FlexiGroup Limited and its controlled entities

2016 Annual Report

ABN 75 122 574 583

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FLEXIGROUP

Your Directors present their report on the consolidated entity (referred to hereafter as the "Group") consisting of FlexiGroup Limited ("the Company") and the entities it controlled at the end of, or during, the year ended 30 June 2016.

Directors

The following persons were directors of FlexiGroup Limited during the year and up to the date of this report, except as otherwise stated:

Andrew Abercrombie (Chairman)
Symon Brewis-Weston (appointed on 22 February 2016)
Rajeev Dhawan
R John Skippen
Chris Beare (resigned on 10 August 2015)
Tarek Robbiati (resigned on 7 August 2015)
Anne Ward (resigned on 10 August 2015)

Company secretaries

Matthew Beaman (appointed on 22 February 2016)
Julianne Lyall-Anderson (resigned on 22 February 2016)

Principal activities

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

- Lease and rental financing services
- No interest ever loans
- Interest free cards

During the year, the Group acquired Fisher & Paykel Holdings Limited (F&P Finance), a leading provider of non-bank consumer credit in New Zealand from AF Investments Limited. This acquisition will enable the Company to enhance the scale of FlexiGroup's New Zealand operations, provide access to new industry channels both in New Zealand and Australia and opportunities for customer growth. Other than the acquisition of F&P Finance, there were no other significant changes in the nature of activities that occurred during the year. Also, refer below to the Key Developments section of the Operating and Financial Review.

OPERATING AND FINANCIAL REVIEW

The Board presents its 2016 Operating and Financial Review, which is designed to provide shareholders with a clear and concise overview of FlexiGroup's operations, financial position, business strategies and prospects for future financial years. The review complements the financial report.

FLEXIGROUP'S OPERATIONS

Business model

FlexiGroup is a diversified financial services group providing no interest ever, leasing, vendor finance programs, interest free and Visa / Mastercards, managed print services, lay-by and other payment solutions to consumers and businesses.

Through our network of over 20,000 merchant, vendor and retail partners the Group has extensive access to four key markets, Business to Consumer, Business to Business, Retail to Consumers (and small business customers) and online. Our success as a business is linked to the success of our merchant, vendor and retail partners. FlexiGroup leverages its core strengths, which include a highly developed marketing and sales function, a highly efficient call centre and strong funding sources to increase our volumes and drive value for the business.

Business model (continued)

FlexiGroup primarily operates through five core business areas, which span:

- No Interest Ever products and cheque guarantee services offered through diverse merchants by Certegy.
- The Interest Free Cards business in Australia offers personal finance products, which include in store finance or a Visa card tailored to suit the needs of the Australian market.
- The Australia Leasing business offers leasing products through key partners including major Australian and Ireland retailers. This includes larger sized commercial transactions through vendor programs and direct to medium and large businesses.
- The New Zealand Leasing business offers leasing products primarily to small and medium sized businesses and the education sector through the Ministry of Education contract.
- The New Zealand Cards business offers non-bank consumer credit by Fisher & Paykel Finance through Brands including Q Card and Farmers Finance Card.

FlexiGroup operates predominantly within the Australia and New Zealand markets within a diverse range of industries including home improvement, solar energy, print equipment, fitness, IT, electrical appliance, navigation systems, trade equipment, point of sale systems and education.

Receivables origination volumes are a key driver of profitability as new receivables create an interest income stream that is recognised in future years as customers pay down their debt. FlexiGroup targets receivables growth through its sales structures and also through its vendor and retail partnerships. Profitability is also impacted by the level of impairments and controlling cost of funds and operating expenses.

2016 Operating Results

The table below shows the key operational metrics for the 2016 financial year for FlexiGroup and its segments:

	No Interest Ever		Interest Free Cards		Australia Leasing		New Zealand Leasing		NZ Cards		Unallocated		Group	
Summary of Results	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
	$m	$m	**$m**	$m	**$m**	$m	**$m**	$m	**$m**	$m	**$m**	$m	**$m**	$m
Net portfolio income	**97.3**	93.4	**39.4**	33.6	**124.2**	130.6	**31.0**	18.4	**29.5**	-	**(4.0)**	(2.8)	**317.4**	273.2
Operating expenses	**(27.1)**	(29.7)	**(10.9)**	(9.1)	**(91.8)**	(61.5)	**(14.6)**	(8.3)	**(13.1)**	-	**-**	-	**(157.5)**	(108.6)
Impairment losses on loans & receivables	**(19.9)**	(14.4)	**(8.5)**	(6.7)	**(45.0)**	(22.4)	**(1.2)**	(1.0)	**(4.0)**	-	**-**	-	**(78.6)**	(44.5)
Amortisation of acquired intangible assets	**-**	(0.1)	**(0.7)**	(2.1)	**(8.1)**	(5.0)	**(0.9)**	-	**(1.9)**	-	**-**	-	**(11.6)**	(7.2)
Profit before tax	**50.3**	49.2	**19.3**	15.7	**(20.7)**	41.7	**14.3**	9.1	**10.5**	-	**(4.0)**	(2.8)	**69.7**	112.9
Income tax (expense) / benefit	**(15.1)**	(14.8)	**(5.9)**	(5.2)	**6.7**	(8.8)	**(3.5)**	(2.2)	**(2.9)**	-	**1.2**	0.8	**(19.5)**	(30.2)
Profit after tax	**35.2**	34.4	**13.4**	10.5	**(14.0)**	32.9	**10.8**	6.9	**7.6**	-	**(2.8)**	(2.0)	**50.2**	82.7
Adjustments for underlying profit	**0.2**	-	**0.6**	1.8	**43.4**	5.5	**0.9**	0.1	**1.7**	-	**-**	-	**46.8**	7.4
Cash NPAT (i)	**35.4**	34.4	**14.0**	12.3	**29.4**	38.4	**11.7**	7.0	**9.3**	-	**(2.8)**	(2.0)	**97.0**	90.1
Basic earnings per share (cents)													**15.7**	26.4
Cash earnings per share (cents)													**28.0**	28.7
Volume ($)	**535**	552	**332**	237	**246**	285	**101**	62	**136**	-	**-**	-	**1,350**	1,136
Closing receivables	**470**	478	**311**	232	**492**	552	**201**	166	**620**	-	**-**	-	**2,094**	1,428

(i) Cash NPAT reflects the reported net profit after tax adjusted for items highlighted in Note 3 Segment Information on page 67. The analysis of results below is primarily based on Cash NPAT to align the information that is given to users of financial reports to the way the Directors view the business and to assist better understanding of the Group's performance. The Directors believe that Cash NPAT is the most appropriate measure of maintainable earnings of the Group and therefore best reflects the core drivers and ongoing influences upon those earnings. Cash NPAT is used by the Directors for purposes of providing market guidance to shareholders and the market, and is calculated on a consistent basis each year.

2016 Operating Results (continued)

FlexiGroup recorded a statutory profit of $50.2m, a decrease of 39% year on year. Cash NPAT was $97.0m, an increase of 8% year on year. The decrease in statutory profit was driven by non-recurring expenses relating to impairment of goodwill and IT software, business acquisition costs and one-off receivables provisioning that were incurred in the current year. Cash NPAT increase primarily reflects the impact of the F&P Finance acquisition.

Cash EPS decreased by 2% to 28.0 cents per share on the prior comparative period. EPS has been impacted by the timing of the capital raising in November 2015 to fund the acquisition of F&P Finance, which was consolidated effective 1 March 2016.

The key drivers of the Statutory Profit and Cash NPAT changes in the financial year were:

- Net portfolio income increased by 16% to $317.4m, underpinned by a 47% increase in receivables primarily resulting from the acquisition of F&P Finance on 29 February 2016. Increases in receivables in the Interest Free Cards and NZ Leasing businesses were offset by a decrease in receivables in other segments, due a higher mix of consumer.
- Impairment losses increased by $34.1m to $78.6m. The biggest factor contributing to the increase was the additional provision of $23.8m recognised against major single exposures in the Enterprise portfolio and other one-off provisions that were recognised across other receivables portfolios and enhancements made to our collective provision models. Excluding these one-off amounts and when measured as a percentage of average receivables, impairment losses increased to 3.5% from 3.1% in the prior year.
- Operating expenses increased by 45% to $157.5m. However, excluding the impairment of goodwill of $8.5m and software one-off expenses of $17.6m incurred in the current year and the acquisition costs associated with the F&P Finance business of $7.4m, expenses increased by 14%. This was driven by the full year consolidation of TRL and four months operating costs associated with the F&P Finance business of $13.1m. Excluding F&P Finance operating costs, total operating expenses increased by 4%.
- Sales volume grew by 19% to $1,350m, driven by the volume from F&P Finance. The New Zealand Leasing and the Australian Cards businesses continue to drive the volume growth of the Group.

Further details on operating results are provided in the segment analysis below.

Key developments *(incorporating significant changes in the state of affairs)*

On 18 March 2016, the Group completed the acquisition of 100% (consolidated effective 1 March 2016) of the issued share capital of Fisher & Paykel Finance Holdings Limited (F&P Finance) from AF Investments Limited. The acquisition was completed for a consideration of $284.9m, consisting of cash, equity instruments and a deferred cash component. F&P Finance is a leading provider of non-bank consumer credit in New Zealand, which expands the distribution network of the Group's existing business across Australia and New Zealand and allows synergies to be shared with the Australia cards business, driving growth in the Group cards business.

On 31 May 2016, the Group announced that it would be discontinuing non-core business units of Blink, Think Office Technology (TOT) and Flexi Enterprise through divestment or write-off of associated assets. As a result, the Company has written off software assets of $12.3m, impaired TOT goodwill amounting to $8.5m and increased the provision on receivables by $16.7m. All amounts are post tax.

Segment results analysis

No Interest Ever (Certegy)

Certegy's Cash NPAT is $35.4m, an increase of 3% on the prior year, driven by:

- Net portfolio income increased by 4% to $97.3m, which was primarily driven by a small increase in fee income and a reduction in funding costs. VIP loyalty program initiatives continue to contribute significantly to volume growth, which demonstrates strong customer advocacy of the product.
- Sales volume decreased by 3% to $535.0m. This decrease was impacted by volume lost as a result of several merchants who ceased trading in the period, however solar volumes remained stable and market share was increased in this sector. Expansion into the New Zealand market was suspended during the year given the product and merchant synergies resulting from the acquisition of F&P Finance with resulting volume impact.
- Impairment losses of $19.9m are reflective of the impact of the cessation of the New Zealand operations and a general increase in losses. The NZ operations were discontinued due to the acquisition of F&P Finance, as the two products are targeted at a similar consumer base.

Segment results analysis (continued)

No Interest Ever (Certegy)

- Operating expenses decreased by 9% to $27.1m, as a result of ceasing operations in New Zealand, removal of some sales support costs as volumes declined, more effective marketing activities through the use of electronic communications and increased digitisation of business processes.

Interest Free Cards

- Interest Free Cards' Cash NPAT is $14.0m, an increase of 14% on prior year, driven by:
- Strong uplift in new customer acquisition via retail partners and ongoing customer engagement focused on delivering card activation and spend.
- Number of new accounts acquired up 16% on prior year due to increased finance penetration through existing retail partners and increased distribution channels due to the signing of new retailer relationship agreements.
- Enhanced card propositions delivered successfully and increased focus on customer marketing have driven a 33% increase in card spend on prior year.
- Total receivables increased by 34% to $311.0m on prior year.
- Net portfolio income increased by 17% to $39.4m due to a 15% increase in interest bearing receivables and an 18% increase in overall customer numbers.
- The rate of impairment losses remained steady at 3% and is in line with expectations and prior year.
- Operating expenses increased by 20% on prior year to $10.9m and reflects the growth in the size of the overall cards portfolio and the increase in new business activity.

Australian Leasing

Cash NPAT is $29.4m, a decrease of 23% on prior year, driven by:

- Net portfolio income decreased by 5% to $124.2m, which is primarily driven by an 11% drop in receivables. This has been partly offset by improved product yield mix, improved funding costs and stronger fee income.
- Operating expenses increased by 49% to $91.8m, driven by write-downs on systems primarily within the Enterprise portfolio and the loss on the disposal group held for sale of $8.5m relating to the Think Office Technology business.
- Impairment losses increased by 101% to $45.0m, driven by additional provisions in the Enterprise portfolio.
- Sales volume decreased by 14% to $246.0m, primarily due to the reduction in the Enterprise volumes.
- Closing receivables were $492.0m, an 11% decrease on prior period, predominately impacted by the lower volume levels.

New Zealand Leasing

New Zealand Leasing's Cash NPAT is $11.7m, an increase of 67% on the prior year, driven by:

- Net portfolio income increased by 68% to $31.0m, which was mainly due to strong end of term performance, particularly from the acquired Equico portfolio and an increase in receivables.
- Full year of contribution from Telecom Rentals Limited (TRL) acquisition that was acquired in May 2015.
- Operating expenses grew by 76% to $14.6m. This was primarily due to the full year impact of TRL expenses and additional costs required to drive volume and receivables growth.
- Impairment costs have increased by 20% to $1.2m, as a consequence of receivables growth.
- Sales volumes grew 63% to $101.0m, largely due to the full year contribution from TRL and focus in the lower risk Education and SME segments.
- Closing receivables of $201.0m represents growth of 21%. This is in line with strong volume performance and integration of the Leasing business acquired as part of F&P Finance.

Segment results analysis (continued)

New Zealand Cards (Fisher & Paykel Finance)

New Zealand Cards (F&P Finance) whose acquisition was completed on 18 March 2016, and consolidated effective 1 March 2016 (as governed by the terms of the completion arrangements), has contributed Cash NPAT of $9.3m for the four months ended 30 June 2016. The result was driven by:

- Net Portfolio income continued to grow over the four-month period due to the increase in card volume, improved product yield mix and lower cost of funds.
- Operating expenses have included synergies that have begun to be realised.
- Impairment losses have remained stable over the four-month period, with delinquency levels showing improvement.
- Closing Receivable balance of $620.0m has been driven by organic growth in existing channels and acquisition of new merchant channels for our cards (food and fuel).
- Volume growth of $136.0m over the period has been driven by the on boarding of new merchant partnerships and securing exclusivity partnership agreements with a number of key merchants.

Financial position and cash flows

Set out below is a summary of the financial position of the Group:

	June 2016 $'m	June 2015 $'m
Summary financial position		
Cash at bank	**174.4**	130.3
Inventories	**0.9**	4.2
Receivables and customer loans	**2,082.3**	1,451.5
Other assets	**22.3**	5.2
Goodwill and intangibles	**399.7**	195.0
Total assets	**2,679.6**	1,786.2
Borrowings	**1,948.5**	1,274.5
Other liabilities	**118.7**	101.2
Total liabilities	**2,067.2**	1,375.7
Equity	**612.4**	410.5
Gearing (i)	**67%**	21%
ROE (ii)	**19%**	23%
Cash inflows from operating activities	**147.4**	121.2

(i) Gearing is recourse borrowings as a percentage of equity excluding intangible assets.
(ii) Calculated based on Cash NPAT as detailed on page 3, as a percentage of average equity.

Receivables

Receivables (including other debtors) increased by 43% to $2,082.3m compared to June 2015. This includes the contribution from the F&P Finance acquisition. The Interest Free Cards and New Zealand segments continue to drive Group receivables growth, offsetting declines in the Australian Leasing segment.

Return on equity ('RoE')

The Company has continued to achieve consistently high returns underpinned by growth in cash profitability. ROE of 19% (2015: 23%) has reduced due to the timing of the F&P Finance acquisition with further consolidation expected as the Company continues to integrate F&P Finance. The Company is focused on long-term sustainability of earnings to drive ROE growth.

Gearing

The increase in recourse corporate debt gearing to 67% (2015: 21%) is driven by an additional $87.5m in debt capital raised to fund the Fisher & Paykel acquisition. A significant portion of the net assets acquired included provisionally booked intangible assets, which drove up the leverage ratio.

