairment requirements of AASB 9:

	As at 30 June 2019[1]			As at 1 July 2018[1]		
	Gross[2] $m	ECL Allowance $m	Net $m	Gross[2] $m	ECL Allowance $m	Net $m
Finance lease receivables	604.0	(29.5)	574.5	602.7	(31.2)	571.5
Customer loans	2,053.1	(80.4)	1,972.7	1,788.2	(83.8)	1,704.4
Undrawn credit commitments		(13.1)	(13.1)		(21.3)	(21.3)
Total	2,657.1	(123.0)	2,534.1	2,390.9	(136.3)	2,254.6

1. The current period results reflect the adoption of AASB 9 with comparable position provided at transition, 1 July 2018. The Group has not restated its comparative information on adoption of AASB 9. Accordingly, amounts prior to 1 July 2018 are not comparable and will not reconcile to the comparative Statement of Financial Position.
2. Gross exposure represents the carrying value of assets subject to AASB 9's impairment requirements.

The following table explains the changes in loss allowance between the beginning and the end of the annual period:

A$m	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Collectively assessed	Total
Balance as at 30 June 2018	–	–	–	52.5	52.5
Change on initial application of AASB 9	78.2	22.8	35.3	(52.5)	83.8
Loss allowance as at 1 July 2018	78.2	22.8	35.3	–	136.3
Movements with P&L impact					
Transfers:					
Transfer from Stage 1 to Stage 2	(1.2)	17.8	–	–	16.6
Transfer from Stage 1 to Stage 3	(0.8)	–	21.1	–	20.3
Transfer from Stage 2 to Stage 1	0.5	(6.9)	–	–	(6.4)
Transfer from Stage 2 to Stage 3	–	(1.9)	3.3	–	1.4
Transfer from Stage 3 to Stage 1	0.3	–	(6.4)	–	(6.1)
Transfer from Stage 3 to Stage 2	–	0.6	(1.1)	–	(0.5)
New financial assets originated or purchased	30.7	6.4	14.3	–	51.4
Changes in PDs/LGDs/EADs	(9.6)	(3.1)	(6.0)	–	(18.7)
Changes to model assumptions and methodologies	(9.9)	–	–	–	(9.9)
FX movements	0.9	0.1	0.2	–	1.2
Write-offs	(23.0)	(12.2)	(27.4)	–	(62.6)
Less allowance as at 30 June 2019	66.1	23.6	33.3	–	123.0

25. Financial risk management continued

Probability of default and loss given default factors have remained relatively stable for the year with most of the movement in loss allowance from changes in delinquency rates, limit reductions on credit card products, model assumptions and methodologies. Movements in exposure at default would align with increases in ECL from new financial assets originated, reductions from write off and changes to available credit limits on credit card products.

D. LIQUIDITY RISK

Liquidity risk is the risk that the Group cannot meet its financial liabilities or take advantage of investment opportunities at a reasonable cost in a timely manner. Treasury is responsible for ensuring that the Group has continuous access to funds in accordance with policies established and monitored by the Board.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities. Surplus funds are only invested with licensed banks in the countries in which the Group operates.

To mitigate against liquidity risk, the Group maintains cash reserves and committed undrawn credit facilities to meet anticipated funding requirements for new business. In addition, the Group can redraw against its committed credit limits if the principal outstanding is reduced, including in the case of recourse funding arrangements, by contractual amortisation payments. Details of unused available loan facilities are set out in note 16. Amounts due to funders are repaid directly by rentals and repayments received from the Group's customers. For the current year, the Group raised funding of $285m (2018: $285m) through the Australian asset-backed securitisation program and NZ$298.3m (2018: NZ$201.9) through the New Zealand asset-backed securitisation program.

Loan covenants

The Group has complied with all corporate debt covenants throughout the reporting period.

Contractual maturity of financial liabilities on an undiscounted basis

The table below shows cash flows associated with financial liabilities including derivative financial liabilities within relevant maturity groupings based on the earliest date in which the Group may be required to pay.

The balances in the table will not agree to amounts presented in the Statement of Financial Position as amounts incorporate net cash flows on an undiscounted basis and include both principal and associated future interest payments.

It should be noted this is not how the Group manages its liquidity risk, which is detailed above.

A$m	Less than 1 year	1 to 2 years	2 to 5 years	5 years plus	Total
At 30 June 2019					
Non-derivative financial liabilities					
Payables	**59.7**	–	–	–	**59.7**
Borrowings before loss reserves	**1,509.6**	**488.1**	**542.5**	–	**2,540.2**
Derivative financial instruments					
Interest rate swaps	**7.9**	**5.7**	**4.5**	–	**18.1**
Total undiscounted financial liabilities	**1,577.2**	**493.8**	**547.0**	–	**2,618.0**
At 30 June 2018					
Non-derivative financial liabilities					
Payables	51.7	–	–	–	51.7
Borrowings before loss reserves	1,420.7	500.9	444.7	–	2,366.2
Derivative financial instruments					
Interest rate swaps	4.7	1.4	0.5	–	6.6
Total undiscounted financial liabilities	1,477.0	502.3	445.2	–	2,424.5

E. 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.

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 fair value hierarchy is determined by reference to observability of inputs into the fair value models.

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.

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

Payables

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

Borrowings and derivative financial instruments

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

These are classified as level 2 as the inputs into the fair value models used to determine fair value are observable. There are no level 1 or level 3 borrowings and derivative financial instruments.

A$m	Note	Carrying amount	Fair value
2019			
Financial assets			
Cash and cash equivalents	8	**143.1**	**143.1**
Receivables	10	**595.1**	**595.1**
Customer loans	10	**1,972.7**	**1,972.7**
Financial liabilities			
Payables	15	**59.7**	**59.7**
Borrowings[1]			
• Floating interest rate[1]		**2,302.8**	**2,302.8**
• Fixed interest rate		**116.1**	**117.7**
Total borrowings before loss reserves	16	**2,418.9**	**2,420.5**
Derivative financial instruments	18	**17.6**	**17.6**

A$m	Note	Carrying amount	Fair value
2018			
Financial assets			
Cash and cash equivalents	8	125.3	125.3
Receivables	10	599.9	599.9
Customer loans	10	1,768.2	1,768.2
Financial liabilities			
Payables	15	51.7	51.7
Borrowings[1]			
• Floating interest rate[1]		2,003.0	2,003.0
• Fixed interest rate		160.0	160.4
Total borrowings before loss reserves	16	2,163.0	2,163.4
Derivative financial instruments	18	6.4	6.4

1. Refer note 25(A) for further information on how the Group manages its interest rate risk.

26. Lease commitments

Lease commitments for property, plant and equipment

Operating leases are entered into to meet the business needs of the entities in the Group. Leases are for premises and plant and equipment. Lease rentals are determined in accordance with market conditions when leases are entered into or on rental review dates.