The Company continues to optimise its capital structure to ensure that its sources of funding maximise shareholder value. Although the leverage ratio has increased after the completion of the F&P Finance deal, the increased leverage will be well supported by significant Cash NPAT contribution and strong operating cash flow from the F&P Finance business and will remain within the Company's long-term financial strategy. The Company continues to fund value accretive acquisitions through a combination of debt, equity and its own cash resources. Non-recourse borrowings are secured against the Company's receivables and the contract terms are matched, with future interest cash flows generally fixed through use of interest rate swaps.

Cash flows

Cash inflows from operating activities are up on prior year, with an increase of 22% to $147.4m (2015: $121.2m). The increase in cash inflows from operating activities is mainly driven by increased cash profit and also enhanced working capital management practices across the Company. F&P Finance generated healthy cash flows, which contributed to the increase.

Cash outflows from investing activities increased by 176% to $269.3m (2015: $97.6m), primarily driven by the $185.3m net cash spend on the acquisition of F&P Finance. Net investment in receivables increased by $8.9m during the year.

Cash inflows from financing activities increased to $164.8m (2015: $0.6m), driven mainly by equity and debt capital raised to fund the acquisition of F&P Finance.

Funding

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

During the 2016 financial year the Group completed the $260.0m Flexi ABS Trust 2016-1 in April 2016.

At balance sheet date the Group had $2,271.9m of wholesale debt facilities, with $443.5m undrawn and no indications that facilities will not be extended. Wholesale facilities have no bullet repayment on maturity, with outstanding balances repaying in line with receivables if availability periods were not to be extended. These facilities are secured against underlying pools of receivables with no credit recourse back to FlexiGroup.

The Group's $187.5m (2015: $100.0m) of corporate debt facilities, increased to fund the acquisition of F&P Finance, were drawn to $142.0m (2015: $45.0m) at balance date. These facilities are secured by the assets of the Group, and with a maturity date in 2019.

BUSINESS STRATEGIES AND PROSPECTS

FlexiGroup will continue with its growth strategy that is aimed at creating and maximising shareholder returns and value.

FlexiGroup continues to be focused on growing receivables and profitability through targeting lower risk receivables in the No Interest Ever, Interest Free Cards segments and also expanding its footprint in New Zealand. The New Zealand business has become a growth engine for the Company following the acquisition of TRL and F&P Finance. The Company will consolidate growth in the Interest Free Cards segment through utilising its available scale as a result of new channels after the acquisition of F&P Finance and on boarding of other merchants and partners. The Company will also continue to benefit from accessing new retailer relationships and enhancement of distribution channels. The F&P Finance acquisition will also drive scale for the New Zealand business, while allowing the Company to consolidate the existing Interest Free Cards business through leveraging F&P Finance expertise.

BUSINESS STRATEGIES AND PROSPECTS (continued)

The Flight Centre agreement reported to the market on 8 August 2016 is expected to generate significant additional volumes for the Group and has the potential to more than double the Group's card business' revenue and profitability over the next several years.

The Company is leveraging on its core competencies to drive future growth, which include:

- Strong channel relationships
- Digital origination capabilities and depth in customer data
- Proven credit algorithms; and
- Wide range of product offerings and diversified funding sources

As part of the long-term strategy, The Company is exiting some non-core business areas and redeploying capital to core and strategic business units. This will allow the Company to focus on its core competencies and drive future growth. The Company is also transitioning the Group from being Australia focused to being a trans-tasman organisation.

The Company's growth is largely driven by:

- quality of execution of strategy, underpinned by wholesale improvements in core financial systems and online capability, and
- expanding product offerings and realignment of existing products to improve customers' value proposition.

Volume

The Company will continue to grow volume by leveraging existing merchant relationships and pursuing new sales channels in the future. The Interest Free Cards business is driving Group volume growth through new channels and products. The New Zealand business will benefit from the opportunities provided by the acquisitions of F&P Finance and TRL.

Additionally, the roll out of new products is expected to drive long-term volume growth. The Company will continue to drive cost savings through rationalisation of IT and operational platforms in the Interest Free Cards businesses and remove duplication.

Acquisitions

As part of the Company's growth strategy, FlexiGroup continues to look at potential acquisition targets that suit its diversification strategy and considers targets that are strategic and value accretive in the medium to long term.

Innovation

The Company continues to identify underserviced markets as part of its overall growth strategy and continues innovating new products to service those markets.

Prospects for future financial years

The business strategies put in place will position the Company for growth in the near future. FlexiGroup has invested in its capital program to facilitate generating significant value for its shareholders in future years, subject to macro-economic conditions remaining stable. The Group will continue to selectively acquire Consumer and Commercial finance businesses that provide additional scale in existing segments or a highly scalable platform in a new segment of the market.

The Company faces a number of risks including inability to achieve volume growth targets, availability and cost of funds, Australia and New Zealand macroeconomic risks leading to deterioration of credit quality or impairments and strategy execution risk, which may affect its ability to achieve its targets.

Environmental regulation

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

Shareholder returns

	Year ended 30 June					
	2016	2015	2014	2013	2012	2011
TSR (%)	**(16%)**	(14%)	(26%)	92%	18%	76%
Dividends per share (cents)	**14.50**	17.75	17.80	14.50	12.50	11.50
Cash EPS (cents)[1]	**28.01**	28.71	27.10	24.30	21.50	19.30
Share price (high)	**$3.12**	$4.00	$4.99	$4.74	$2.65	$2.39
Share price (low)	**$1.71**	$2.70	$2.98	$2.55	$1.60	$1.17
Share price (close)	**$1.74**	$2.91	$3.17	$4.36	$2.60	$2.07

[1] Prior year restated for impact of bonus shares in rights issue conducted during the period.

Earnings per share

	2016 cents	2015 cents
Basic earnings per share	**14.5**	26.4
Diluted earnings per share	**14.5**	26.3
Cash earnings per share[1]	**28.0**	28.7

[1] Prior year restated for impact of bonus shares in rights issue conducted during the period.

Dividends on ordinary shares

	2016		2015	
	cents	**$m**	cents	$m
Final dividend for the year - payable October	**7.25**	**27.0**	9.00	27.4
Dividends paid during the year				
Interim dividend for the year - paid in April	**7.25**	**27.0**	8.75	26.7
Final dividend for 2015 (PY:2014) - paid in October	**9.00**	**27.3**	8.50	25.8
Total dividends paid during the year	**16.25**	**54.3**	17.25	52.5
Total dividends declared for the financial year	**14.50**	**54.0**	17.75	54.1

The final dividend for 2016 has a record date of 9 September 2016 and is expected to be paid on 14 October 2016.

Matters subsequent to end of the financial year

On 1 August 2016, the Company completed the acquisition of a 15% equity interest in Kikka Capital for $2m, an online non-bank lender to Australian small and medium businesses. The Company has also agreed to provide a future funding line to Kikka and the Company has an option to increase its investment in the future.

On 8 August 2016, The Company signed a significant new commercial agreement with Flight Centre Travel Group Limited to provide interest free finance to approved customers across Australia. This agreement is expected to generate significant volumes for the cards business.

No other matter or circumstance has arisen since 30 June 2016 that has significantly affected, or may significantly affect:

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

Information on Directors

ANDREW ABERCROMBIE (Age 60)
Founding Director, Chairman, Non-Independent, Non-Executive
BEc, LLB, MBA

Experience
Andrew became a Director and CEO of the original Flexirent business in 1991. He was appointed a Director of the public Company for the IPO in November 2006. Andrew is an experienced commercial and tax lawyer and was a founding partner in a legal firm operating in Sydney and Melbourne. Following several years in property investment and tax consulting, he co-founded the Flexirent business in 1991 and was Chief Executive Officer until 2003. Subsequently, Andrew was appointed as Chairman on 10 August 2015.

Other current directorships
None

Information on Directors (continued)

ANDREW ABERCROMBIE (continued)

Former directorships in last three years
None

Special responsibilities
Member of the Nomination Committee and Remuneration Committee

Interests in share and options
90,000,000 ordinary shares in FlexiGroup Limited

SYMON BREWIS-WESTON (Age 47)
Non-Independent, Executive, Chief Executive Officer (appointed on 22 February 2016)

Experience
Symon's appointment as CEO of FlexiGroup was announced on 24 November 2015 and he commenced on 8 February 2016. Prior to joining FlexiGroup, Symon has worked in banking for 15 years of which he has spent 13 years in senior leadership positions at the Commonwealth Bank of Australia (CBA). Symon was Chief Executive Officer of Sovereign, a subsidiary of CBA for 3 years. Prior to that, he was Executive General Manager of Corporate Financial Services at the CBA.

Other current directorships
None

Former directorships in last three years
None

Special responsibilities
Chief Executive Officer

Interests in shares and options
50,000 ordinary shares in FlexiGroup Limited

RAJEEV DHAWAN (Age 50)
Independent, Non-Executive
BCom, ACA, MBA

Experience
Rajeev represented Colonial First State Private Equity managed funds ("CFSPE") on the Board of Flexirent Holdings Pty Limited from February 2003 to December 2004. Upon CFSPE's exit from Flexirent Holdings in December 2004, Rajeev continued in an advisory capacity to the Flexirent business. Currently a partner of Equity Partners, Rajeev has 23 years' venture capital and private equity experience and has been a Director of a number of listed and unlisted portfolio companies.

Other current directorships
None

Former directorships in last three years
None

Special responsibilities
Chair of Remuneration Committee, Member of Audit & Risk Committee and Nomination Committee.

Interests in shares and options
275,371 ordinary shares in FlexiGroup Limited

Information on Directors (continued)

R JOHN SKIPPEN (Age 68)
Independent, Non-Executive, ACA

Experience
John was appointed a Director of the Company in November 2006. John was the Finance Director and Chief Financial Officer of Harvey Norman Holdings Limited for 12 years. John was involved in the establishment of the original agreement between Flexirent Holdings Pty Limited and Harvey Norman in 1995. John has over 35 years' experience as a chartered accountant and has extensive experience in mergers and acquisitions, strategy, international expansion, property and taxation.

Other current directorships
Super Retail Group Limited
Slater & Gordon Limited

Former directorships in last three years
Emerging Leaders Investment Limited

Special responsibilities
Chair of Audit & Risk Committee, Chair of the Nomination Committee, Member of Remuneration Committee

Interests in shares and options
145,000 ordinary shares in FlexiGroup Limited

Company secretaries

Matthew Beaman LLB (Hons), B.Comm, was appointed as Company Secretary on 22 February 2016 and prior to that, he was and remains Group General Counsel. Matt joined FlexiGroup in September 2013, bringing more than 15 years' private practice and in-house legal experience in banking and finance with a focus on small and large-ticket asset finance transactions. Prior to joining FlexiGroup, Matt held roles in private-practice environments with leading domestic and international law firms. Matt was the Chief Legal Counsel for CIT Group Asia-Pacific from 2005–2009. From October 2009, Matt was Deputy General Counsel of Lloyds Banking Group Australia (Lloyds International) and was elevated to the position of General Counsel in March 2012.

Julianne Lyall-Anderson resigned as Company Secretary on 22 February 2016.

Meetings of Directors

	FlexiGroup Limited							
	Board meetings		Audit & Risk Committee		Nomination Committee*		Remuneration Committee	
	A	B	A	B	A	B	A	B
A Abercrombie	9	9	+	+	3	3	3	3
S Brewis-Weston	3	2	+	+	+	+	+	+
R Dhawan	9	9	3	3	3	3	3	3
R J Skippen	9	9	3	3	3	3	3	3

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.

* – A number of additional informal meetings have been held with external recruitment firms and prospective candidates for Director during the year.

Message from the Remuneration Committee Chairman

Dear Shareholder,

The 2016 financial year was another year the Group continued to deliver against its strategy in challenging market conditions. The 2016 financial year has built on the performance of 2015, balancing a strong focus on business results for this year in parallel with delivering core IT projects and the completion of a significant acquisition.

Significant improvements have been made across the organisation to ensure greater return on investment for shareholders in the long term. These improvements have been delivered via the implementation of technology and infrastructure that improves productivity, and enhances the customer experience. The investment in customer experience is reflected in the positive trend in our Net Promoter Scores (NPS) across the majority of our products during the last twelve months.

While the 2016 financial year has set a strong platform to support future growth, the achievement this year has delivered in line with market guidance. As a result, remuneration for both the Executive Team and employees across the organisation was set at an average increase in line with CPI.

Awards under the Annual Short Term Incentive (STI) Scheme were determined based on a scorecard containing both financial and non-financial metrics. These metrics included stretch goals. Further details about the STI plan for this year have been included in this report. The plan is consistent with prior year. This year, the maximum payments made to any Executive under the STI scheme was 56%.

Details on the Long Term Incentive Plan (LTIP) and the outcomes are contained on pages 16-29 of the Remuneration Report.

Following feedback received from various stakeholders after the 2014 AGM, the Board has taken advice from Mercer (Australia) Pty Ltd, specialists' remuneration consultants, regarding the Company's remuneration arrangements. In particular, the structure of the LTIP, along with the terms and conditions of the existing Performance rights, has been reviewed. The Board carefully considered the recommendations made by Mercer, which included proposed amendments to conditions of existing Performance rights as set out in the 2015 Remuneration report. The recommendations were accepted as the Board considered that the implementation of the proposed amendments will better align the existing performance rights to the Company's remuneration strategy and the ongoing generation of shareholder value, and incentivise appropriately for future strong performance.

The amendments resulted in one-year performance hurdles with sales restrictions being transitioned to two-year hurdles and then 3 year hurdles with gradually reducing sales restrictions. The amendments that have been made are contained in the plan documented on pages 16 to 19 in the Remuneration report.

The Board is committed to ensuring the Remuneration Report presents an accurate and concise view of Executive remuneration, complying with requirements under the *Corporations Act 2001*. We are confident that FlexiGroup's remuneration policies support the Group's strategic and financial goals and we will continue to monitor this alignment in the coming year.

Voting and comments made at the Company's 2015 Annual General Meeting

FlexiGroup received 78.5% of "yes" votes on its remuneration report for the 2015 financial year.

Thank you for your continued interest in FlexiGroup.
Yours sincerely,

Rajeev Dhawan
Remuneration Committee Chairman.

Remuneration Report

The directors present the Company's 2016 remuneration report, which sets out remuneration information for FlexiGroup Limited's Non-Executive Directors, Executive Directors and other key management personnel.

Directors and key management personnel disclosed in this report

Name	Position
Non-Executive and Executive Directors – see pages 9-11	

Other key management personnel ("KMP")

David Stevens	Chief Financial Officer
Rob May	General Manager – Certegy
Peter Lirantzis	Chief Operating Officer
Michael Burke (until 13 May 2016)	General Manager – Consumer and SME
Verity Gilpin (from 23 May 2016)	General Manager – Sales

Michael Burke resigned on 13 May 2016 and was replaced by Verity Gilpin on 23 May 2016.

SECTION A – GOVERNANCE AND PRINCIPLES OF REMUNERATION AT FLEXIGROUP

Remuneration Committee

The Remuneration Committee is responsible for reviewing and making recommendations to the FlexiGroup Board, on the remuneration philosophy, framework and policies for the Group. The Committee is responsible for making recommendations to the Board on remuneration policies and Directors and Executives' remuneration.

The Remuneration Committee undertakes the following activities for the Group:

- Reviews and provides recommendations to the Board on remuneration, recruitment and retention policies for Executives;
- Reviews and provides advice regarding the Key Performance Indicators (KPIs) for the Group and for individual Executives that underpin the Short Term Incentive program;
- Reviews and provides recommendations to the Board on remuneration policies for the broader organisation (Non-Executives);
- Reviews Remuneration Policies annually to ensure that the policies comply with the Group's objectives and risk management framework;
- Provides annual recommendations to the Board on the individual remuneration arrangements for the CEO, Executive Team and any other Key Management Personnel;
- Approves overall Group remuneration budgets and Short Term Incentive Scheme payments for Non-Executive Group employees; and
- Reviews and provides recommendations to the Board regarding remuneration for Non-Executive Directors.

The Remuneration Committee regularly reviews the Remuneration Framework to ensure that it adheres to the Group's overall risk management framework and that any risks identified are addressed in a timely manner.