A$m	2019	2018
Non-cancellable operating leases contracted for but not capitalised in the financial statements due:		
• within one year	**4.1**	3.0
• after one year but not later than five years	**11.4**	10.4
• greater than five years	**9.3**	9.4
	24.8	22.8

flexigroup has a call centre service agreement, where the Group will receive call centre services. At 30 June 2019, the minimum future commitment on this agreement was approximately $5.2m (2018: $5.2m). Additionally, in the normal course of the business at 30 June 2019 the Group has approved customer loan and lease receivable accounts, which have not been drawn at year end. Committed amounts are typically drawn within a short period of the loan or lease being approved. Refer note 17 for provision for undrawn credit commitments.

27. Contingent liabilities

flexigroup and its wholly-owned consumer leasing subsidiary, Flexirent Capital Pty Ltd (Flexirent), have been proactively engaging with the Australian Financial Complaints Authority (AFCA) (formerly the Credit and Investments Ombudsman) regarding historic responsible lending practices in relation to the Flexirent product, which ceased being sold in February 2018.

A provision of $7m was recognised in the 2018 financial year with respect to the refund of fees charged to impacted customers, Flexi and following settlement during the year, $1.5m provision remains at 30 June 2019.

Discussions with the Australian Securities and Investments Commission (ASIC) and AFCA are ongoing with respect to other matters and it is possible that future remediation may be undertaken. At this stage, uncertainties remain as to the timing and amount of these. Flexirent continues to work proactively with both ASIC and AFCA, to demonstrate its responsible lending practices are appropriate.

Flexirent is also currently engaging with AFCA in relation to the liquidation of an equipment finance vendor and associated customer complaints. This matter related to the provision of a commercial rental program for audio-visual equipment and related equipment and services to small business customers. A preliminary determination was made by AFCA on 3 May, 2019. A final panel determination which will include industry representatives is expected in Q1 FY20.

Flexicards Australia Pty Limited (Flexicards) has received correspondence from AFCA dated 7 August, 2019 which raises concerns in relation to responsible lending practices undertaken by Flexicards for its Once, Lombard and SKYE cards products. Flexicards is committed to engaging proactively with AFCA to resolve AFCA's concerns. It is possible that future customer remediation may be undertaken, however the nature, scope and timing of any remediation program is not known at this stage.

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

28. Insurance

The Group conducts insurance business through its controlled entity in New Zealand, Consumer Insurance Services Limited (CISL). CISL's primary insurance activities are the development, underwriting and management of non-life insurance products under The Insurance (Prudential Supervision) Act 2010. The non-life insurance products are in respect of Goods Cover, Payment Protection and Extended Warranty Cover. The solvency capital of CISL at 30 June 2019 of NZ$4.9m (A$4.7m) (2018: NZ$4.1m (A$3.8m)) is greater than the minimum required solvency capital of NZ$3.0m (A$2.9m) (2018: NZ$3.0m (A$2.8m)). The insurance business of CISL comprises less than one percent of the total assets of the Group. No new products have been sold since November 2018.

29. Investments in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following controlled entities in accordance with the accounting policy described in note 1(B):

			Percentage of shares/units	
Entity name	Footnote	Country of incorporation	2019	2018
Australian Print Holdings Pty Ltd	(2)(4)	Australia	–	100%
Certegy Ezi-Pay Pty Ltd	(2)	Australia	100%	100%
The Trustee for Flexi ABS Trust 2010-2		Australia	100%	100%
The Trustee for Flexi ABS Trust 2015-1		Australia	100%	100%
The Trustee for Flexi ABS Trust 2015-2	(3)	Australia	100%	100%
Flexi ABS Trust 2016-1		Australia	100%	100%
The Trustee for Flexi ABS Trust 2017-1		Australia	100%	100%
The Trustee for Flexi ABS Trust 2018-1		Australia	100%	100%
The Trustee for Flexi ABS Trust 2019-1	(1)	Australia	100%	–
The Trustee for Flexi ABS Warehouse Trust No.2		Australia	100%	100%
The Trustee for Flexi ABS Warehouse Trust No. 3		Australia	100%	100%
The Trustee for FlexiGroup Employee Share Plan Trust		Australia	100%	100%
FlexiGroup Management Pty Limited		Australia	100%	100%
FlexiGroup SubCo Pty Limited	(2)	Australia	100%	100%
FlexiGroup Australia Holdings Pty Limited	(2)(5)	Australia	100%	100%
Flexirent Horizon SPV Pty Ltd	(1)	Australia	100%	–
Flexirent SPV Number 2 Pty Ltd		Australia	100%	100%
Flexirent SPV Number 4 Pty Ltd		Australia	100%	100%
Flexirent Capital Pty Ltd	(2)	Australia	100%	100%
Flexirent SPV Number 7 Pty Ltd	(3)	Australia	100%	100%
Flexirent SPV Number 8 Pty Ltd	(3)	Australia	100%	100%
Flexicards Australia Pty Ltd	(2)	Australia	100%	100%
The Trustee for Helix Trust		Australia	100%	100%
ICT Finance Pty Ltd	(2)(4)	Australia	–	100%
The Trustee for Lighthouse Warehouse Trust No. 9		Australia	100%	100%
The trustee for Lombard Warehouse Trust No 1		Australia	100%	100%
Once Credit Pty Limited	(2)	Australia	100%	100%
OxiPay Pty Ltd		Australia	100%	100%
RentSmart Finance Limited	(2)(3)	Australia	100%	100%
RentSmart Pty Ltd	(2)(3)	Australia	100%	100%
RentSmart Servicing Pty Ltd	(2)(3)	Australia	100%	100%
The Trustee for the RentSmart Unit Trust	(3)	Australia	100%	100%