The Remuneration Committee is made up of a majority of independent Non-Executive Directors and consists of the following members:

- Rajeev Dhawan (Chairman)
- John Skippen; and
- Andrew Abercrombie

Remuneration Report (continued)

Independent Remuneration Consultant

In consultation with external remuneration consultants, the Group aims to provide an Executive remuneration framework that is market competitive and complementary to the reward strategy of the organisation. During the year, FlexiGroup Limited's Remuneration Committee engaged the services of Mercer to continue and finalise their review of our Executive remuneration framework with a view to making recommendations for 2016 financial year. Mercer also provided advice in relation to the appointment of the new CEO.

Mercer was paid $14,000 to provide advice on Executive remuneration and CEO recruitment. Mercer confirmed that the recommendations were made free from undue influence by members of the Group's key management personnel. The following arrangements were made to ensure that the remuneration recommendations were free from undue influence:

- Mercer was engaged by, and reported directly to, the chair of the remuneration committee. The agreement for the provision of remuneration consulting services was executed by the chair of the remuneration committee and the chair of the Company.

As a consequence, the Board is satisfied that the recommendations were made free from undue influence from any members of the key management personnel.

Remuneration Strategy, Policy and Principles

The objective of our Remuneration policies is to attract, motivate and retain the most talented employees and become an employer of choice in the Australasian marketplace. We recognise that having the right people in place within the organisation is a key competitive advantage and determinant of the Group's success. As such, it is important to us that our market rates and benefits are competitive with similar sized organisations, while also ensuring that we retain our focus on managing our operational expenditures to drive the best possible outcome for our customers and shareholders.

We have a number of key principles that underpin our Remuneration Policy:

- To provide competitive remuneration packages that enable the Group to attract high calibre candidates who will make a positive impact on the performance of the Group;
- To ensure that our people are focusing on driving the short and long term goals of the Group, within the appropriate risk framework;
- All remuneration structures must be aligned to FlexiGroup's business strategy and reinforce our culture and values – payment of incentives must be directly linked to the achievement of specific, measurable strategic business objectives and reward must only be allocated where achievement against Key Performance Indicators (KPIs) can be demonstrated;
- Any decisions made regarding remuneration variations must be commercially responsible, and considerate of budget, as well as business requirements and shareholder interests;
- Our employees should be rewarded consistently for like work against market relativities, irrespective of gender, age or other irrelevant demographic factors – the key differentiator in pay for individuals should be performance.

Alignment to shareholders' interests is a key principle for the Group when considering Executive remuneration. When considering the design of the Executive Remuneration Framework and in particular, any incentive arrangements, the Board aims to ensure that all arrangements have profitability as a core component of plan design and focus on sustained growth in shareholder wealth as measured by growth in earnings per share and other financial and non-financial performance indicators.

This is balanced with a focus on ensuring that participant's interests are also represented in considering incentive design, by focusing on rewarding capability and experience while also providing recognition for participant contribution and effort.

SECTION B – EXECUTIVE REMUNERATION FRAMEWORK AT FLEXIGROUP

The remuneration framework in place for the Executive team (including the CEO) is consistent with the Group's Remuneration Policy, which is based on a Total Remuneration approach. This comprises of a mix of fixed and variable pay in the form of cash and performance rights. The framework aligns Executive rewards with achievement of strategic objectives and the creation of value for shareholders and conforms to market best practice for delivery of reward.

Remuneration Report (continued)

SECTION B – EXECUTIVE REMUNERATION FRAMEWORK AT FLEXIGROUP (continued)

Total Remuneration for our Executive team is comprised of three elements:

- **Fixed remuneration** – which includes cash salary and employer superannuation components. This amount takes into consideration a number of factors including the size and complexity of the role; the requirements of the role; the skills and experience the individual brings to the role; as well as the market relativity for like roles in the financial services industry.
- **Short Term Incentive** – this payment is a percentage of the fixed remuneration amount and is set against risk-adjusted financial targets and non-financial targets that support the Group's strategy. These targets are usually a mix of group and individual performance objectives for the year.
- **Long Term Incentive** – this is comprised of performance share rights, which vest over a fixed period if performance hurdles are achieved. The performance hurdles are a combination of earnings per share and total shareholder return targets set by the Board at inception of the incentive plans.

Fixed Remuneration

The Executive team 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). Any increases to Executive Remuneration need to be approved by the Board and come into effect from 1 July, following an annual performance review, which is conducted at the end of the financial year.

Remuneration is benchmarked against market data provided by remuneration consultants for companies that are similar to the Group in terms of industry, size and complexity. In line with our focus on driving a pay for performance culture, a key determinant of whether any increases to Fixed Remuneration will apply year to year is performance against specific financial and non-financial metrics that are set for each individual at the beginning of the financial year.

The fixed remuneration for KMPs is set out in page 27 of this report.

Short Term Incentive

The Executive team participate in a Short Term Incentive scheme that is based on performance against key financial and non-financial measures.

The STI opportunity for the CEO is fixed at 75% of fixed remuneration and Senior Executives range between 30% and 50% of fixed remuneration ('target') depending on role type. The Board has set the maximum opportunity available to the CEO and Senior Executives to 120% of target. In 2016, the maximum STI achieved against their target by any of the KMP was 56%.

The structure of the STI is designed to achieve alignment of organisational performance to our strategic goals. The STI contains both Corporate Shared Goals (based on the Group's strategic objectives) as well as individual goals that are aligned to the Group's strategic objectives but unique to each department. The Corporate Shared 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.

For the Corporate Shared Goals, there are three performance levels against which outcomes will be assessed to determine the amount of any STI payment:

- Gateway (a minimum performance outcome that must be achieved before any STI payment will be made regarding the measure);
- Budget (achievement of budget as determined through the business planning process for the relevant year);
- Guidance (achievement of guidance provided to the market); and
- Stretch (a stretch goal that that can only be achieved by outstanding business results).

For the 2016 financial year, the Executive team STI was weighted at 45% for the Corporate Shared Goals and 55% for the goals that their departments contribute to the Group's strategy. The goals were a mix of financial and non-financial goals, but all of the goals were linked to the Group's strategy. Payments are made in September, and payment amounts are recommended after the annual performance review process.

The maximum payment amount for the STI is capped at 125% and the final payment of the STI is at the discretion of the Board.

Remuneration Report (continued)

Long Term Incentive

Long-term incentives to the CEO and Senior Employees are provided via the FlexiGroup Long Term Incentive Plan ('LTIP'). Information on the plan is detailed in Section C of this report. The FlexiGroup LTIP is part of FlexiGroup's remuneration strategy and is designed to align the interests of FlexiGroup management and shareholders and 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 Company'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. The main difference between an option and a performance right is that an exercise price as determined by the Board is required to be paid to exercise a vested option, whereas a performance right has a nil exercise price unless otherwise determined by the Board. 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. Eligible persons may be invited to apply to participate in the LTIP. The Board may in its discretion accept such applications.

SECTION C – LINKING REMUNERATION TO PERFORMANCE (THE OPERATION OF INCENTIVE BASED PLANS AT FLEXIGROUP)

The remuneration framework is designed to attract and retain Executives by rewarding them for goals that are directly aligned to the Group's business strategy. All FlexiGroup incentives are linked to both short term and long-term performance goals, as outlined below.

Short Term Incentive Arrangements for 2016

Outlined below is the structure of the financial year 2016 Short Term Incentive scheme.

FY16 Short Term Incentive scheme

Corporate Shared Goals		
Financial measures (Cash NPAT, Operating cash flows, Receivables and Volumes)	40%	These measures represent the Company's key performance metrics. Receivables and volumes are key value drivers for the Company.
Engagement	5%	Our Engagement score for 2016 was derived from a survey undertaken by AON Hewitt. The target for 2016 was a stretch target requiring improvement against the 2015 survey and favourable performance against external benchmarks.
Individual Goals		
Individual Objectives	55%	Individual objectives are set at the beginning of the financial year and are aligned to the Group strategy. They are focused on Department contributions to the strategy as well as implementation of core Technology projects and other key activities aligned to shareholder returns.

The Board identified these measures, as they are a critical link between achieving the Group's strategic objectives and increasing shareholder value. The financial measures were set in order to support delivery of the 2016 forecast; and our engagement measure is included to ensure we drive productivity improvements via employee satisfaction.

Each of the Corporate Shared Goals within the STI plan operate independently from each other, however, given the importance of Cash NPAT for shareholders, a minimum threshold level of Cash NPAT performance must be delivered by the Group in order for any bonus to be paid to Executives. Failure to achieve the threshold will result in a nil payment to Executives, or payment of amounts determined at the Board's discretion.

Remuneration Report (continued)

FY16 Short Term Incentive scheme

Outlined below is the 2016 Short Term Incentive opportunity at target for each of the Executive Team as a percentage of their Fixed Remuneration.

Role	Opportunity
CEO	0 – 75%
GMs, COO, CFO	0 – 50%
Other Senior Executives	0 – 30%

Long Term Incentive Arrangements for 2016

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

The Performance Rights were allocated in 4 equal tranches. 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 Tranche 1 have lapsed, whilst the Performance Rights in Tranches 2, 3 and 4 remain on issue.

Tranche 1 performance rights had a minimum Cash EPS growth target of 7.5% and relative TSR conditions similar to those disclosed on page 18. These conditions were measured based on a performance period for financial year 1 July 2014 to 30 June 2015.

The Performance Periods applicable to each of the performance-based Vesting Conditions are as follows:

Tranche	Performance period	Testing date
2	2016 (1 July 2014 to 30 June 2016)	Results announcement date in 2016
3	2017 (1 July 2015 to 30 June 2017)	Results announcement date in 2017
4	2019 (1 July 2016 to 30 June 2019)	Results announcement date in 2019

The Performance Rights will be performance tested against the following performance-based Vesting Conditions:

Percentage of rights	Performance condition
40% of each Tranche of Performance Rights	Cash EPS growth targets for the relevant Performance Period are met
40% of each Tranche of Performance Rights	Relative TSR for the relevant Performance Period compared to the S&P/ASX 200 Index (excluding resources companies)
20% of each Tranche of Performance Rights	Volume growth targets for the relevant Performance Period are met

Cash EPS growth performance condition

The first performance-based Vesting Condition is based on growth on adjusted "Cash NPAT" earnings per share measure used by the Company to track earnings per share on an underlying performance basis. This adjusted "Cash NPAT" earnings per share measure ("Cash EPS") is calculated by the Company for a financial year as:

- the reported statutory net profit after tax for the financial year, after adding back the amount of intangibles amortisation recorded in the annual accounts and after adjusting for any material one-off income or expense items the Board believes are appropriate to reflect underlying recurring earnings;
- divided by the weighted average number of ordinary shares on issue during the year.

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

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

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

Remuneration Report (continued)

Cash EPS Growth target	Percentage of Performance Rights available in given year satisfying condition
Compound annual growth rate in Cash EPS less than 4.5%	Nil
Compound annual growth rate in Cash EPS of 4.5%	30%
Compound annual growth rate in Cash EPS greater than 4.5% but less than 6.0%	Pro-rata between 30% and 60%
Compound annual growth rate in Cash EPS of 6.0%	60%
Compound annual growth rate in Cash EPS greater than 6.0% but less than 7.5%	Pro-rata between 60% and 100%
Compound annual growth rate in Cash EPS equal to or greater than 7.5%	100%

Relative TSR performance condition

The second performance-based Vesting Condition for each tranche of Performance Rights relates to the Company's Total Shareholder Return ("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 Company 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 Company's shares in the period up to and including 1 July at the beginning of the relevant Performance Period, expressed as a percentage.

Relative TSR target	Percentage of Performance Rights available in given year satisfying condition
Less than 50th percentile of companies in S&P/ASX 200 Index (excluding materials and energy companies)	Nil
50th percentile of companies in S&P/ASX 200 Index (excluding materials and energy companies)	50%
Greater than 50th percentile but less than the 75th percentile of companies in S&P/ASX 200 Index (excluding materials and energy companies)	Pro rata between 50% and 100%
Greater than or equal to 75th percentile of companies in S&P/ASX 200 Index (excluding resources 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 Company's circumstances.

Volume Condition

The third performance-based Vesting Condition is based on Volume**.** The Volume Growth vesting condition will assess volume growth for the Company with respect to the Performance Period applicable to the relevant tranche of Performance Rights, based on performance indicators set by the Board from time to time.

Vesting Date and Expiry Date

Tranche	Vesting date	Expiry date
2	1 Sept 2016	15 Oct 2018
3	1 Sept 2017	15 Oct 2019
4	1 Sept 2019	15 Oct 2021

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

Remuneration Report (continued)

Disposal restriction

The CEO and Senior 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 Senior 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 2	33%	15 October 2016
	33%	15 October 2017
	33%	15 October 2018
Tranche 3	33%	15 October 2017
	33%	15 October 2018
	33%	15 October 2019
Tranche 4	60%	15 October 2019
	40%	15 October 2020

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 Company's or the employee's circumstances.

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

SECTION D – REMUNERATION OUTCOMES FOR 2016

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

STI performance outcomes

Name	Position	STI target $	STI outcome $
Symon Brewis-Weston*	Chief Executive Officer	222,115	125,000
David Stevens	Chief Financial Officer	287,500	50,000
Rob May	General Manager – Certegy	185,747	50,000
Peter Lirantzis	Chief Operating Officer	300,000	50,000
Michael Burke**	General Manager – Consumer and SME	172,500	-

*This is based on an STI target of $562,500, pro-rata for 8 February 2016 start date.
**Mr M Burke did not qualify for an STI due to departure before vesting date.

Remuneration Report (continued)

LTI performance outcomes

The Vesting conditions attached to LTI awards at grant date are chosen so as to align rewards to the CEO and Senior Executives with the generation of shareholder value. The following table provides the Group's TSR, dividend, share price and Cash earnings per share over the last 5 years.

	Years ended 30 June				
	2016	2015	2014	2013	2012
TSR	**(16%)**	(14%)	(26%)	92%	18%
Dividends per share (cents)	**14.50**	17.75	16.5	14.5	12.5
Cash EPS (cents)[1]	**28.0**	28.7	27.1	24.3	21.5
Share price – high	**$3.12**	$4.00	$4.99	$4.74	$2.65
Share price – low	**$1.71**	$2.70	$2.98	$2.55	$1.60
Share price – close	**$1.74**	$2.91	$3.17	$4.36	$2.60

[1] Prior period restated for impact of bonus shares in right issue conducted during the period

The vesting outcomes for awards made to Senior Executives under FlexiGroup LTI Plan that reached vesting date during the reporting period are set out below.

Type of Instrument	Commencement Date	Test date	TSR Quartile in Ranking Group	TSR Vested %	EPS Vested %	Lapsed%	Remain in Plan
Options	3 Jun 2011	1 Dec 2014	4th Quartile	-	54	46	-
Performance rights	3 Jun 2011	1 Dec 2014	4th Quartile	-	54	46	-
Performance rights	5 Aug 2011	1 Dec 2014	4th Quartile	-	54	46	-
Options	10 Aug 2012	1 Dec 2014	4th Quartile	-	54	46	-
Retention rights*	3 July 2014	15 Oct 2015	n/a	n/a	n/a	-	-
Performance rights	1 Dec 2014	15 Sept 2015	4th Quartile	-	-	100	-

*Retention rights only had a 15 October 2015 retention date condition. These fully vested and 160,000 shares were issued as a result.

For all vested outcomes above, no Volume targets were applicable

Options issued to top five remunerated Non-KMP officers

Details of performance rights granted to key management personnel are disclosed on page 21 below. In financial year 2016, no instruments were issued to an officer who is among the five highest remunerated officers of the Company and the Group, but not a key management person and hence not disclosed in the remuneration report.