			Percentage of shares/units	
Entity name	Footnote	Country of incorporation	2019	2018
SmartCheck Pty Ltd	(2)(3)	Australia	100%	100%
The Trustee for ThinkSmart Trust	(3)	Australia	100%	100%
Tot CNS Pty Ltd	(2)(4)	Australia	–	100%
Tot GNE Pty Ltd	(2)(4)	Australia	–	100%
Tot MKY Pty Ltd	(2)(4)	Australia	–	100%
Tot SC Pty Ltd	(2)(4)	Australia	–	100%
Tot TBA Pty Ltd	(2)(4)	Australia	–	100%
Tot TSV Pty Ltd	(2)(4)	Australia	–	100%
FlexiFi Europe Limited		Ireland	100%	100%
FlexiFi Europe Holdings Limited		Ireland	100%	100%
Flexirent Ireland Limited		Ireland	100%	100%
FlexiFi Europe Services Limited		Ireland	100%	100%
Flexi Orlaigh SPV DAC	(1)(6)	Ireland	0%	–
Columbus Financial Services Limited		New Zealand	100%	100%
Columbus Trust		New Zealand	100%	100%
Consumer Finance Limited		New Zealand	100%	100%
Consumer Insurance Services Limited		New Zealand	100%	100%
Flexi Cards Limited		New Zealand	100%	100%
Flexi Finance Limited		New Zealand	100%	100%
Flexi Financial Services Limited		New Zealand	100%	100%
FlexiGroup (New Zealand) Limited		New Zealand	100%	100%
FlexiGroup NZ SPV1 Limited		New Zealand	100%	100%
FlexiGroup NZ SPV2 Limited		New Zealand	100%	100%
FlexiGroup NZ SPV3 Limited		New Zealand	100%	100%
Q Card Trust		New Zealand	100%	100%
Retail Financial Services Limited		New Zealand	100%	100%
RFS Trust 2016-1		New Zealand	100%	100%
TRL Leasing Limited		New Zealand	100%	100%

1. Created during the year ended 30 June 2019.
2. These controlled entities have entered into a deed of cross guarantee (refer note 33) with the Company pursuant to ASIC Class order 98/1418 dated 13 August 1998. These controlled entities and the Company form a closed group (closed group is defined as a group of entities comprising a holding entity and its related wholly owned entities). Relief was granted to these controlled entities from the *Corporations Act* requirements for preparation, audit and publication of an annual financial report.
3. These are in the process of being wound up.
4. Sold effective 1 July 2018.
5. Name changed 29 June 2018 from Flexirent Holdings Pty Limited.
6. **flexigroup** consolidates the entity by nature of its interest in the risks and rewards of the entity.

30. Key management personnel disclosures

A. DIRECTORS

The following persons were Directors of FlexiGroup Limited during the financial year:

Andrew Abercrombie	Non-Executive Director and Chairman
Christine Christian	Non-Executive Director and Deputy Chairman
Rajeev Dhawan	Non-Executive Director
Jodie Leonard	Non-Executive Director
Carole Campbell	Non-Executive Director
John Wylie (appointed 21 March 2019)	Non-Executive Director
Symon Brewis-Weston (resigned 3 September 2018)	Executive Director and Chief Executive Officer

B. OTHER KEY MANAGEMENT PERSONNEL

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group during the financial year:

Rebecca James (appointed 2 October 2018)	Chief Executive Officer
Chris Lamers	Chief Executive Officer – New Zealand[1]
Ross Aucutt	Chief Financial Officer[2]
Elizabeth Minogue	Chief Revenue Officer – Australia
Verity Gilpin (resigned effective 19 January 2019)	General Manager – Sales
Ken Richards (ceased employment 10 May 2019)	General Manager – Commercial

1. Deputy Group CEO and CEO NZ from 1 July 2019.
2. Acting Group CEO from 3 September 2018 to 1 October 2018.

C. KEY MANAGEMENT PERSONNEL COMPENSATION

A$	2019	2018
Short-term employee benefits	**3,779,899**	4,338,130
Post-employment benefits	**176,334**	171,877
Long-term benefits	**–**	–
Share-based payments	**62,836**	330,357
Total	**4,019,069**	4,840,364

Further remuneration disclosures are provided in the Remuneration Report on pages 41-61.

D. OTHER TRANSACTIONS WITH RELATED PARTIES

Rental of Melbourne premises

Flexirent Capital Pty Limited has rented premises in Melbourne owned by entities associated with Mr Andrew Abercrombie. The rental arrangements for these premises are based on market terms.

A$	2019	2018
Rental expense for premises	**187,284**	175,579

Associated shareholdings

John Wylie, who was appointed Director of FlexiGroup Limited on 21 March 2019, is Chairman of Tanarra Capital Pty Limited, which holds 20,113,947 shares, 5.1% interest in FlexiGroup Limited.

Refer page 26 of the Directors Report for all Director's interest in FlexiGroup Limited.

31. Related party transactions

A. PARENT ENTITY

The parent entity of the Group is FlexiGroup Limited.

B. SUBSIDIARIES AND ASSOCIATE

Interests in Group entities are set out in note 29.

32. Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity and its related parties.

A. AUDIT AND ASSURANCE SERVICES

A$	2019	2018
Audit Services		
PwC Australian firm:		
Audit and review of financial statements	**738,167**	708,237
Related practices of PwC Australian firm	**343,900**	420,423
Other Assurance Services		
PwC Australian firm:		
Other assurance services including due diligence services	–	–
Total remuneration for audit and assurance services	**1,101,603**	1,128,660

B. NON-AUDIT SERVICES

A$	2019	2018
Taxation Services		
PwC Australian firm:		
Tax compliance and advice on transactions	**259,514**	16,600
Related practices of PwC Australian firm	**223,972**	61,706
Other Services		
PwC Australian firm	**5,090**	157,898
Network firms of PwC	**8,102**	20,678
Total remuneration for non-audit services	**496,678**	256,882
Total remuneration of PwC	**1,597,281**	1,385,542

It is the Group's policy to employ PwC on assignments additional to its statutory audit duties where PwC's expertise and experience with the Group are important. These assignments are principally regulatory audits, procedures performed as part of completing funding agreements, tax advice and due diligence reporting on acquisitions, or where PwC is awarded assignments on a competitive basis.

33. Closed group

The table below presents the consolidated proforma Income Statement and Statement of Financial Position for the Company and controlled entities, which are party to the deed of cross guarantee (referred to as a closed group). For further information, refer note 29, footnote (2). The effects of transactions between entities to the deed are eliminated in full in the Consolidated Income Statement and Consolidated Statement of Financial Position.

A. STATEMENT OF COMPREHENSIVE INCOME

A$m	2019	2018
Interest income	**7.5**	7.0
Interest expense	**(6.2)**	(6.2)
Other portfolio income	**61.1**	11.9
Dividend income	**68.5**	71.8
Net income	**130.9**	84.5
Employment expenses	**(63.2)**	(66.8)
Loan impairment expenses	**3.3**	(13.2)
Goodwill and other intangible assets impairment	**(6.5)**	(94.7)
Depreciation and amortisation	**(9.2)**	(10.5)
Operating and other expenses	**(35.7)**	(40.0)
Profit before income tax	**19.6**	(140.7)
Income tax expense	**(7.0)**	9.0
Profit for the year	**12.6**	(131.7)

Other comprehensive income

Items that may be reclassified to profit or loss

A$m	2019	2018
Changes in the fair value of cash flow hedges, net of tax	**(0.1)**	1.4
Other comprehensive income for the year, net of tax	**(0.1)**	1.4
Total comprehensive income for the year	**12.5**	(130.3)

33. Closed group continued

B. STATEMENT OF FINANCIAL POSITION

Assets

A$m	2019	2018
Cash and cash equivalents	24.5	21.1
Inventories	0.6	2.8
Receivables and customer loans	54.4	83.4
Investment in associate	13.7	–
Plant and equipment	3.7	5.2
Goodwill	49.6	51.6
Other intangible assets	39.8	39.8
Deferred tax asset	20.7	–
Other financial assets	80.7	92.3
Total assets	287.7	296.2

Liabilities

A$m	2019	2018
Payables	42.2	40.1
Borrowings	98.1	104.5
Current tax liabilities	–	–
Provisions	12.2	13.2
Contingent Consideration	–	1.1
Deferred tax liabilities	–	8.9
Total liabilities	152.5	167.8

Equity

A$m	2019	2018
Contributed equity	390.1	362.9
Reserves	0.7	3.0
Retained profits/(accumulated losses)	(255.6)	(237.5)
Total equity	135.2	128.4

34. Parent entity financial information

A. SUMMARY FINANCIAL INFORMATION

The parent entity financial information is presented as follows:

Balance sheet

A$m	2019	2018
Current assets	444.1	490.3
Non-current assets	7.6	7.9
Total assets	451.7	498.2
Current liabilities	(41.5)	(31.9)
Non-current liabilities	(85.7)	(107.2)
Total liabilities	(127.2)	(139.2)
Net assets	324.5	359.0
Issued share capital	765.4	763.3
Share based payment reserve	4.8	4.5
Hedge Reserve of Net Investment	(1.4)	2.7
Share capital reserve	–	–
Accumulated losses	(444.3)	(411.5)
Shareholders' equity	324.5	359.0
Profit for the year	–	(4.2)
Exchange differences on hedged net investment	(1.4)	2.7
Total comprehensive income	(1.4)	(1.5)

B. GUARANTEES ENTERED INTO BY THE PARENT ENTITY

Pursuant to Australian Securities and Investment Commission Class Order 98/1418 dated 13 August 1998, relief was granted to certain controlled entities (note 29, footnote (2)) from the *Corporations Act* requirements for preparation, audit and publication of annual financial reports. It is a condition of the Class Order that the Company and each of the controlled entities are party to a deed of cross guarantee. The effect of the deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the controlled entities under certain provisions of the *Corporations Act*.

No liability was recognised by the parent entity or the consolidated entity in relation to the above guarantee as the fair value of the guarantee is immaterial.

C. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS OF THE PARENT ENTITY

The parent entity has no contingent liabilities or contractual commitments as at 30 June 2019 (2018: $nil).

35. Securitisation and special purpose vehicles

The Group sells receivables and customer loans to securitisation vehicles through its asset–backed securitisation programs and other special purpose vehicles. The securitisation and special purpose vehicles are consolidated as set out in note 29 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 and special purpose vehicles. The Group may serve as a sponsor, servicer, manager, liquidity provider, purchaser of notes and/or purchaser of residual interest and capital units with respect to these securitisations and special purpose vehicles.

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

A$m	2019	2018
Receivables	510.7	483.8
Customer loans	1,723.5	1,747.6
Cash held by securitisation vehicles	112.9	100.1
Total	2,347.1	2,331.5
Borrowings related to receivables and customer loans	2,289.6	2,020.4

36. Changes in accounting policies

AASB 15 *Revenue From Contracts With Customers*:

The Group has adopted AASB 15 from 1 July 2017, replacing the previous standard, AASB 118 *Revenue*. Under AASB 118, revenue is recognised when risks and rewards have transferred from the seller to the buyer. AASB 15 has introduced a single, principle-based five-step recognition and measurement model. The five steps are:

1. Identify the contract with a customer;
2. Identify the separate performance obligations;
3. Determine the transaction price;
4. Allocate the transaction price to each performance obligation identified in Step 2; and
5. Recognise revenue when a performance obligation is satisfied.

Where there is variable consideration in calculating a transaction price, revenue will only be recognised if it is highly probable that a significant revenue reversal will not subsequently occur. AASB 15 applies to contracts with customers except for revenue arising from items such as financial instruments, insurance contracts and leases. The majority of the Group's revenue arises from financial instruments and leases.

The Group applied the retrospective approach in adopting AASB 15 to allow for comparability of Net Income across reporting periods, which recognises the cumulative effect of initial application of AASB 15 through opening retained earnings as at 1 July 2017. The significant changes to the Group as a result of adopting AASB 15 are:

- Interest Income is disclosed on the face of the Income Statement.
- Annual fees are no longer recognised upfront, but when the performance obligation to the customer is delivered, which is a 12 month period. Establishment and application fees are now disclosed as part of Interest Income.
- Servicing fees and Payment Processing Fees charged for servicing a financial arrangement were previously disclosed as part of Interest Income and have now been disclosed as part of Other Portfolio Income.
- Costs not deemed incremental to obtaining a contract with a customer have been reclassified from Other Portfolio Income to Operating Expenses. There is no amendment to the timing of recognition of these costs.

In considering revenue recognition practices under AASB 15, the Group also identified the following changes required under AASB 9:

- Establishment fees: Certain origination fees directly associated with establishing financing facilities for customers (previously recognised upfront) have been capitalised and deferred over the expected life of the financial instrument.