Remuneration Report (continued)

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

Grant date	Tranche number	Date vested and exercisable	Expiry date	Exercise price*	Value per option, performance right at grant date
3 June 2011	2	1 Dec 2013	31 Dec 2015	Nil	$1.645
	3	1 Dec 2014	31 Dec 2016	Nil	$1.455
3 June 2011	1	1 Dec 2014	31 Dec 2016	$2.11	$0.51
5 Aug 2011	2	1 Dec 2013	31 Dec 2015	Nil	$1.66
	2	1 Dec 2013	31 Dec 2015	Nil	$1.25
	3	1 Dec 2014	31 Dec 2016	Nil	$1.57
	3	1 Dec 2014	31 Dec 2016	Nil	$0.98
5 Aug 2011	1	1 Dec 2014	31 Dec 2016	$2.29	$0.48
	1	1 Dec 2014	31 Dec 2016	$2.29	$0.36
23 April 2012	1	1 Dec 2013	31 Dec 2015	Nil	$2.14
	1	1 Dec 2013	31 Dec 2015	Nil	$1.80
23 April 2012	1	1 Dec 2014	31 Dec 2016	$2.27	$0.48
	1	1 Dec 2014	31 Dec 2016	$2.27	$0.36
10 August 2012	1	1 Dec 2014	31 Dec 2016	$3.05	$0.58
	1	1 Dec 2014	31 Dec 2016	$3.05	$0.55
	2	1 Dec 2014	31 Dec 2016	$3.05	$0.58
	2	1 Dec 2014	31 Dec 2016	$3.05	$0.50
3 July 2014	1	15 Oct 2015	31 Mar 2016	Nil	$3.02
1 December 2014	1	1 Sep 2015	15 Oct 2018	Nil	2.81
	1	1 Sep 2015	15 Oct 2018	Nil	0.44
	2	1 Sep 2016	15 Oct 2018	Nil	2.65
	2	1 Sep 2016	15 Oct 2018	Nil	1.40
	3	1 Sep 2017	15 Oct 2019	Nil	2.49
	3	1 Sep 2017	15 Oct 2020	Nil	1.31
	4	1 Sep 2018	15 Oct 2021	Nil	2.35
	4	1 Sep 2018	15 Oct 2021	Nil	1.23
26 November 2015	2	1 Sep 2016	15 Oct 2018	Nil	2.61
	2	1 Sep 2016	15 Oct 2018	Nil	0.27
	2	1 Sep 2016	15 Oct 2018	Nil	2.61
	3	1 Sep 2017	15 Oct 2019	Nil	2.46
	3	1 Sep 2017	15 Oct 2019	Nil	1.04
	3	1 Sep 2017	15 Oct 2019	Nil	2.46
	4	1 Sep 2019	15 Oct 2021	Nil	2.17
	4	1 Sep 2019	15 Oct 2021	Nil	1.34
	4	1 Sep 2019	15 Oct 2021	Nil	2.17

* The exercise price must be paid by the option holder to exercise the option when it vests.

Details of options over ordinary shares in the Company provided as remuneration to each Director of FlexiGroup Limited and each of the key management personnel of the parent entity and the Group are set out below. When exercisable, each option and performance right is convertible into one ordinary share of FlexiGroup Limited. Further information on the options and performance rights is set out in note 24 to the financial statements.

Remuneration Report (continued)

Name	Number of performance rights granted during the year	Value of performance rights granted during the year $	Number of options and performance rights vested during the year	Number of options and performance rights lapsed during the year	Financial years of issue of lapsed options and rights
Directors of FlexiGroup Limited					
A Abercrombie	-	-	-	-	-
S Brewis-Weston	-	-	-	-	-
R Dhawan	-	-	-	-	-
R J Skippen	-	-	-	-	-
A Ward	-	-	-	-	-
Executives of FlexiGroup Limited					
D Stevens	120,000	216,160	42,275	100,613	2011 , 2015
R May	45,000	81,060	119,625	88,750	2011 , 2015
P Lirantzis	120,000	216,160	43,500	90,000	2012 , 2015
M Burke	38,000	92,824	20,000	318,000	2015 , 2016
V Gilpin	190,000	346,710	-	-	-

The assessed fair value at grant date of performance rights granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration table on page 25. 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 and 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 options and performance rights.

The model inputs for performance rights granted during the year ended 30 June 2016 included:

a) Exercise price: nil, performance rights issued

b) Grant date: 26 November 2015 (2015: 1 December 2014)

c) Expiry date: various per performance rights granted, refer table on page 21

d) Share price at grant date: $2.74 (2015: $2.94)

e) Expected price volatility of the Company's shares: 35% (2015: 30%)

f) Expected dividend yield: 6.2% (2015: 5.6% - 6%)

g) Risk-free interest rate: 1.96% - 2.14% (2015: 2.35% - 2.45%)

Shares provided on exercise of remuneration options and performance rights

In current year, nil ordinary shares in the Company were issued as a result of the exercise of remuneration options and performance rights. Vested performance rights and options are settled through on market share purchases.

Remuneration Report (continued)

ADDITIONAL INFORMATION

Details of remuneration: STI cash payments and options and performance rights

For each STI cash payment and grant of options and performance 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 options and performance rights vest in accordance with the vesting schedules detailed below. No options and/or performance 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	2016 STI Cash payment	STI Outcome as % of target	STI % of target forfeited	LTI Year granted	Prior year equity awards Vested during 2016	Prior year equity awards Forfeited during 2016	Financial years in which options, performance rights may vest	Maximum total value of grant yet to vest
	$	%	%		%	%		$
Executive Directors of FlexiGroup Limited								
S Brewis-Weston	125,000	56	44	-	-	-	-	-
Executives of FlexiGroup								
D Stevens	50,000	17	83	2016	-	-	30/6/2016 - 30/6/2020	190,459
				2015	-	30	30/6/2016 - 30/6/2020	402,563
				2015	100	-	-	-
				2011	18	82	-	-
R May	50,000	27	73	2016	-	-	30/6/2016-30/6/2020	71,422
				2015	100	-	-	-
				2015	-	30	30/6/2016 - 30/6/2020	352,243
				2011	18	82	-	-
P Lirantzis	50,000	17	83	2016	-	-	30/6/2016 - 30/6/2020	190,459
				2015	100	-	-	-
				2015	-	30	30/6/2016 - 30/6/2019	413,406
				2012	32	68	-	-
M Burke	-	-	100	2016	-	100	-	-
				2015	100	-	-	-
				2015	-	100	-	-
V Gilpin	-	-	-	2016	-	-	30/6/2017-30/6/2021	341,134

Remuneration Report (continued)

ADDITIONAL INFORMATION (continued)

Shares under performance rights

As at the date of this report, there were 4,023,000 unissued ordinary shares of FlexiGroup Limited subject to performance rights. These unissued ordinary shares are the subject of performance rights with expiry dates between 15 October 2018 and 15 October 2021.

No performance 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 annually and benchmarked where appropriate by the Board. Non-Executive Directors do not receive share options. 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 as yet elected to participate in the arrangement.

Non-Executive Directors' fees

The current base remuneration was approved on 20 July 2011. Non-Executive Directors' fees are determined within an aggregate Directors' fee pool limit of $1.2 million.

The following fee structure was applicable for the 2016 financial year:

Base fees (per annum)	
A Abercrombie (Chairman)	$250,000
Other Non-Executive Directors	$120,000
Additional fees (per annum)	
Audit & Risk Committee – Chairman	$25,000
Remuneration Committee – Chairman	$25,000

In addition to the above fees, Directors also receive superannuation contributions required under government legislation.

A Director is entitled to reimbursement for reasonable travel, accommodation and other expenses in attending meetings and carrying out their duties.

Under clause 10.09 of the Company's constitution, subject to the Listing Rules and *Corporations Act 2001*, a Director at the request of the 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 2001*, 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 Key Management Personnel (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 performance incentives above.

The Key Management Personnel of FlexiGroup Limited is the Directors and certain Executives that report directly to the CEO.

Remuneration Report (continued)

2016	**Short-term employee benefits**			**Post-employment benefits**	**Long-term benefits**		
Name	**Cash salary and fees**	**STI cash payment**	**Other benefits**	**Superannuation**	**Long service leave**	**Share-based payments expense******	**Total earnings**
	$	**$**	**$**	**$**	**$**	**$**	**$**
Non-Executive Directors							
C Beare*	26,602	-	-	2,113	-	-	**28,715**
A Abercrombie (Chairman)*	235,000	-	-	22,851	-	-	**257,851**
R Dhawan**	210,000	-	-	19,950	-	-	**229,950**
R J Skippen	145,000	-	-	13,775	-	-	**158,775**
A Ward*	12,769	-	-	1,213	-	-	**13,982**
Subtotal Non- Executive Directors	629,371	-	-	59,902	-	-	**689,273**
Executive Directors							
T Robbiati***	92,307	-	-	-	-	-	**92,307**
S Brewis-Weston***	270,459	125,000	100,000	25,694	-	-	**521,153**
Subtotal Executive Directors	362,766	125,000	100,000	25,694	-	-	**613,460**
Other key management personnel (refer to page 13 for positions)							
D Stevens*****	555,692	50,000	100,000	19,308	29,063	93,357	**847,420**
R May******	334,492	50,000	42,992	31,777	7,123	67,910	**534,294**
P Lirantzis*****	570,995	50,000	100,000	30,000	-	110,134	**861,129**
M Burke*******	284,773	-	212,500	27,053	-	(25,739)	**498,587**
V Gilpin*******	38,766	-	-	3,683	-	5,576	**48,025**
Subtotal other key management personnel	1,784,718	150,000	455,492	111,821	36,186	251,238	**2,789,455**
Total key management personnel compensation (Group)	**2,776,855**	**275,000**	**555,492**	**197,417**	**36,186**	**251,238**	**4,092,188**

* Mr A Abercrombie was appointed Chairman effective 10 August 2015, replacing C Beare, who ceased being Chairman on that date. Ms A Ward also resigned as a director on 10 August 2015.

** Mr R Dhawan received a $65,000 payment for performing substantial additional duties in relation to Remuneration during the year.

*** Mr S Brewis-Weston commenced as CEO effective 8 February 2016, and was appointed a director on 22 February 2016, replacing T Robbiati, who resigned as CEO on 7 August 2015. Mr Brewis-Weston was paid $100,000 sign on bonus to compensate for lost benefits from his previous role.

**** Remuneration for share-based payments represents amounts expensed during the year for accounting purposes. Negative amounts represent lapsed instruments.

*****Mr D Stevens and Mr P Lirantzis were paid $100,000 each for acting as CEOs from the period August 2015 to February 2016.

****** Mr R May's other benefits include car, health and life insurances which are paid by the Company.

******* Mr M Burke ceased being KMP on 13 May 2016 upon his departure. Amounts shown in his remuneration include amounts earned up to that date and his termination benefits, which are included as other benefits above. Mr M Burke was replaced by Ms V Gilpin on 23 May 2016.

Remuneration Report (continued)

2015 Name	Short-term employee benefits Cash salary and fees	STI cash payment	Other benefits*	Post-employment benefits Superannuation	Long-term benefits Long service leave	Share-based payments expense**	Total earnings
	$	$	$	$	$	$	$
Non-Executive Directors							
M Jackson*	20,833	-	-	1,979	-	-	**22,812**
C Beare (Chairman)*	250,000	-	-	18,783	-	-	**268,783**
A Abercrombie	160,000	-	-	15,200	-	-	**175,200**
R Dhawan	145,000	-	-	13,775	-	-	**158,775**
R J Skippen	145,000	-	-	13,775	-	-	**158,775**
A Ward	120,000	-	-	11,398	-	-	**131,398**
Subtotal Non- Executive Directors	840,833	-	-	74,910	-	-	**915,743**
Executive Directors							
T Robbiati	900,000	-	-	-	-	-	**900,000**
Subtotal Executive Directors	900,000	-	-	-	-	-	**900,000**
Other key management personnel (refer to page 13 for positions)							
D Stevens	366,217	139,178	-	18,783	11,799	106,881	**642,858**
R May	259,298	114,165	28,939	22,496	6,498	113,712	**545,108**
P Lirantzis	415,757	158,337	-	22,159	-	125,398	**721,651**
M Burke***	126,027	44,666	-	11,973	-	39,519	**222,185**
A Roberts****	45,502	-	139,301	4,323	-	(73,043)	**116,083**
Subtotal other key management personnel	1,212,801	456,346	168,240	79,734	18,297	312,467	**2,247,885**
Total key management personnel compensation (Group)	**2,953,634**	**456,346**	**168,240**	**154,644**	**18,297**	**312,467**	**4,063,628**

* Mr R May's other benefits include car, health, life insurances and FBT which are paid by the Company. Mr T Robbiati's other benefits relate to one-off relocation travel benefits and related FBT.

** Remuneration for share-based payments represents amounts expensed during the year for accounting purposes. Included as part of share-based payments is $800,000 plus the accrued interest relating to the forgiveness of Mr T Robbiati's loan.

*** Mr M Burke was appointed as General Manager – Consumer and SME with effect from 27 January 2015. Amounts shown above are effective from date of appointment.

**** Mr A Roberts ceased being a KMP on 5 September 2014 upon his resignation. Amounts shown in his remuneration include amounts earned up to that date and his termination benefits, which are included in other benefits above.

Remuneration Report (continued)

ADDITIONAL INFORMATION (continued)

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

Name	Fixed remuneration 2016 %	2015 %	At Risk - STI 2016 %	2015 %	At Risk – LTI 2016 Rights %	2016 Options %	2015 Rights %	2015 Options %
Executives of FlexiGroup								
S Brewis-Weston	**76**	-	**24**	-	**-**	**-**	-	-
T Robbiati	**100**	100	**-**	-	**-**	**-**	-	-
D Stevens	**83**	62	**6**	22	**13**	**(2)**	14	2
R May	**78**	58	**10**	21	**16**	**(4)**	16	5
P Lirantzis	**81**	61	**6**	22	**14**	**(1)**	16	1
M Burke**	**100**	62	**-**	20	**-**	**-**	18	-
V Gilpin	**88**	-	**-**	-	**12**	**-**	-	-

**Mr M Burke's total remuneration is reflected as 100% fixed remuneration. He did not qualify for STI due to resignation and his LTI lapsed.

Service agreements

Remuneration and other terms of employment for the Chief Executive Officer and the other Key Management Personnel are formalised in service agreements. Each of these agreements can provide for the provision of short term performance incentives, eligibility for the FlexiGroup Long Term Incentive Plan ('LTIP'), other benefits including the use of a company motor vehicle, 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 are listed in the table below.

In the event of retrenchment, the Executives listed in the table on page 13 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 LTI's held by the above 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*	Total Fixed Remuneration** $	Termination payments***
S Brewis-Weston	6 months	750,000	6 months
D Stevens	6 months	575,000	6 months
R May	6 months	366,033	6 months
P Lirantzis	6 months	600,000	6 months
V Gilpin	3 months	385,000	3 months

* Notice applies to either party

** Base salaries are for financial year ended 30 June 2016. They are reviewed annually by the remuneration committee

*** Base salary payable if the Company terminates employee with notice, and without cause, (e.g. for reasons other than unsatisfactory performance)

Remuneration Report (continued)

ADDITIONAL INFORMATION (continued)

Other Services obtained from related parties- Rental of Melbourne premises

Flexirent Capital Pty Limited has rented premises in Melbourne owned by entities associated with Mr A Abercrombie. The rental arrangements for these premises are based on market terms. The rent paid for these premises amounted to $172,917. Refer to note 31(d) for further details.

Equity instrument disclosures relating to Directors and Key Management Personnel

Options and performance rights holdings

2016 Name	Balance at start of year	Granted as compensation	Exercised	Lapsed	Balance at end of year	Vested and exercisable	Unvested
Executive Director							
S Brewis-Weston	-	-	-	-	-	-	-
Other Key Management Personnel							
D Stevens	541,350	120,000	(42,275)	(259,075)	360,000	-	360,000
R May	758,750	45,000	(119,625)	(429,125)	255,000	-	255,000
P Lirantzis	455,000	120,000	(43,500)	(171,500)	360,000	-	360,000
M Burke	300,000	38,000	(20,000)	(318,000)	-	-	-
V Gilpin	-	190,000	-	-	190,000	-	190,000

2015 Name	Balance at start of year	Granted as compensation	Exercised	Lapsed	Balance at end of year	Vested and exercisable	Unvested
Executive Director							
T Robbiati	-	1,280,000	-	(1,280,000)	-	-	-
Other Key Management Personnel							
D Stevens	225,000	360,000	(41,250)	(2,400)	541,350	35,100	506,250
R May	450,000	320,000	(6,250)	(5,000)	758,750	157,500	601,250
P Lirantzis	150,000	380,000	(75,000)	-	455,000	75,000	380,000
M Burke	-	300,000	-	-	300,000	-	300,000
N Lindner	168,334	-	-	(168,334)	-	-	-

Remuneration Report (continued)

ADDITIONAL INFORMATION (continued)

Shareholding disclosures relating to Directors and Key Management Personnel

2016

Name	Balance at start of year	Received during the year on the exercise of performance rights / options	Other changes during the year	Balance at end of year
Non-Executive Directors				
A Abercrombie (Chairman)	76,765,251	-	13,234,749	90,000,000
R Dhawan	208,048	-	67,323	275,371
RJ Skippen	115,000	-	30,000	145,000
Executive Director				
S Brewis-Weston	-	-	50,000	50,000
Other Key Management Personnel				
D Stevens	20,000	22,025	4,485	46,510
R May	-	23,375	-	23,375
P Lirantzis	60,000	20,000	23,453	103,453
M Burke (resigned 13/5/16)	-	20,000	(20,000)	-
V Gilpin (from 23/5/16)	-	-	-	-

2015

Name	Balance at start of year	Received during the year on the exercise of performance rights / options	Other changes during the year	Balance at end of year
Non-Executive Directors				
C Beare (Chairman)	-	-	-	-
A Abercrombie	76,765,251	-	-	76,765,251
R Dhawan	391,048	-	(183,000)	208,048
RJ Skippen	115,000	-	-	115,000
A Ward	-	-	-	-
Executive Director				
T Robbiati	-	-	-	-
Other Key Management Personnel				
D Stevens	72,500	41,250	(93,750)	20,000
R May	32,000	6,250	(38,250)	-
P Lirantzis	100,000	75,000	(115,000)	60,000
M Burke	-	-	-	-
A Roberts	-	-	-	-

Directors' indemnification

During the year ended 30 June 2016, the Company paid insurance premiums in respect of a Directors' and Officers' Liability insurance contract. Disclosure of the total amount of the premium and the nature of the liabilities in respect of such insurance is prohibited by the policy.

Indemnity of auditors

The Company has agreed to indemnify their 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 the Company will meet the full amount of any such liabilities including a reasonable amount of legal costs.

Proceedings on behalf of the Company

No person has applied to the court under section 237 of the *Corporations Act 2001* for leave of 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 or 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 2001*.

Non-audit services

The Company 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 or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out in note 33 of the financial statements.

The Board of Directors has considered the position and, in accordance with advice received from the Audit & Risk Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provisions of non-audit services by the auditor, as set out in note 33 of the consolidated financial statements, did not compromise the auditor independence requirement of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit & Risk Committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine 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 is a member, or with a company in which he 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.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191relating 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.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 45.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

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

Andrew Abercrombie
Chairman

Sydney
29 August 2016

Corporate Governance Statement

This Corporate Governance Statement sets out details of FlexiGroup Limited's (the Company) corporate governance practices for the financial year ended 30 June 2016 (Reporting Period) including the Company's position relating to each of the Australian Securities Exchange (ASX) Corporate Governance Council's (ASX CGC) Corporate Governance Principles and Recommendations 3rd Edition (Recommendations).

For the purpose of preparing this Corporate Governance Statement, the Company has reviewed its current corporate governance policies and practices against the Recommendations in respect of the Reporting Period. As recommended by the ASX CGC, further information in relation to corporate governance practices is publicly available on the Company's website at www.flexigroup.com.au.

The Company is committed to seeking to ensure that its policies and practices meet the highest levels of disclosure and the best practice in corporate governance in a manner that is appropriate to the particular circumstances of the Company.

The Board has established a framework of processes and guidelines for the governance of 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.

Mr Tarek Robbiati resigned his position as Managing Director and Chief Executive Officer (CEO) of the Company on 7 August 2015. Mr David Stevens (Chief Financial Officer (CFO)) and Mr Peter Lirantzis (Chief Operating Officer (COO)) led the Company as acting CEOs until Mr Symon Brewis-Weston commenced as the new CEO on 8 February 2016.

On 10 August 2015, the Company announced that Dr Chris Beare and Ms Anne Ward had resigned as Chairman and Non-Executive Independent Director (respectively) and that Mr Andrew Abercrombie had been appointed as Chairman. Mr Andrew Abercrombie is a Non-Executive Director but is not considered to be an independent Director because Mr Abercrombie holds (indirectly) ~24% of the shares currently on issue in the Company. Having regard to the current composition of the Board, the Board believes that Mr Abercrombie is best placed to act as Chairman given his history with, and understanding of, the Company.

As such, as at the date of this Corporate Governance Statement, the Board consists of Mr Andrew Abercrombie, Mr John Skippen, Mr Rajeev Dhawan and Mr Symon Brewis-Weston. The Board is made up of an equal number of Independent Non-Executive Directors and Non-Independent Executive and Non-Executive Directors. The Board Committees have a majority of Independent Non-Executive Directors.

This Corporate Governance Statement is current as at 29 August 2016, and has been approved by the Board of the Company.

PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Recommendation 1.1

Board responsibilities

The Board has overall responsibility for the conduct and governance of the Company including its strategic direction and supervision and review of the management of its businesses and affairs. The Board's roles and responsibilities are formalised in the Board Charter, which defines the matters reserved for the Board and its Committees and those responsibilities delegated to the CEO and management. A copy of the Board Charter is available on the Company's website at www.flexigroup.com.au/investor-centre/corporate-information.

Within the scope of the governance framework established by the Board, management of the business and operations of the Company is delegated to the CEO, subject to the oversight and supervision of the Board.

The Board's responsibilities include:

- providing strategic direction for, and approving corporate business strategies and objectives developed by, management;
- monitoring the operational and financial position and performance of the Company;
- identifying the principal risks faced by the Company and requiring management to establish and implement appropriate internal controls and monitoring systems to manage and reduce the impact of these risks;
- requiring that financial and other reporting mechanisms are put in place which result in accurate and timely information being provided to the Board and the Company's shareholders and the financial market as a whole being fully informed of all material developments relating to the Company;
- appointing the CEO, the CFO and Company Secretary and approving other key Executive appointments and planning for Executive succession;

- overseeing and evaluating the performance of the CEO and other senior Executives of the Company;
- reviewing and approving remuneration for the senior Executives of the Company;
- approving the Company's budgets and business plans and monitoring the management of the Company's capital, including the progress of any major capital expenditures, acquisitions or divestitures;
- utilising procedures to ensure that financial results are appropriately and accurately reported on a timely basis in accordance with all legal and statutory requirements;
- adopting appropriate procedures to ensure compliance with all laws, governmental regulations and accounting standards;
- approving and reviewing from time to time, the Company's internal compliance procedures, including any codes of conduct and taking all reasonable steps to ensure that the business of the Company is conducted in an open and ethical manner; and
- regularly reviewing and to the extent necessary, amending the Board Charter.

To facilitate the execution of its responsibilities, the Board has established Committees to oversee and report to the Board on particular areas of responsibility. All Directors receive all Committee papers and minutes and are entitled to attend any Committee meeting. Each Committee reports to the next Board meeting. The Board has established the following Committees:

Audit & Risk Committee

During the Reporting Period, the composition of the Audit & Risk Committee was as follows: Chair: John Skippen. Members: Anne Ward (until 10 August, 2015), Chris Beare (until 10 August, 2015) and Rajeev Dhawan. Andrew Abercrombie also attends the Audit & Risk Committee as an invited guest.

The role of the Audit & Risk Committee is to assist the Board in carrying out its accounting, auditing and financial reporting responsibilities, including oversight of:

- the integrity of the Company's external financial reporting and financial statements;
- the appointment, remuneration, independence and competence of the Company's external auditors;
- the performance of the external audit function and review of its audits;
- the effectiveness of the Company's system of risk management and internal controls; and
- the Company's systems and procedures for compliance with applicable legal and regulatory requirements.

Remuneration Committee

During the Reporting Period, the composition of the Remuneration Committee was as follows: Chair: Rajeev Dhawan. Members: Anne Ward (until 10 August, 2015), Chris Beare (until 10 August, 2015), Andrew Abercrombie and John Skippen.

The Remuneration Committee supervises the Company's remuneration policies and Executive and employee remuneration including superannuation and Executive performance. These policies and processes are designed to:

- enable the Company to attract, retain and motivate directors, Executives and employees who will create value for shareholders;
- be fair and appropriate having regard to the performance of the Company and the relevant director, Executive or employee; and
- comply with relevant legal requirements.

The Remuneration Committee also undertakes certain functions relating to the composition of the Board and members of the Board that Recommendation 2.1 prescribes for a Nomination Committee.

Nomination Committee

During the Reporting Period, the composition of the Nomination Committee was as follows: Chair: Chris Beare (until 10 August, 2015) John Skippen (from 10 August, 2015). Members: Andrew Abercrombie and Rajeev Dhawan.

The Nomination Committee assists and advises the Board on:

- Director selection and appointment practices;
- Director performance evaluation processes and criteria;
- Board composition; and
- Succession planning for the Board and senior management,

to ensure that the Board is of a size and composition conducive to making appropriate decisions, with the benefit of a variety of perspectives and skills, and in the best interests of the Company as a whole.

Under its Charter, the Nomination Committee is responsible for the functions specified in Recommendation 2.1.

Charters for all the Board Committees are available on the Company's website at www.flexigroup.com.au/investor-centre/corporate-information.

Details of the number of meetings of the Board and of each Committee held during the Reporting Period and of each Director's attendance at those meetings are set out in the Directors' Report on page 11.

Management responsibilities

The management of the Company and its businesses and affairs is the responsibility of the CEO and the senior Executives including:

- developing business plans, budgets and strategies for the Board's consideration and, subject to the Board's approval, implementing these plans, budgets and strategies;
- operating the Company within the business parameters set by the Board and, where the proposed transactions, commitments or arrangements exceed those parameters, referring the matter to the Board for consideration and approval;
- identifying and managing operational and other risks, where those risks could have a material impact on the Company's business, formulating strategies for managing these risks for consideration by the Board and, subject to the Board's approval, implementing these strategies;
- managing the Company's current financial and other reporting mechanisms together with managing day-to-day operations within the budget;
- implementing the Company's internal controls and procedures for monitoring these controls and ensuring that these controls and procedures are appropriate and effective;
- providing the Board with accurate and sufficient information regarding the Company's operations on a timely basis and in particular, ensuring that the Board is made aware of all relevant matters relating to the Company's performance (including future performance), financial condition, operating results and prospects and potential material risks so that the Board is in an appropriate position to fulfil its corporate governance responsibilities; and
- implementing all policies, processes and codes of conduct approved by the Board.

Directors' Independent advice

Directors are empowered to seek independent external advice, as necessary, at the Company's expense, subject to prior consultation with the Chairman. Where appropriate, advice obtained at the Company's expense will be made available to all Directors.

Recommendation 1.2

When a vacancy arises on the Board, the Nomination Committee manages the process for the selection and appointment of new Directors to the Board. The Nomination Committee identifies candidates with appropriate skills, knowledge, experience, independence and expertise and recommends them to the Board.

The Company undertakes appropriate background and screening checks prior to nominating a Director for election. Shareholders are provided with all material information in the Company's possession concerning the Director standing for election or re-election in the explanatory notes accompanying the notice of meeting.

Recommendation 1.3

Directors appointed by the Board to fill a casual vacancy are engaged by a written letter of appointment setting out the terms and conditions of their appointment. They are required to stand for re-election by the shareholders at the next Annual General Meeting.

All Non-Executive Directors are engaged via a written letter of appointment setting out the terms and conditions of their appointment. All Executive Directors and other senior Executives enter into written agreements with the Company setting out the terms of their appointment and employment.

Recommendation 1.4

The Company Secretary attends all meetings of the Board and is accountable to the Board through the Chairman. The Company Secretary is responsible for:

- ensuring that the Company complies with its statutory requirements;
- helping to organise and facilitate the induction and professional development of directors;
- monitoring compliance with Board policy and procedures;
- advising the Board and its Committees on governance matters; and
- ensuring that the Company complies with its requirements under the Corporations Act regarding registered office, annual returns and notices to be lodged with the Australian Securities and Investments Commission.

Recommendation 1.5

The Company has a formal Diversity Policy, which ensures that there is adequate focus on meeting diversity obligations, which includes, but is not limited to, gender, ethnicity, cultural background, disability, religion, sexual orientation or age.

The Board believes that diversity is a key business priority and aims to support the leadership team in the creation of a workplace where each individual has the opportunity to reach their full potential. Policies are in place to ensure that all decisions in the workplace are based on merit and business needs. There is a strong commitment to providing a working environment based on the principles of equal opportunity and diversity.

The Company recognises the value of recruiting, developing and retaining employees from a diverse range of backgrounds, genders, knowledge, experience and abilities.

The Board:

- has established a Diversity Policy and continue to review the policy to ensure consistency with best practice:
- has established measurable objectives with a particular focus on achieving gender diversity; and
- annually assesses both the measurable objectives for achieving gender diversity and the progress in achieving them.

Diversity and Inclusion at FlexiGroup

At FlexiGroup, we are proud to support a diverse range of customers. It is important to us that our internal team is reflective of our customer base and that we have an inclusive work environment, which translates into our customer interactions. It is our firmly held view that a strong and diverse internal workforce is able to provide a great experience for our customers.

We encourage diversity and inclusion across our business in a number of ways. We firmly embrace the principle of meritocracy, with any recruitment, promotion or remuneration decisions being based on performance and capabilities. We also ensure that we have clear, readily available policies that support diversity underpinning our operating model, and we actively support programs within our business that support diversity and inclusiveness.

One of our key strategic goals is to be an employer of choice, which means that we are committed to the principles of Equal Employment and the provision of a work environment that is free from unlawful discrimination, harassment, and victimisation and bullying. The Company sees diversity as recognising and valuing the contribution of people from different backgrounds, with different perspectives and experiences, which in turn benefits our business as a whole.

Results against Key Metrics for 2015-2016

Three key diversity target areas were set for the last financial year:

- Female representation - the Board, Executive Team and Management
- Engagement of identified groups
- Flexible Working arrangements

Female Representation in Leadership Positions

The key metrics set in this area included:

- Female representation among the Non-Executive Directors of approximately 20%
- Female representation among the Executive team of approximately 20%

At the end of the Reporting Period for last year, the Board had one female Director who subsequently resigned from the Board in August 2015. The composition of the Board has remained the same since September last year, with that position not yet replaced. The Board has made a firm commitment to ensuring that any future Board positions which become available have gender diversity as a key focus area. This target will be retained as we move into the 2016-2017 financial year.

We are pleased to report that we met the target of 20% female representation on the Executive team as at 30 June 2016. This target will be increased to 25% as we move into the 2016-2017 financial year.

More generally, our focus on gender diversity across the organisation has continued to yield positive improvements.

As at the end of the Reporting Period:

- 42% of the Group's employees were women;
- females represented 40% of the Group's management; and
- 100% of our female employees on maternity leave returned to work.

There has been a general improvement in the number of women holding management roles within the Group during the reporting period, which the Company is committed to continuing in the next reporting period. The improvements are partly due to the focus that was placed on building leadership capability of our front line and middle management leaders generally, as well as the completion of a program that was aimed at building female leadership within the organisation. This program aimed to build confidence among a group of female leaders as well as access to learning sessions, networking opportunities and tools for development.

While we believe in the principle of meritocracy for all appointments and promotions, we have also ensured that the agencies we work with when recruiting for new roles are aware of our diversity policies and in particular, our focus on gender diversity. We have also advertised all roles internally prior to moving to external roles (with the exception of Executive roles), providing our current employees with an opportunity to apply for promotional opportunities.

We have also undertaken our third gender equity pay review across the organisation in the last reporting period, which resulted in minimal action required to address any imbalances. We are very pleased to advise that FlexiGroup was again compliant during the Reporting Period with the Workplace Gender Equality Act 2012.