AASB 9 *Financial Instruments*

AASB 9 results in changes to accounting policies for financial assets and financial liabilities covering classification and measurement, impairment and hedge accounting. The Group has applied AASB 9 in the financial year beginning 1 July 2018 with no requirement to restate comparatives. The cumulative effect of initially applying the standard is recognised as an adjustment to the opening Statement of Financial Position at 1 July 2018.

Classification and Measurement: Financial assets

The policies applied by the Group for the newly adopted classification categories under AASB 9 have been disclosed in note 1(N).

36. Changes in accounting policies continued

Business model assessment

The Group will determine the business model at the level that reflects how groups of financial assets are managed. In determining the business model, all relevant evidence that is available at the date of the assessment is used including:

- how the performance of financial assets held within that business model is evaluated and reported to the Group's KMP;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and
- how managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

Based on the assessment performed, no changes in classification and measurement of financial assets will occur as a result of the adoption of AASB 9.

Impairment

AASB 9 replaces the incurred loss model of AASB 139 with an expected loss model, resulting in an acceleration of impairment recognition. The impairment requirements apply to the Group's Finance lease receivables and customer loans measured at amortised cost. The model applies to on balance sheet financial assets, as well as off-balance sheet items such as undrawn loan commitments and undrawn committed credit facilities for the Group's revolving products. The carrying amount of the consolidated entity's financial assets represents the maximum credit exposure.

Three stage approach

Under the expected credit loss model, the Group applies a three stage approach to measuring the expected credit loss (ECL) based on credit migration between the stages. ECL is modelled collectively for portfolios of similar exposures (products or sub-products). It is measured as the product of the probability of default (PD), the loss given default (LGD) and the exposure at default (EAD) and includes forward-looking or macroeconomic information. The calculation of ECL requires judgement and the choice of inputs, estimates and assumptions used involves uncertainty at the time that they are made. Outcomes within the next financial period that are different from management's assumptions and estimates could result in changes to the timing and amount of ECL to be recognised.

- **Stage 1:** 12 month ECL – No significantly increased credit risk. Financial instruments that have not had a significant increase in credit risk since initial recognition require, at initial recognition, a provision for ECL associated with the probability of default events occurring within the next 12 months (12 month ECL). For those financial assets with a remaining maturity of less than 12 months, a probability of default is used that corresponds to the remaining maturity.
- **Stage 2:** Lifetime ECL – Significantly increased credit risk. In the event of a significant increase in credit risk since initial recognition, a provision is required for the lifetime ECL representing losses over the life of the financial instrument (lifetime ECL). Lifetime ECL references exposures that are at least 30 days past due. For revolving facilities, the Group exercises judgement based on the behavioural maturity, rather than contractual characteristics of the facility type.
- **Stage 3:** Lifetime ECL – Defaulted. Financial instruments that move into Stage 3 once credit impaired and purchase of credit impaired assets will require a lifetime provision. This stage references exposures that are at least 90 days past due.

Significant increase in credit risk

A financial asset moves from stage 1 to stage 2 when there is a significant increase in credit risk since initial recognition. The Group has established a framework which incorporates quantitative and qualitative information to identify this on an asset level applying a relative assessment. Each financial asset will be assessed at the reporting date on the triggers for significant deterioration, including:

- Forbearance status;
- Watch list status – loans on the watch list are individually assessed for stage 2 classification; and
- More than 30 days past due backstop for stage 1 to stage 2 transfers.

Macroeconomic scenarios

The assessment of credit risk, and the estimation of ECL, will be unbiased and probability weighted, and incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable information about future events and economic conditions at the report date. The Group has established a process whereby forward-looking macroeconomic scenarios and probability weightings are developed for ECL calculation purposes. The final probability-weighted ECL amount will be calculated from a central estimate, best case and a worst case scenario.

Measurement

To measure ECL, the Group applies a PD x EAD x LGD approach incorporating the time value of money. For stage 1 assets a forward looking approach on a 12-month horizon will be applied. For stage 2 assets a lifetime view on the credit is applied. The Lifetime Expected Credit Loss is the discounted sum of the portions of lifetime losses related to default events within each time window of 12 months until maturity. For stage 3 assets the PD equals 100% and the LGD and EAD represent a lifetime view of the losses based on characteristics of defaulted facilities.

Changes in measurement since adoption

In the current period the Group has updated EAD for fixed instalment products to include the expected level of net repayment up to the time of default depending on the contract arrears bucket.

The Group has also re-assessed utilisation at default levels for undrawn credit facilities which are included in EAD, considering updated customer behaviour and available credit once balances are in arrears. This gave rise to some reduction in utilisation at default levels.

Hedge accounting

The Group decided to continue applying the principles of AASB 139 for hedge accounting.

The impacts of adopting new accounting standards AASB 9 and AASB 15 in the Consolidated Statement of Financial Position as at 1 July 2018 are summarised in the tables below:

Consolidated statement of financial position

				Total Group		Total Group
Assets	**Reference**	**30-Jun-18 $m**	**AASB 15 *Revenue***	**30 June 2018 Restated $m**	**AASB 9 *Impairment***	**1/ July2018 Restated $m**
Cash and cash equivalents		125.3		125.3		125.3
Inventories		2.6		2.6		2.6
Receivables	3	599.9		599.9	(14.7)	585.2
Customer loans	1,3	1,768.2	(15.9)	1,752.3	(48.0)	1,704.3
Current tax receivable		0.5		0.5		0.5
Plant and equipment		8.3		8.3		8.3
Deferred tax asset		–		–		–
Goodwill		236.5		236.5		236.5
Other intangible assets		100.4		100.4		100.4
Assets of disposal group held for sale		12.5		12.5		12.5
Total assets		2,854.2	(15.9)	2,838.3	(62.7)	2,775.7
Liabilities						
Payables		51.7		51.7		51.7
Borrowings		2,124.7		2,124.7		2,124.7
Current tax liabilities		12.7		12.7		12.7
Provisions	3	14.6		14.6	21.3	35.9
Derivative financial instruments		6.4		6.4		6.4
Deferred and contingent consideration		1.0		1.0		1.0
Deferred tax liabilities	1,3	13.1	(4.8)	8.3	(24.7)	(16.4)
Liabilities of disposal group held for sale		2.4		2.4		2.4
Total liabilities		2,226.6	(4.8)	2,221.8	(3.4)	2,218.5
Net Assets		627.6	(11.1)	616.5	(59.3)	557.2
Equity						
Contributed equity		362.8		362.8		362.8
Reserves		2.1		2.1		2.1
Retained earnings	1,3	262.7	(11.1)	251.6	(59.3)	192.3
Total equity		627.6	(11.1)	616.5	(59.3)	557.2

36. **Changes in accounting policies** continued

The impacts of adopting AASB 15 on the comparative Income Statement for the year ended 30 June 2018 are shown in the table below:

Consolidated income statement

			AASB 15 *Revenue*		Restated
	Reference	30-Jun-18 A$m	Annual fees, application & establishment fees	Disclosure of Interest Income & Total portfolio income	30-Jun-18 A$m
Interest income		358.8	(0.2)	(19.2)	339.4
Interest expense		(94.6)			(94.6)
Other portfolio income	2	101.6	(2.9)	20.4	119.1
Net portfolio income		365.8	(3.1)	1.2	363.9
Employment expenses		(91.9)			(91.9)
Receivables and customer loan impairment expenses		(66.5)			(66.5)
Impairment of goodwill and intangible assets		(94.7)			(94.7)
Depreciation and amortisation expenses		(17.5)			(17.5)
Operating expenses	2	(76.6)		(1.2)	(77.8)
(Loss)/profit before income tax		18.6	(3.1)	–	15.5
Income tax expense		(25.5)	0.9	–	(24.6)
(Loss)/profit for the year attributable to shareholders of FlexiGroup Limited		(6.9)	(2.2)	–	(9.1)

Earnings per share for profit attributable to the ordinary equity holders of the Company:	Cents	Cents
Basic earnings per share	(1.8)	(2.4)
Diluted earnings per share	(1.8)	(2.4)

The above mentioned references are explained below:

1. AASB 15: Revenue Annual Fees, Application and Establishment Fees

Credit card annual fees are no longer recognised upfront but deferred and recognised on a straight line basis over the period to which the fee income relates. These will be deferred on the Group's Statement of Financial Position as part of Unearned income. The impact at 1 July 2018 to the Group's Statement of Financial Position includes a decrease in Unearned income by $7.6m, net deferred tax assets by $2.3m and to Retained Earnings by $5.3m. The impact to the Income Statement for the year ended 30 June 2018 is a decrease in Total Portfolio Income by $3.1m, income tax expense by $0.9m and increase loss for the period by $2.2m.

Application and establishment fees are no longer recognised upfront, but deferred and recognised as part of Interest Income on the financing facility in accordance with AASB 9. The impact to the Group's Statement of Financial Position at 1 July 2018 includes a decrease in Unearned income by $8.3m, deferred tax liabilities by $2.5m and Retained Earnings by $5.8m. The impact to the Income Statement for the year ended 30 June 2019 was insignificant.

2. AASB 15: Revenue Disclosure of Interest Income and Other Portfolio Income

The Group now discloses Interest Income on the face of the Consolidated Income Statement. This resulted in Total Portfolio Income being separated into Interest Income and Other Portfolio Income. Refer to note 5 of the financial statements for a breakdown of Other Portfolio Income where comparative disclosures have been restated accordingly.

Certain costs which are not deemed incremental and directly related to obtaining a contract with a customer have been reclassified from Other Portfolio Income to Operating Expenses. For the year ended 30 June 2019 this gave rise to an increase in Other Portfolio Income by $1.3m and an increase in Operating Expenses by $1.3m.

3. AASB 9: Financial Instruments: Impairment

The adoption of AASB 9 *Financial Instruments:* Impairment has resulted in $84.0m increase in collective provisions compared to that derived under AASB 139. This includes $14.7m increase for Finance Lease Receivables, $48m increase for customer loans and $21.3m increase for off-balance sheet instruments (recognised in Provisions). The transition adjustment resulted in $24.7m increase in net deferred tax assets and a corresponding $59.3m decrease in retained earnings as at 1 July 2018.

The increase in impairment provisions has predominately arisen from the following factors:

- provisions required for fully performing lease and customer receivables;
- provisions equivalent to lifetime expected credit losses for all loans that have experienced a significant increase in credit risk since origination;
- provisions required for undrawn facilities;
- the need to take into consideration the impact of forward looking factors on expected credit losses estimates; and
- the requirement to hold model and other macro overlays.

37. Events occurring after the reporting period

On 15 August 2019 **flexigroup** completed an issuance of NZ$300m of asset-backed securities under its Q Card Trust program established in New Zealand. This issuance included the refinance of NZ$136.3m of notes which had a soft bullet date of 15 August 2019 and the issuance of an additional NZ$163.8m of new notes.

Directors' Declaration.

In the Directors' opinion:

a. The financial statements and notes set out on pages 77 to 135 are in accordance with the Corporations Act 2001, including:

  i. complying with the Accounting Standards, the Corporations Regulations 2001, and other mandatory professional reporting requirements; and

  ii. giving a true and fair view of the consolidated entity's financial position as at 30 June 2019 and of its performance for the financial year ended on that date; and

b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due and payable; and

c. at the date of this declaration, there are reasonable grounds to believe that the members of the closed group identified in note 29 will be able to meet any obligations or liabilities to which they are, or may become, subject to by virtue of the deed of cross guarantee referred to in note 34.

Note 1(A) confirms that the financial statements also comply with the International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declaration by the Chief Executive Officer and Chief Financial Officer as required by s295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the Directors.

Andrew Abercrombie
Chairman
Sydney

27 August 2019

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Independent auditor's report

To the members of FlexiGroup Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of FlexiGroup Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the Consolidated Statement of Financial Position as at 30 June 2019
- the Consolidated Statement of Comprehensive Income for the year then ended
- the Consolidated Statement of Changes in Equity for the year then ended
- the Consolidated Statement of Cash Flows for the year then ended
- the Consolidated Income Statement for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

Materiality	*Audit scope*
• For the purpose of our audit we used overall Group materiality of $4,820,000, which represents approximately 5% of the Group's profit before tax, adjusted for the impact of unusual or infrequently occurring items (as described below). • We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. • We chose Group profit before tax because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. We adjusted for the impact of the impairment recognised on capitalised software, as this was an unusual or infrequently occurring matter impacting the Group's profit before tax. • We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.	• Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. • We decided the nature, timing and extent of work that needed to be performed by us and component auditors operating under our instruction. We then structured our audit approach as follows: • We identified two components, FlexiGroup Core (composed of the Consumer Leasing, Commercial Leasing, Australia Cards, New Zealand Leasing, and Certegy) and New Zealand Cards, based on a combination of reportable operating segments and shared operating centres with consistent processes and controls. • Audit procedures over the FlexiGroup Core component were performed by PwC Australia. • Work was performed by component auditors in New Zealand in regards to the New Zealand Cards component. For these procedures, we decided on the level of involvement required from us to be able to conclude whether sufficient appropriate audit evidence had been obtained. Our involvement included discussions, written

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- instructions and receiving reporting throughout the year from the component auditors.
- Where deemed appropriate, we performed tests of relevant controls to evaluate whether they were appropriately designed and operated effectively during the year for the purpose of our audit. We considered the results of the controls tests and the implications for our remaining audit work.
- We performed further audit procedures at a Group level, including over the consolidation of the Group's reporting units and the preparation of the financial report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit Committee.