We also have a policy in place, which facilitates six weeks paid maternity leave to eligible employees in addition to the government paid parental leave scheme.

<u>Engagement of Identified Groups</u>

In the last reporting period, we also set an objective regarding Engagement scores for gender and age, specifically that there were no significant statistical differences across the Group. Our workforce above 45 years of age tend to be slightly more highly engaged than our workforce below the age of 45. This year, our Engagement Survey ran during June 2016, with results received during August. While there were no significant statistical differences across gender or age within the organisation, the results showed that females across the organisation were generally more engaged than men at a Group level.

Initiatives aimed at improving the level of engagement of our employees across all ages, gender and backgrounds will continue to be a key focus area for the next year. This focus will be driven via development initiatives as part of our regular talent and succession planning process across all levels of the organisation as well as other initiatives targeted at improving engagement across the organisation.

<u>Flexible Working Arrangements</u>

The Company has worked hard to implement a number of arrangements across the Group that enable employees to access flexible working options. While there are some arrangements that have limited applicability in some areas of the Group, all employees will have access to at least one of the arrangements. These include:

- Flexible hours of work (including work from home options or variable hours);
- Compressed working weeks;
- Time-in-lieu arrangements;
- Part-time work;
- Purchased leave; and
- Unpaid leave

Approximately 24% of our employees accessed at least one of the options above during the reporting period, which exceeded our objective.

We will continue to offer a range of flexible working arrangements within the organisation and will enhance these offerings during the next reporting period.

Key Metrics for 2016-2017

Both Female representation and Flexible Working Arrangements will carry over as key focus areas into the next reporting period.

The key metrics are outlined below:

Measure	Objective
Female representation – Board, Executive Team and Management	Female representation among Non-Executive Directors of approximately 20% Female representation among the Executive Team of approximately 25%
Flexible working arrangements	**Objective** – a minimum of 25% of the employee population having accessed Flexible Working Arrangements during the reporting period

Recommendation 1.6

The Company has a process for periodically evaluating the performance of the Board, its committees and individual Directors.

The Remuneration Committee is responsible for determining the process for evaluating the performance of the Board, its committees and individual Directors. Evaluations are conducted annually. The performance evaluation process is conducted by way of questionnaires to effectively review:

- the performance of the Board and each of its committees; and
- the individual performance of the Chairman and each Director, including the CEO.

The questionnaires are completed by each Director and the responses compiled by the Chairman. The reports on the performance of the Board and each committee are provided to all Directors and discussed by the Board. The report on the Chairman's performance is provided to the Chairman and the Remuneration Committee. The Chairman meets with the Remuneration Committee to discuss the findings of his report. The report on each individual Director is provided to the individual and the Chairman. The Chairman meets individually with each Director to discuss the findings of their report.

The Remuneration Committee reviews and makes recommendations to the Board on the criteria for the evaluation of the performance of the CEO, and conducts the evaluation of the performance of the CEO. The Remuneration Report on pages 13-29 discloses the process for evaluating the performance of senior Executives, including the CEO.

A performance evaluation of the Board, its committees and individual Directors was undertaken for the Reporting Period in accordance with the above process.

Recommendation 1.7

The Company has a process for periodically evaluating the performance of the CEO and its other senior Executives.

The Board, in conjunction with the Remuneration Committee, is responsible for approving performance objectives for the CEO and other senior Executives, and evaluating the performance of each senior Executive against these objectives. The objectives are set for each senior Executive at the beginning of each financial year and reflect specific financial and non-financial metrics, which are aligned to the Company's strategy. The performance of each senior Executive in respect of a financial year is measured against those metrics. A performance evaluation of senior Executives was undertaken for the Reporting Period in accordance with the above process.

Remuneration is reviewed annually by the Remuneration Committee in line with the financial year and is dependent on each senior Executive's performance against their objectives. Any increases to Executive remuneration need to be approved by the Board and are effective from 1 July, following the annual performance review.

There is a further discussion on the performance objectives and the performance of each KMP in the Remuneration Report at pages 13-29.

PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE

Recommendation 2.1

Nomination Committee. The Board has a Nomination Committee, which has adopted a Nomination Committee Charter. During the Reporting Period, the composition of the Nomination Committee was as follows: Chair: Chris Beare (until 10 August, 2015) John Skippen (from 10 August, 2015). Members: Andrew Abercrombie and Rajeev Dhawan.

The number of times the Nomination Committee met throughout the Reporting Period and the attendance rates of its members are contained on page 11.

The Committee is established in accordance with the Company's constitution and authorised by the Board to assist it in fulfilling its statutory, fiduciary and regulatory responsibilities. It has the authority and power to exercise the role and responsibilities set out in its charter and under any separate resolutions of the Board.

The Nomination Committee assists and advises the Board on:

- Director selection and appointment practices;
- Director performance evaluation processes and criteria;
- Board composition;
- establishing and maintaining a diversity policy to outline the Company's commitment to diversity and inclusion in the workplace;
- developing and reviewing induction procedures for new appointees to the Board; and
- succession planning for the Board and senior management,

to ensure that the Board is of a size and composition conducive to making appropriate decisions, with the benefit of a variety of perspectives and skills, and in the best interests of the Company as a whole.

Under its Charter, the Nomination Committee is responsible for the functions specified above. The Nomination Committee Charter is disclosed on the Company's website at www.flexigroup.com.au/investor-centre/corporate-information.

Recommendations 2.2

Board skills matrix benchmarking table

During the Reporting Period, the Directors on the Board collectively had a combination of skills and experience in the competencies set out in the table below. These competencies are set out in the skills matrix, developed in accordance with recommendation 2.2 of the ASX Guidelines (3rd Edition), that the Board uses to assess the skills and experience of each Director and the combined capabilities of the Board. The skills matrix also indicates the areas in which the Board is seeking to increase its depth of skills.

General skills and attributes			
Skills	**Professional director skills**	**Function**	**Governance Skills**
150+ ASX Boards experience	risk and compliance;	finance;	board experience – listed and non-listed environments; and
Entrepreneur	financial & audit;	accounting; and	Executive experience reporting to external/internal boards.
leadership	strategy;	operations.	**Business/Industry skills**
governance	policy development;	**International management**	business management experience and qualifications;
strategy	Executive management; and	Americas; Europe; and Asia.	financial services industry experience;
Finance	previous board experience.		mergers and acquisitions experience, including due diligence and integration;
Audit, risk and compliance	**Interpersonal skills**		legal experience and qualifications;
IT and technology	leadership		risk management;
HR	ethics and integrity		
Business development	contribution		
Mergers and Acquisitions	negotiation		
Retail			
Property			

General skills and attributes (continued)			
Skills Advertising	**Professional director skills**	**Function**	**Governance Skills** professional marketing; overseas experience; IT and online digital platforms; people management strategy; and project management/ change management.

During the Reporting Period, the Board considered that collectively the Directors had the range of skills, knowledge and experience necessary to direct the Company. The Non-Executive Directors contributed operational knowledge, an understanding of the industry in which the Company operates, knowledge of financial markets and an understanding of the health, safety, environmental and community matters that are important to the Company. The CEO brought an additional perspective to the Board through a deep understanding of the Company's business.

Recommendations 2.3 – 2.5

Composition of the Board and independence

During the Reporting Period, the Board adopted a policy of ensuring that it was composed of a majority of independent Non-Executive Directors, who with other Directors, including the CEO, comprised an appropriate mix of skills to provide the necessary breadth and depth of knowledge and experience to meet the Board's responsibilities and objectives. The Board reviews its membership to ensure that it offers the range of business skills and expertise demanded by the Company's operations. Details of each person who acted as Director during the Reporting Period, including length of service, skills, experience, relevant qualifications and expertise, are set out on pages 9-11.

As at the date of this Corporate Governance Statement, with the exception of the CEO, all of the Directors were Non-Executive Directors, including the Chairman, and the Board determined that each of the Non-Executive Directors (other than the Chairman, Andrew Abercrombie) were independent. Following the resignation of two independent directors during the 2016 financial year and as at the date of this Corporate Governance Statement, the Board has equal representation of independent and non-independent directors. The Board is conducting on ongoing search to appoint additional independent directors so that the composition of the Board returns to a majority of independent directors in observance of recommendation 2.4 of the ASX Guidelines (3rd Edition).

The Chairman is responsible for leading the Board in reviewing and discussing Board matters and ensuring that the Board's activities are organised and effectively conducted. The Chairman, Mr Andrew Abercrombie, is not considered an independent director because Mr Abercrombie holds (indirectly) ~24% of the shares currently on issue in the Company. Mr Abercrombie is a founding Director of the Company and the Board has determined that the chairmanship of Mr Abercrombie is of significant benefit to the Company and the Group due to his long standing contribution to, and association with, the Company.

Determination of a Non-Executive Director's independence is based on a Board's individual and on-going assessment that the Director is free of any relationship or any material business interest that could be reasonably considered to interfere with the exercise of their independent judgement and conflict with the interests of the Company.

In order for a Director to be considered independent, the Board must determine that the Director does not have a material relationship with the Company other than as a consequence of being a Director. A "material relationship" includes a direct or indirect relationship that could reasonably be considered to influence, in a material way, a Director's decision in relation to the Company. When considering whether a relationship is "material", the Board will consider the materiality to each of the Company, the Director and the person or organisation with which the Director is related (for example, as a customer or supplier). The Board has not set quantitative materiality thresholds to be used in assessing whether a relationship is a "material relationship" and it considers all relationships on a case-by-case basis.

The Board regularly reviews the independence of each Director. Any Director who considers that he or she has, or may have, a conflict of interest or a material personal interest in any matter concerning the Company is required to give the Directors immediate notice of the interest.

Each Non-Executive Director is also appointed to at least one Committee. Each Committee has a Charter defining its roles and responsibilities.

There is no specific term of office for Non-Executive Directors. The date of appointment of each Non-Executive Director is set out on pages 9-11.

Recommendation 2.6

Induction training is provided to all new Directors. The training includes provision of an induction manual and discussions with the CEO and senior Executives. The induction materials include information about the Company's strategy, culture, values, key policies, the Company's financial, operational and risk management position, the rights and responsibilities of Directors and the role of the Board and its committees. All Directors are expected to maintain the skills required to discharge their obligations. The Company provides professional development opportunities for Directors to develop and maintain their skills and knowledge.

PRINCIPLE 3 – ACT ETHICALLY AND RESPONSIBLY

Recommendation 3.1

Code of Conduct

The Company has a formal Code of Conduct which all Directors, officers, senior Executives and employees of the Company and subsidiaries and entities that the Company directly or indirectly controls are required to adhere to, together with a comprehensive range of corporate policies, which details the framework for acceptable corporate behaviour. The Code of Conduct also applies to contractors, consultants and associates of the Company. Together, the Code of Conduct and supporting policies set out the applicable policies and procedures that personnel are required to follow in a range of areas including share trading, employment practices and regulatory compliance. The corporate policies are reviewed periodically.

The Code of Conduct sets out the ethical standards and rules of the Company and provides a framework for how the Company will operate its business in a manner that will protect its stakeholders. The objective of the Code is to:

- provide a benchmark for professional behaviours throughout the Company;
- support the Company's business reputation and corporate image within the community; and
- make Directors and employees aware of the consequences if they breach Company policy.

A copy of the Company's Code of Conduct and other policies are available on the Company's website at www.flexigroup.com.au/investor-centre/corporate-information.

Policy on Trading in Company's Securities

Director and employee shareholdings and share trading are subject to the Company's Trading Policy, which restricts the times when a Director or employee can purchase or sell Company securities.

The Company's Trading Policy permits Directors and employees of the Company to acquire and sell the Company's shares only when they are not in possession of price sensitive information that is not generally available to the market.

Further, the Company's Trading Policy provides that to avoid drawing an adverse inference of unfair dealing, "Key Management Personnel", being a director of the Company, CEO, CFO, any direct reports to the CEO, and such other persons as the Company Secretary nominates, must not deal in the Company's shares in the month immediately before the close of the half year-end and year-end periods and up to 2 days after the half yearly and yearly results are made publicly available.

Notwithstanding this Policy, there is no period during which an individual is exempt from the requirements of the *Corporations Act 2001* in relation to insider trading provisions.

A copy of the Company's Trading Policy and other policies are available on the Company's website at www.flexigroup.com.au/investor-centre/corporate-information.

PRINCIPLE 4 – SAFEGUARD INTEGRITY IN CORPORATE REPORTING

Recommendation 4.1

Audit & Risk Committee

The Audit & Risk Committee of Directors is comprised of a majority of independent Non-Executive Directors. All members have appropriate business and financial expertise to act effectively as members of the Company, as determined by the Board.

During the Reporting Period, all of the Directors on the Audit & Risk Committee were Non-Executive Directors, including the Chairman, and the Board determined that each of the Non-Executive Directors (other than Andrew Abercrombie because Andrew Abercrombie holds (indirectly) 24% of the shares currently on issue in the Company) were independent. As at the date of this Corporate Governance Statement, a majority of the members of the Audit & Risk Committee are independent and all of the members are Non-Executive Directors.

The qualifications and experience of the members of the Audit & Risk Committee are set out on pages 9-11 along with the number of times the Audit & Risk Committee met throughout the Reporting Period and the attendance rates of its members on page 11. The Audit & Risk Committee Charter is disclosed on the Company's website at www.flexigroup.com.au/investor-centre/corporate-information.

The Audit & Risk Committee provides advice and assistance to the Board in fulfilling the Board's responsibilities relating to the Group's financial risk management and compliance systems and practice, financial statements, financial and market reporting processes, internal accounting and control systems, internal and external audit and such other matters as the Board may request from time to time. In addition, the Committee is responsible for assessing significant estimates and the judgments made during the Reporting Period to ensure the integrity of the Company's external financial reporting and financial statements.

The Audit & Risk Committee's processes are designed to establish a proactive framework and dialogue in which the Committee, management and external and internal auditors review and assess the risk framework, the quality of the earnings, liquidity and the strength of the income statements and balance sheets, and transparency and accuracy of reporting. In fulfilling its responsibilities, the Audit & Risk Committee reviews the processes the CEO and CFO have in place to support their declarations to the Board.

<u>Recommendation 4.2</u>

Declarations

In accordance with section 295A of the *Corporations Act 2001*, for the Reporting Period, the Executives primarily and directly responsible to the Directors for the general and overall management of the Company have declared to the Board that:

- the financial records of the Company have been properly maintained in accordance with section 286 of the *Corporations Act 2001;*
- the financial statements and the notes to the financial statements comply with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- the financial statements and the notes to the financial statements give a true and fair view of the financial position and performance of the Company and consolidated entity.

In addition, the CEO and CFO have stated to the Board in writing that:

- the Company's financial report is founded on sound systems of risk management and internal compliance and control which implements the policies adopted by the Board; and
- the Company's risk management and internal compliance and control system is operating effectively in all material respects.

Further, assurance regarding the integrity of the Company's control systems is provided by the internal audit function, which reports directly to the Audit & Risk Committee.

The Company has the following guiding principles to ensure the independence of the Auditor:

1. the Audit & Risk Committee will review and assess the independence of the external auditor, including but not limited to any relationships with the Company or any other entity that may impair the external auditor's judgement or independence in respect of the Company;
2. the Audit & Risk Committee will request an annual confirmation of independence from the external auditor;
3. any non-audit work performed by the external auditor will require approval from the Audit Committee; and
4. the Audit & Risk Committee will require the rotation of the audit signing partner and the independence review partner every five years.

PricewaterhouseCoopers has provided the Audit & Risk Committee with a confirmation of its independence for the Reporting Period. The Board has determined that it is satisfied as to the independence of the external auditor in relation to the Reporting Period and the audit of the Financial Report for the Reporting Period.

<u>Recommendation 4.3</u>

The Board requests that PricewaterhouseCoopers, the Company's external auditor, attends the Annual General Meeting of the Company and is available to answer shareholder questions relating to the audit of the Company's financial statements, preparation and content of the auditor's report, the accounting policies adopted by the Company and auditor independence.

PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE

The Board recognises the importance of keeping the market fully informed of the Company's activities and of communicating openly and clearly with all stakeholders.