Key audit matter	***How our audit addressed the key audit matter***
Provision for doubtful debts for receivables and customer loans *(Refer to notes 1.j, 10 and 25.c of the financial statements)* This was a key audit matter because it was the first period of reporting under AASB 9 *Financial Instruments*, where the calculation of the provision was driven by complex and subjective judgements made by the Group in determining the approach for predicting expected credit losses (ECL). The majority of the receivables and customer loans balances were low value and therefore the provision was modelled and calculated on a collective basis. Key elements in determining the provision for doubtful debts under AASB 9 include: • The judgements applied in determining exposures that have had a significant increase in credit risk, which is assessed by the Group based on the delinquency status of an exposure. • Judgements applied in setting the assumptions used in the ECL models, such as the probability of	We have performed the following procedures, amongst others: • Examined and assessed the ECL model developed by the Group, including using PwC credit modelling experts in considering the key judgements and assumptions supporting the ECL against the requirements of AASB 9. • Together with PwC credit modelling experts, assessed the reasonableness of forward-looking information incorporated into the impairment calculations by assessing the appropriateness of the forecasts, assumptions and probability weightings applied in the multiple economic scenarios, and comparing on a sample basis against supporting evidence where applicable. • Assessed the integrity of data used as inputs into the models by tracing a sample of inputs used in the models to source systems and calculations. • Considered the accuracy and reasonableness of the modelled calculations by reperforming the ECL calculations, on a sample basis. • Assessed the post-model adjustments in the context of the key model and data limitations

Key audit matter	*How our audit addressed the key audit matter*
default and loss given default as well as forward looking assumptions. • Reserves and overlays added to reflect emerging trends or particular situations which are not otherwise captured by impairment models. The need for a provision for a certain number of Commercial contracts, as well as the incremental risk of losses from operational issues with specific vendors and contracts were individually assessed, where subjective judgements were applied.	identified by the Group, considered their rationale and recalculated, where applicable.
Existence and accuracy of revenue recognition *(Refer to notes 1.e and 5 of the financial statements)* The Group has three main streams of revenue: finance lease interest income, interest income on customer loans and other portfolio income. This was a key audit matter because of: • The significance of interest income and other portfolio income in the context of the profit of the Group. • The judgement involved in the estimation of the finance lease residual values, which should reflect the amount the Group expects to realise at the end of the lease contractual period. The residual value is included in the calculation of the effective interest rate at the commencement of the lease contract, which affects the revenue recognition.	We assessed the design and tested the operating effectiveness of relevant controls covering the finance lease and customer loan product systems. Additionally, we performed the following procedures, amongst others: • Re-performed the automated calculation of interest income for a sample of significant products. • Inspected and re-performed the reconciliations between the product systems and the general ledger as of 30 June 2019. • Inspected and compared contract data contained in the product system to the signed contract for a sample of finance leases. • For a sample of customer loans, compared the income recognised and the cash received reflected in the product system to the relevant signed contract and bank statements. • For all open contracts at year-end with unguaranteed residuals, compared the estimate of the residual value with the actual historical experience of residual value collections of the Group.
Valuation of goodwill and other intangibles *(Refer to notes 1.r, 1.s, 13 and 14 of the financial statements)* This was a key audit matter because the carrying value of goodwill and other intangibles was material for the Group and the determination of their recoverable amounts was impacted by subjective judgements and assumptions as well as strategic changes implemented by the Group in the current financial year, which included the decommissioning of certain capitalised software.	We assessed the Group's cash flow forecasts for all CGUs disclosed in note 13 of the financial statements and the process by which they were developed. We considered whether the cash flows were based on supportable assumptions by: • Comparing these forecasts to Board approved business plans. • Comparing previous forecasts to actual results to assess the Group's historic ability to forecast future cash flows.

Key audit matter	*How our audit addressed the key audit matter*
The recoverable amount of goodwill and other intangibles was determined through a 'value in use' valuation model based on the Group's cash flow forecasts from the latest board approved business plans for each cash generating unit ("CGU"). The most significant judgements related to the discount rate applied together with the assumptions supporting the underlying forecast cash flows, in particular, revenue growth rates and terminal growth rates. The Group considered that each reportable operating segment constituted its own CGU. Specifically in regards to capitalised software, the recoverable amount was determined on an individual asset basis. The Group concluded through its annual assessment of impairment that capitalised software was partially impaired and recorded an impairment charge of \$10.5m against its intangible assets, reducing the carrying amount at the balance date.	• Performing a sensitivity analysis on the assumed growth rate in revenue, the expense cash flows and the terminal growth rate. In testing the valuation model: • We checked the calculations for mathematical accuracy and the consistency of the methodology with the 'value in use' valuation approach. • We considered the sensitivity of the calculation by varying the assumptions (e.g., discount rates) and applying other values within a reasonably possible range. In regards to capitalised software: • For a sample of software costs capitalised during the year, we compared the amount capitalised to relevant supporting documentation, such as invoices, and considered the appropriateness of the capitalisation in light of the requirements of Australian Accounting Standards. • We assessed how strategic changes implemented by the Group during the year impacted the recoverable amount of each item through its value in use by verifying whether capitalised items have been decommissioned and are no longer in use.
Current tax liabilities and deferred tax liabilities *(Refer to notes 1.g and 7 of the financial statements)* The Group was subject to taxation in each location in which it operated. The assessment of the amounts expected to be paid to tax authorities was considered initially by the Group at a local level and then reviewed by the Group, with consideration given to particular tax positions in certain jurisdictions. In some cases, the treatment of tax positions required judgement related to the determination of temporary and permanent differences, tax treatment for different locations as well as the impact of business combinations. We considered this to be a key audit matter due to the extent of judgement involved by the Group.	Our procedures included recalculating and evaluating the appropriateness of the analysis performed by the Group (which set out the basis for judgements made in respect of the ultimate amounts expected to be paid to tax authorities), in respect to our knowledge of the business, tax laws requirements and other evidence obtained. We used our understanding of the business, assisted by PwC tax specialists, and where applicable, read a risk-focused selection of correspondence with tax authorities to assess the completeness and quantum of the provisions for tax. We considered the likelihood of additional tax exposures occurring based on other audit evidence and our understanding of the Group. We assessed the appropriateness of the Group's disclosure in the financial report in light of the requirements of Australian Accounting Standards.

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Key audit matter	***How our audit addressed the key audit matter***
IT general controls The Group is dependent on its IT systems for the processing and recording of significant volumes of transactions. This was a key audit matter because a number of key financial controls are related to IT systems and automated controls. Access rights to technology are important because they are intended to ensure changes to applications and data are appropriately implemented and authorised. Ensuring staff have appropriate access to IT systems and that access is monitored are key controls in mitigating the potential for fraud or error as a result of underlying changes to an application or data.	We evaluated the design and implementation of IT general controls, which included assessing: • The technology control environment: the governance processes and controls used to monitor and enforce control consciousness throughout the Group's technology teams. • Change management: the processes and controls used to develop, test and authorise changes to the functionality and configurations within systems. • Security: the access controls designed to enforce segregation of duties or evaluate that data is only changed through authorised means. • IT operations: the controls over key operations are used to assess that any issues that arise are managed appropriately. We noted design issues with the controls managing and monitoring access which impact our ability to rely on the key financial systems relevant to our audit approach. We carried out further independent tests of detail to audit the accuracy of selected calculations, the correct generation of certain reports, and to assess the correct operation of selected automated controls and technology dependent manual controls.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:
http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 41 to 61 of the directors' report for the year ended 30 June 2019.

In our opinion, the remuneration report of FlexiGroup Limited for the year ended 30 June 2019 complies with section 300A of the *Corporations Act 2001*

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of *the Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

Rob Spring
Partner

Sydney
27 August 2019

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Shareholder Information.

The shareholder information set out below was applicable as at 20 August 2019.

A. Distribution of equity securities

Class of equity security

	Ordinary Shares		Options	
A$m	No. of holders	No. of shares	No. of holders	No. of shares
1 – 1,000	2,435	1,254,793	–	–
1,001 – 5,000	3,780	10,476,276	–	–
5,001 – 10,000	1,672	12,650,684	–	–
10,001 – 50,000	1,627	34,193,637	–	–
50,001 – 100,000	198	13,860,956	–	–
100,001 and over	127	321,954,799	–	–
Total	**9,839**	**394,391,125**	**–**	**–**

There were 811 holders of less than a marketable parcel of ordinary shares.

B. Equity security holders

The names of the 20 largest holders of quoted equity securities are listed below:

	Ordinary Shares	
	Numbers held	Percentage of issued shares %
The Abercrombie Group Pty Ltd	90,766,593	23.01
HSBC Custody Nominees (Australia) Limited	61,972,842	15.71
J P Morgan Nominees Australia Pty Limited	46,477,539	11.78
Citicorp Nominees Pty Limited	34,780,841	8.82
BNP Paribas Noms Pty Ltd	19,038,978	4.83
National Nominees Limited	15,037,644	3.81
State Street Australia Ltd	10,056,974	2.55
Tamorer Pty Ltd	8,045,578	2.04
Behan Superannuation Pty Ltd	4,710,000	1.19

	Ordinary Shares	
	Numbers held	Percentage of issued shares %
Mr Brendan Charles Behan & Mrs Dawn Helen Behan	2,660,000	0.67
Investment Op No.1 Pty Ltd	2,011,395	0.51
Brazil Farming Pty Ltd	1,692,466	0.43
S M & R W Brown Pty Ltd	1,181,110	0.30
Mr Louis Pierre Ledger	1,000,000	0.25
Timsim Holdings Pty Ltd	870,000	0.22
CS Third Nominees Pty Limited	707,159	0.18
Pacific Electronics Super Pty Ltd	641,815	0.16
Mr Dennis John Banks	572,871	0.15
Sandhurst Trustees Ltd	526,940	0.13
Mr Peter Raymond Davies	500,000	0.13
Total	**303,250,745**	**76.89**

Unquoted equity securities

	Number on issue	Number of holders
Options and performance rights issued under the FlexiGroup Limited Long-term Incentive Plan to take up ordinary shares	2,182,610	7

The Company has no other unquoted equity securities.

C. Substantial holders

Substantial holder in the Company is set out below:

	Number held	Percentage %
The Abercrombie Group	90,766,593	23.01

D. Voting rights

The voting rights attaching to equity securities are set out below:

A. ORDINARY SHARES

On a show of hands, every member present at a meeting in person or by proxy and entitled to vote shall have one vote and upon a poll, each share shall have one vole.

B. OPTIONS, PERFORMANCE RIGHTS AND SUBORDINATED PERPETUAL NOTES

No voting rights.

Corporate Directory.

Directors

Andrew Abercrombie
(Chair)

Christine Christian
(Deputy Chair)

Rajeev Dhawan

Jodie Leonard

Carole Campbell

John Wylie AM

Secretary

Isobel Rogerson

Notice of Annual General Meeting

The Annual General Meeting of FlexiGroup Limited will be held at the Melbourne offices of :

PricewaterhouseCoopers
Level 19
2 Riverside Quay
Southbank VIC 3006
Australia

at 4.00pm
on 15 November 2019

Principal registered office in Australia

Level 7
179 Elizabeth Street
Sydney NSW 2000
Australia

Share Register

Link Market Services Limited
Level 12
680 George Street
Sydney NSW 2000
Australia

Auditor

PricewaterhouseCoopers
One International Towers
Watermans Quay
Barangaroo NSW 2000
Australia

Solicitors

King & Wood Mallesons
Level 60
Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000
Australia

Bankers

Australia and
New Zealand
Banking Group

Australian Securities Exchange listing

FlexiGroup Limited shares are listed on the Australian Securities Exchange under the code FXL.

Website

flexigroup.com.au

flexigroup