The Company has a Disclosure and Communication Policy to ensure compliance with the ASX Listing Rules continuous disclosure requirements and the *Corporations Act 2001*. The Company has established a Disclosure Committee which manages the Company's compliance with its disclosure obligation and the Policy. The Disclosure Committee is made up of the Company Secretary, CEO and CFO. The Company's Disclosure and Communication Policy is available on the Company's website at www.flexigroup.com.au/investor-centre/corporate-information.

Information considered to require disclosure is announced immediately through the ASX. Key presentations given by Company personnel to investors and institutions are also lodged simultaneously with the ASX. Following the lodgement of an announcement with ASX, key communications are placed on the Company's website. General and historical information about the Company and its operations is also available on the Company's website.

PRINCIPLE 6 – RESPECT THE RIGHTS OF SHAREHOLDERS

It is the Board's aim that the Company maintains effective communications and keeps its shareholders fully informed of significant developments and activities of the Company as well as provide them with the facilities to allow them to exercise their rights as security holders effectively.

This commitment is achieved by:

- complying with the ASX Listing Rules and the *Corporations Act 2001* continuous disclosure and reporting requirements;
- distribution of the Annual Report to all shareholders other than any who notify the Company that they do not wish to receive it, as well as publishing Annual Reports and financial statements on the Company's website at https://www.flexigroup.com.au/investor-centre/reports-results;
- holding an accessible and informative Annual General Meeting (AGM). The Board requests the external auditor to attend the Annual General Meeting of the Company and be available to answer shareholder questions relating to the audit of the Company's financial statements, preparation and content of the auditor's report, the accounting policies adopted by the Company and auditor independence;
- regularly updating the Company's website (www.flexigroup.com.au) to include annual and interim reports, market announcements and presentations as well as financial and shareholder information to ensure transparency and a high level of communication of the Company's operations and financial situation, to the extent that this information is not commercially sensitive; and
- responding to questions and comments at the AGM which were submitted by shareholders in advance of the AGM on the management of the Company.

The Company encourages direct electronic contact from shareholders – the Company's website has a "contact us" section which allows shareholders to submit an electronic form with questions or comments and sets out the email address for the Company's share registry.

PRINCIPLE 7 – RECOGNISE AND MANAGE RISK

Risk Management

The Board recognises that risk management and internal controls are fundamental to sound management and that oversight of such matters is a key responsibility of the Board. The Company has a risk management policy framework and governance structure designed to ensure that the risks of conducting business are properly managed. Management is responsible to the Board for identifying, managing, reporting upon and implementing measures to address risk.

Recommendation 7.1

The Board oversees and reviews the effectiveness of risk management at all levels across the Company and is assisted and advised in this role by the Audit & Risk Committee. During the Reporting Period all of the Directors on the Audit & Risk Committee were Non-Executive Directors, including the Chairman, and the Board determined that each of the Non-Executive Directors (other than Andrew Abercrombie because he holds (indirectly) ~24% of the shares currently on issue in the Company) were independent. As at the date of this Corporate Governance Statement, a majority of the members of the Audit & Risk Committee are independent and all of the members are

Non-Executive Directors. The number of times the Audit & Risk Committee met throughout the Reporting Period and the attendance rates of its members is set out on page 11.

The Audit & Risk Committee Charter which sets out the role and responsibilities of the Committee is disclosed on the Company's website at www.flexigroup.com.au/investor-centre/corporate-information. The Company has adopted a risk management statement as required by the Audit & Risk Committee Charter.

The Audit & Risk Committee has responsibility for managing risk. However, ultimate responsibility for risk oversight and risk management vests with the Board. The Company has identified key risks within the business. In the ordinary course of business, management monitors and manages these risks. Key operational and financial risks are presented to and reviewed by the Committee.

Recommendation 7.2

The Board delegates the review of the Company's risk management framework to the Audit & Risk Committee to satisfy itself that it continues to be sound and operate within the risk appetite set by the Board. The risk management framework is reviewed on at least an annual basis.

There have been no material changes to the Company's risk framework during the Reporting Period.

Recommendation 7.3

The Company maintains an internal audit function which reviews and reports to the Audit & Risk Committee on the effectiveness of these mechanisms. Management provides regular compliance assurance reports to the Board and its Committees.

Recommendation 7.4

The Company does not have any material exposure to economic, environmental or social sustainability risks.

PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY

The Board has a Remuneration Committee, which has a Remuneration Committee Charter.

Recommendation 8.1

During the Reporting Period, all of the Directors on the Remuneration Committee were Non-Executive Directors, including the Chairman, and the Board determined that each of the Non-Executive Directors (other than Andrew Abercrombie because he holds (indirectly) ~24% of the shares currently on issue in the Company) were independent. As at the date of this Corporate Governance Statement, a majority of the members of the Remuneration Committee are independent and all of the members are Non-Executive Directors.

The Remuneration Committee Charter is disclosed on the Company's website at www.flexigroup.com.au/investor-centre/corporate-information. Details of the number of meetings of the Remuneration Committee held during the period and of each member's attendance at those meetings are set out on page 11.

The Company has performance appraisal and remuneration policies for the Board, the Board's Committees, individual Directors and Executives. The Board engages expert external assistance, as appropriate, in reviewing and implementing this Policy.

The CEO's performance evaluation of key Executives is periodically reviewed by the Remuneration Committee. The performance evaluation of the CEO is undertaken by the Remuneration Committee.

Remuneration Committee

The Remuneration Committee assists and advises the Board on remuneration policies and practices for the Board, the CEO, the CFO, senior management and other persons whose activities, individually or collectively, affect the financial soundness of the Company.

The Remuneration Committee's responsibilities include:

- the ongoing appropriateness and relevance of the remuneration framework for the chairperson and the Non-Executive Directors (including the process by which any pool of Directors' fees approved by the shareholders is allocated to Directors);
- the Company's policy on remuneration for the CEO and senior management, any changes to the policy and the implementation of the policy (including any shareholder approvals required);

- the total remuneration packages for the CEO and senior management (including base pay, incentive payments, equity based awards, superannuation and other retirement rights, employment contracts), any changes to remuneration package and recommending proposed award after performance evaluation procedures;
- the Company's recruitment, retention and termination policies for the CEO and senior management and any changes to those policies;
- incentive schemes, if appropriate, for the CEO and senior management;
- equity based plans, if appropriate, for the CEO, senior management and other employees;
- superannuation arrangements for Directors, senior Executives and other employees;
- monitoring and providing input to the Board regarding:
    - legislative, regulatory or market developments likely to have a significant impact on the Company and legislative compliance in employment issues;
    - the remuneration trends across the Company; and
    - major changes to employee benefits structures in the Company.

Recommendation 8.2

Remuneration Report

In accordance with section 300A of the *Corporations Act 2001*, disclosures in relation to Director and Executive remuneration are included in a separate component of the Directors' Report, entitled Remuneration Report. The Remuneration Report is set out on pages 13-29 and contains details of the Company's remuneration philosophy, structure, including fixed and variable remuneration.

Board Remuneration

Remuneration of the Non-Executive Directors is fixed rather than variable to ensure that Board membership of an appropriate mix and calibre is maintained and aligned with remuneration trends in the marketplace. Remuneration levels and trends are reviewed with the assistance of independent external remuneration consultants, when appropriate.

CEO and Executive Remuneration

The underlying principles of risk and reward for performance remuneration are set out in the Remuneration Report on pages 13-29. These principles recognise the different levels of contribution of management to the short-term and long-term success of the Company. A key element is the principle of reward for performance that is dependent upon both personal and Company performance. Every employee undergoes a formal performance appraisal each financial year, which is used, in part, to determine that employee's remuneration in the financial year ahead.

The CEO's performance is continuously monitored and annually assessed. The assessment is used to determine, in part, the level of "at risk" remuneration paid to the CEO.

Recommendation 8.3

As set out above, the Company offers equity based plans, if appropriate, for the CEO, senior management and other employees. The Company's Trading Policy prohibits participants in equity-based plans from entering into transactions, which limit the economic risk of participating in the equity-based plan whilst the relevant interests granted pursuant to an equity-based plan remain unvested. The Company's Trading Policy is disclosed on the Company's website at www.flexigroup.com.au/investor-centre/corporate-information.

Auditor's Independence Declaration

As lead auditor for the audit of FlexiGroup Limited for the year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. 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
29 August 2016

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FlexiGroup Limited and its controlled entities

Annual Financial Statements – 30 June 2016

ABN 75 122 574 583

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These financial statements are the consolidated financial statements of the consolidated entity consisting of FlexiGroup Limited and its subsidiaries. The financial statements are presented in the Australian currency.

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 2, which is not part of these financial statements.

The financial statements were authorised for issue by the Directors on 29 August 2016. 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: www.flexigroup.com.au

	Notes	Consolidated 2016 $m	2015 $m
Total portfolio income	5	**396.4**	340.8
Interest expense		**(79.0)**	(67.6)
Net portfolio income		**317.4**	273.2
Employment expenses		**(70.4)**	(61.6)
Receivables and customer loan impairment expenses		**(78.6)**	(44.5)
Depreciation and amortisation expenses	6	**(14.3)**	(9.4)
Operating and other expenses	6	**(84.4)**	(44.8)
Profit before income tax		**69.7**	112.9
Income tax expense	7	**(19.5)**	(30.2)
Profit for the year attributable to shareholders of FlexiGroup Limited		**50.2**	82.7

		cents	cents [1]
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic earnings per share	22	**14.5**	26.4
Diluted earnings per share	22	**14.5**	26.3

[1] Prior year EPS restated for impact of bonus shares in rights issue conducted during the period.

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

	Consolidated	
	2016	2015
	$m	$m
Profit for the year	**50.2**	82.7
Other comprehensive income		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	**9.0**	(3.4)
Changes in the fair value of cash flow hedges, net of tax	**1.4**	(2.5)
Other comprehensive income for the year, net of tax	**10.4**	(5.9)
Total comprehensive income for the year attributable to shareholders of FlexiGroup Limited	**60.6**	76.8

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

	Notes	Consolidated 2016 $m	2015 $m
Assets			
Cash and cash equivalents	8	**174.4**	130.3
Inventories	9	**0.9**	4.2
Receivables	10	**710.1**	749.2
Customer loans	11	**1,372.2**	702.3
Plant and equipment	12	**6.1**	5.2
Goodwill	13	**298.9**	150.4
Other intangible assets	14	**100.8**	44.6
Assets of disposal group held for sale	4	**16.2**	-
Total assets		**2,679.6**	1,786.2
Liabilities			
Payables	15	**49.1**	35.7
Borrowings	16	**1,948.5**	1,274.5
Current tax liabilities		**1.8**	9.2
Provisions	17	**7.6**	5.5
Deferred and contingent consideration		**8.2**	5.9
Derivative financial instruments	18	**20.0**	7.3
Deferred tax liabilities	7	**25.5**	37.6
Liabilities of disposal group held for sale	4	**6.5**	-
Total liabilities		**2,067.2**	1,375.7
Net assets		**612.4**	410.5
Equity			
Contributed equity	19	**356.8**	161.9
Reserves	20(a)	**8.1**	(3.0)
Retained earnings	20(b)	**247.5**	251.6
Total equity		**612.4**	410.5

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

Consolidated	**Contributed equity $m**	**Reserves $m**	**Retained earnings $m**	**Total $m**
2015				
Balance at the beginning of the year	161.2	2.4	221.4	385.0
Profit for the year	-	-	82.7	82.7
Other comprehensive income	-	(5.9)	-	(5.9)
Total comprehensive income for the year	-	(5.9)	82.7	76.8
Share based payment expense	-	0.8	-	0.8
Exercise of employee share options	0.5	-	-	0.5
Transfer to share capital	0.2	(0.2)	-	-
Other changes in share based payment	-	(0.1)	-	(0.1)
Dividends provided for or paid (note 21)	-	-	(52.5)	(52.5)
Balance at the end of the year	161.9	(3.0)	251.6	410.5
2016				
Balance at the beginning of the year	**161.9**	**(3.0)**	**251.6**	**410.5**
Profit for the year	**-**	**-**	**50.2**	**50.2**
Other comprehensive income	**-**	**10.4**	**-**	**10.4**
Total comprehensive income for the year	**-**	**10.4**	**50.2**	**60.6**
Share based payment expense	**-**	**1.3**	**-**	**1.3**
Issue of shares to employees on vesting of performance rights	**0.5**	**(0.5)**	**-**	**-**
Cash settlement on vesting of options	**-**	**(0.1)**	**-**	**(0.1)**
Issue of share capital	**146.1**	**-**	**-**	**146.1**
Issue of perpetual notes as consideration for a business combination, net of transaction costs and tax	**49.1**	**-**	**-**	**49.1**
Treasury shares purchased on market	**(0.8)**	**-**	**-**	**(0.8)**
Dividends provided for or paid (note 21)	**-**	**-**	**(54.3)**	**(54.3)**
Balance at the end of the year	**356.8**	**8.1**	**247.5**	**612.4**

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

	Notes	Consolidated 2016 $m	2015 $m
Cash flows from operating activities			
Interest and fee income received		**402.7**	340.0
Payment to suppliers and employees		**(131.8)**	(118.3)
Interest paid		**(79.1)**	(68.7)
Income taxes paid		**(44.4)**	(31.8)
Net cash inflow from operating activities	23	**147.4**	121.2
Cash flows from investing activities			
Payment for purchase of plant and equipment and software		**(24.2)**	(26.4)
Payment for business acquisitions, net of cash acquired	26	**(185.3)**	(18.8)
Payment for deferred consideration relating to business acquisitions		**(1.5)**	(3.0)
Net movement in:			
Customer loans		**(108.6)**	(64.3)
Receivables due from customers		**50.3**	14.9
Net cash outflow from investing activities		**(269.3)**	(97.6)
Cash flows from financing activities			
Dividends paid		**(54.3)**	(52.5)
Proceeds from equity raising, net of transaction costs		**144.4**	0.5
Treasury shares purchased on market		**(0.8)**	-
Cash settled share based payment		**(0.1)**	-
Net movement in borrowings		**75.6**	52.6
Net cash inflow from financing activities		**164.8**	0.6
Net increase in cash and cash equivalents		**42.9**	24.2
Cash and cash equivalents at the beginning of the year		**130.3**	106.6
Effects of exchange rate changes on cash and cash equivalents		**1.2**	(0.5)
Cash and cash equivalents at the end of the year	8	**174.4**	130.3

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

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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*. 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 and amended standards adopted by the Group

The Group has applied the following standards and amendments for first time for their annual reporting period commencing 1 July 2015 and they have not had any material effect on its financial position or performance:

AASB 2015-3 *Amendments to Australian Accounting Standards arising from the withdrawal of AASB 1031 Materiality.*

(iii) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2016 reporting periods and have not been early adopted by the Group.

The following new standards to be applied in future periods are set out below and the Group is in the process of determining the implications of these standards:

AASB 9 *Financial instruments*. This standard makes significant changes to the way financial assets are classified for the purpose of determining their measurement basis and also to the amounts relating to fair value changes, which are to be taken directly to equity. This standard also makes significant changes to hedge accounting requirements and disclosures and introduces a new impairment model for financial assets. This standard is mandatory for adoption by the Group for the year ending 30 June 2019; however early application is permitted in certain circumstances. The financial impact to the Group of adopting AASB 9 has not yet been quantified.

AASB 15 *Revenue from contracts with customers*. This new comprehensive standard for revenue recognition replaces AASB 111 *Construction contracts*, AASB 118 *Revenue*, AASB Interpretations 13 *Customer Loyalty Programmes* and AASB Interpretations 18 *Transfers of Assets from Customers*. This standard is mandatory for adoption by the Group for the year ending 30 June 2018; however early application is permitted. The financial impact to the Group of adopting AASB 15 has not yet been quantified.

AASB 16 *Leases*. This new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. This standard will predominantly affect lessees and as the Group operates mainly as a lessor, the standard is not expected to have a significant impact. This standard is mandatory for adoption by the Group for the year ending 30 June 2020; however early application is permitted. The financial impact to the Group of adopting AASB 16 has not yet been quantified.

AASB 2015-1 *Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle* – This standard refers to amendments to existing accounting standards, principally in relation to AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, AASB 7 *Financial Instruments: Disclosures*, AASB 119 *Employee Benefits* and AASB 134 *Interim Financial Reporting*. This standard is mandatory for adoption by the Group for the year ending 30 June 2017. Initial application is not expected to result in any material impact to the Group.

AASB 2015-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101* – This standard facilitates improved reporting, including and emphasis on only including material disclosures, clarity on the aggregation and disaggregation of line items, the presentation of subtotals, the ordering of notes and the identification of significant accounting policies. This standard is mandatory for adoption by the Group for the year ending 30 June 2017. Initial application is not expected to result in any material impact to the Group.

1. Summary of significant accounting policies (continued)

a. Basis of preparation (continued)

(iv) Disclosure

Some disclosures in the income statement, statement of financial position, statement of cash flows and notes to the financial statements for comparatives have been reclassified to be consistent with current period disclosures. The statement of financial position has been prepared in order of liquidity in 2016, 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.

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 2016 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.

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

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) 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 the exchange rates at the dates of the transactions. 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 profit or loss. 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 income statement on a net basis within other income or other expenses.

1. Summary of significant accounting policies (continued)

d. Foreign currency translation (continued)

(ii) Transactions and balances (continued)

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.

(v) Group companies

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet,
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (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

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group’s activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

(i) Lease finance interest income

Lease finance interest income is recognised by applying discount rates implicit in the leases to lease balances receivable at the beginning of each payment period. Initial direct costs incurred in the origination of leases are included as part of receivables in the balance sheet and are amortised in the calculation of lease income.

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

(ii) 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.

1. Summary of significant accounting policies (continued)

e. Revenue recognition (continued)

(iii) Interest income – bank accounts/loss reserves

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

(iv) Sale of goods

Revenue from sale of goods includes revenue from sale of equipment, parts and accessories. The revenue is recognised on delivery of goods sold.

Other portfolio income:

(v) Equipment protection plan revenue

The Group operates an equipment protection and debt waiver plan entitled Protect Plan. Protect Plan revenue is recognised in the month it is due on an accruals basis. A provision for outstanding expected claims is recognised in the balance sheet 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.

(vi) Mobile broadband revenue

Revenue relating to the sale of modems is recognised when the Group entity has delivered the goods to the dealer. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have transferred to the dealer and the dealer has accepted the products. Revenue relating to the broadband contracts is recognised on an accruals basis over the life of the contract.

(vii) 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 in revenue in the month to which they relate.

(viii). Premium revenue

Premium revenue includes amounts charged to the insured 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 balance sheet.

(ix) 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.

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 assets are stated at amortised costs using the effective interest rate method.

1. Summary of significant accounting policies (continued)

Insurance (continued)

(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-Fergusson (incurred claims) methodology (an actuarial method). It has been assumed that future incurred claims patterns for each group of business will continue to follow observed historic patterns

f. Income tax

The income tax expense or revenue 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.

1. Summary of significant accounting policies (continued)

f. Income tax (continued)

Tax consolidation legislation (continued)

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 in the tax consolidation 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 consolidation group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities 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(f). 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) wholly-owned tax consolidation entities.

g. 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.

h. 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 lessees. 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.

i. Loan receivables

Loan receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group did not intend to sell immediately or in the near term. They arise when the Group provides loans to customers via products such as interest free loans/cards, Certegy Ezi-pay.

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.

1. Summary of significant accounting policies (continued)

j. Provision for doubtful debts

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 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 (primarily in the Enterprise portfolio) 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 the present and expected future levels of employment. 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, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash.

n. Investments

The Group classifies its investments in 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.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period.

1. Summary of significant accounting policies (continued)

n. Investments (continued)

(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 2016 (2015: $nil).

(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.

(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 2016 (2015: $nil).

(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 long-term.

The Group had no assets in this category at 30 June 2016 (2015: $nil).

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 as at 30 June 2016 and 30 June 2015 as hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the hedging transaction 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 profit or loss within other income or other expense.

1. Summary of significant accounting policies (continued)

o. Derivatives and hedging activities (continued)

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 forecast sale 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 profit or loss 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 profit or loss.

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 profit or loss and are included in other income or other expenses.

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 office equipment, parts and toners, returned rental equipment, extended rental equipment after the end of the contractual rental period and mobile broadband stock.

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 diminishing value method to allocate their cost or revalue amounts, net of their residual values, over their estimated useful lives, as follows:

Depreciable assets	*Depreciation rate*
Plant and equipment	20-40%

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

1. Summary of significant accounting policies (continued)

r. Intangibles (continued)

(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 3 to 10 years.

(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 from 3 to 7 years. The Farmers intangible asset acquired as part of Fisher and Paykel Finance is a 20 year exclusive license to provide certain financial services to the Farmers Trading Company and is being amortised over 20 years, with a remaining amortisation period of 7 years. This will be assessed as part of fair valuation of the net assets of the acquired entity.

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.

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.

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 profit or loss.

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.

1. Summary of significant accounting policies (continued)

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 balance sheet 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 profit or loss, 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 sheet 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.

1. Summary of significant accounting policies (continued)

x. Employee benefits (continued)

(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 entity, 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, excluding any costs of servicing equity other than ordinary shares,
- 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.

1. Summary of significant accounting policies (continued)

aa. Earnings per share (continued)

(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)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the 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 receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities, which are recoverable from, or payable, to the 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 35 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(f).

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) 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.

(ii) Provision for doubtful debts

The Group estimates losses incurred on its loans and lease receivables in accordance with the policy set out in note 1(j).

(iii) Assessment of impairment of goodwill and investments in subsidiaries

Under the 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 note 13.

(iv) Acquired intangible assets

Under the accounting standards, 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 (g), (r) and note 26. At 30 June 2016, assets and liabilities relating to the F&P Finance acquisition are accounted for at provisional values.

(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 and the probability of non-market vesting conditions being met as set out in 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 where appropriate.

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. The CEO and the Board, in addition to statutory profit after tax, assess the business on a Cash NPAT basis. Cash NPAT is defined as statutory profit after tax, adjusted for the after tax effect of material one-off items that the CEO and Board believe do not reflect ongoing operations of the Group and amortisation of acquired intangible assets.

The CEO considers the business from a product perspective and has identified five reportable segments; No Interest Ever business (Certegy) , Interest Free Cards business (Lombard and Once Credit), Australia Leasing (consisting of FlexiRent, SmartWay, FlexiWay, FlexiCommercial, Enterprise and Think Office Technology), New Zealand (NZ) Leasing, and New Zealand Cards (Fisher & Paykel Finance).

In the current year, the Enterprise and Consumer & SME Leasing segments, that were previously separately disclosed, were combined to form the Australia Leasing segment. The CEO now manages performance and allocates resources at the Australia Leasing level and the businesses share operational synergies. Additionally, an unallocated segment has been identified in the current year and this consists of corporate debt interest (net). Prior year comparatives have been restated to reflect the changes to reportable segments.

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

The segment information provided to the CEO for the reportable segments for the year ended 30 June 2016 is as below:

(b) Operating segments

2016

	No Interest Ever	Interest Free Cards	Australia Leasing	NZ Leasing	NZ Cards	Unallocated	Group
Total portfolio income	**116.5**	**48.8**	**151.1**	**38.3**	**41.7**	**-**	**396.4**
Interest expense	**(19.2)**	**(9.4)**	**(26.9)**	**(7.3)**	**(12.2)**	**(4.0)**	**(79.0)**
Net portfolio income	**97.3**	**39.4**	**124.2**	**31.0**	**29.5**	**(4.0)**	**317.4**
Other expenses	**(27.1)**	**(10.9)**	**(91.8)**	**(14.6)**	**(13.1)**	**-**	**(157.5)**
Impairment losses on loans and receivables	**(19.9)**	**(8.5)**	**(45.0)**	**(1.2)**	**(4.0)**	**-**	**(78.6)**
Amortisation of acquired other intangible assets	**-**	**(0.7)**	**(8.1)**	**(0.9)**	**(1.9)**	**-**	**(11.6)**
Profit before income tax	**50.3**	**19.3**	**(20.7)**	**14.3**	**10.5**	**(4.0)**	**69.7**
Income tax (expense) / benefit	**(15.1)**	**(5.9)**	**6.7**	**(3.5)**	**(2.9)**	**1.2**	**(19.5)**
Statutory profit for the year	**35.2**	**13.4**	**(14.0)**	**10.8**	**7.6**	**(2.8)**	**50.2**
Recurring non-cash adjustments:							
Amortisation of acquired intangible assets(1)	**-**	**0.6**	**1.0**	**0.8**	**1.3**	**-**	**3.7**
One-off adjustments:							
Acquisition and integration costs(2)	**0.2**	**-**	**4.9**	**0.1**	**0.4**	**-**	**5.6**
One-off non-cash adjustments							
Impairment of goodwill and other intangible assets(3)	**-**	**-**	**20.8**	**-**	**-**	**-**	**20.8**
Receivables provisions(4)	**-**	**-**	**16.7**	**-**	**-**	**-**	**16.7**
Cash net profit after tax	**35.4**	**14.0**	**29.4**	**11.7**	**9.3**	**(2.8)**	**97.0**
Total segment assets	**532.6**	**328.8**	**837.8**	**223.8**	**756.6**	**-**	**2,679.6**

3. Segment information (continued)

(b) Operating segments (continued)

(1) The acquisition of companies over the years has resulted in the recognition of merchant and customer relationships that are amortised over their useful lives ranging between 3 and 7 years. The amortisation of acquired intangible assets (excluding IT development and software), is a cash earnings adjustment because it is a non-cash item and does not affect cash distributions available to shareholders.

(2) Acquisition costs incurred in business acquisitions were treated as Cash NPAT adjustments as they are not expected to impact on future earnings of the acquired entities or the Group as whole. These acquisition costs we announced to the market on 27 October 2015 and relate to the acquisition of F&P Finance.

(3) As part of the broader strategic review of the business, some business units were identified as non-core. As a result, the recoverable amounts of the assets of Enterprise, Paymate, Telco (Blink) and some Interest Free Cards systems and Think Office Technology was estimated and this resulted in goodwill and other intangible assets (including capitalised software) of $20.8m being impaired. These impairments are non-cash, non-recurring and have no impact on the Company's ability to pay dividends and have been adjusted to arrive at a maintainable cash earnings amount.

(4) Due to the Enterprise business being run-off, an additional provision was recognised against major single exposures in the portfolio. Additionally, other one-off provisions were recognised across receivables on the back of historical trends. This is a non-cash, non-recurring item and is treated as an adjustment to the statutory profit for the year.

2015

	No Interest Ever	**Interest Free Cards**	**Australia Leasing**	**NZ Leasing**	**NZ Cards**	**Unallocated**	**Group**
Total portfolio income	114.5	42.4	161.5	22.4	-	-	340.8
Interest expense	(21.1)	(8.8)	(30.9)	(4.0)	-	(2.8)	(67.6)
Net portfolio income	93.4	33.6	130.6	18.4	-	(2.8)	273.2
Other expenses	(29.7)	(9.1)	(61.5)	(8.3)	-	-	(108.6)
Impairment losses on loans and receivables	(14.4)	(6.7)	(22.4)	(1.0)	-	-	(44.5)
Amortisation of acquired other intangible assets	(0.1)	(2.1)	(5.0)	-	-	-	(7.2)
Profit before income tax	**49.2**	**15.7**	**41.7**	**9.1**	**-**	**(2.8)**	**112.9**
Income tax (expense) / benefit	(14.8)	(5.2)	(8.8)	(2.2)	-	0.8	(30.2)
Statutory profit for the year	**34.4**	**10.5**	**32.9**	**6.9**	**-**	**(2.0)**	**82.7**
Recurring non-cash adjustments:							
Amortisation of acquired intangible assets(1)	-	1.8	1.1	-	-	-	2.9
One-off adjustments:							
Acquisition costs(2)	-	-	1.9	0.1	-	-	2.0
One-off non-cash adjustments							
Residual value loss(3)	-	-	2.5	-	-	-	2.5
Cash net profit after tax	**34.4**	**12.3**	**38.4**	**7.0**	**-**	**(2.0)**	**90.1**
Total segment assets	**608.7**	**271.6**	**718.0**	**187.9**	**-**	**-**	**1,786.2**

(1) The acquisition of companies over the years has resulted in the recognition of merchant and customer relationships that are amortised over their useful lives ranging between 3 and 7 years. The amortisation of acquired intangible assets (excluding IT development and software), is a cash earnings adjustment because it is a non-cash item and does not affect cash distributions available to shareholders.

(2) Acquisition costs incurred for in business acquisitions were treated as Cash NPAT adjustments as they are not expected to impact on future earnings of the acquired entities or the Group as whole.

(3) Residual value loss relate to a single contract for photographic printing equipment. The loss is not expected to recur.

4. Disposal group held for sale

In May 2016, the Group committed to a plan to sell Australian Print Holdings Pty Limited (trading as Think Office Technology), a fully owned subsidiary entity within the Australia Leasing segment as management does not consider Think Office Technology to be part of the ongoing core operations of the Group. Accordingly, this is presented as a disposal group held for sale in the statement of financial position. Efforts to sell the disposal group are ongoing and a sale is expected to be completed within 12 months.

(a) Impairment loss relating to the disposal group

Impairment losses of $8.5m for write-downs of the disposal group to lower its carrying amount to equal its fair value less costs to sell have been included in the income statement. The impairment losses have been applied to reduce the carrying amount of goodwill.

(b) Assets and liabilities of disposal group held for sale

As at 30 June 2016, the Think Office Technology business was classified as a disposal group and the assets and liabilities of the disposal group have been recognised as held for sale and measured at their fair value less costs to sell.

	2016 $m
Inventories	**3.9**
Receivables	**3.1**
Plant and equipment	**3.0**
Deferred tax assets	**0.2**
Goodwill	**1.9**
Other intangible assets	**4.1**
Total assets of disposal group held for sale	**16.2**
Payables	**2.5**
Provisions	**0.5**
Deferred and contingent consideration	**3.5**
Total liabilities of disposal group held for sale	**6.5**

(c) Measurement of fair value of the disposal group held for sale

The non-recurring fair value measurement of the disposal group is $9.7m, net of deferred and contingent consideration payable during the 6 months to 31 December 2016 of $3.5m. The valuation technique used to arrive at a fair value for the disposal group is the market approach where the market price of comparable assets has been used as the basis for the fair value of the disposal group.

5. Total portfolio income

	2016 $m	2015 $m
Gross interest and finance lease income	**328.2**	288.2
Amortisation of initial direct transaction costs (note 1(e)(ii))	**(30.4)**	(32.5)
Other portfolio income	**84.7**	74.2
Sale of goods	**8.8**	7.5
Other income	**2.0**	0.4
Interest income – banks	**3.1**	3.0
Total portfolio income	**396.4**	340.8

6. Expenses

	2016 $'m	2015 $'m
Depreciation of plant and equipment (note 12)	**2.7**	2.2
Amortisation of other intangible assets (note 14)	**11.6**	7.2
Total depreciation and amortisation expenses	**14.3**	9.4

	2016 $'m	2015 $'m
Operating and other expenses		
Acquisition costs relating to business combinations	**6.9**	2.5
Advertising and marketing	**4.6**	3.4
Cost of goods sold	**5.3**	4.0
Information technology and communication	**12.6**	11.2
Operating lease rental expenses	**4.2**	4.0
Other occupancy, equipment and related costs	**2.7**	2.5
Outsourced operations costs	**7.2**	4.9
Professional, consulting and other service provider costs	**10.6**	10.7
Impairment of IT development and software	**17.6**	0.6
Impairment of disposal group held for sale	**8.5**	-
Other	**4.2**	1.0
Total operating and other expenses	**84.4**	44.8

7. Income tax expense

	2016 $m	2015 $m
(a) Income tax expense		
Current tax	**32.7**	35.0
Deferred tax expense	**(12.9)**	(4.7)
Over provision in prior years	**(0.3)**	(0.1)
	19.5	30.2

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	2016 $m	2015 $m
Profit before income tax expense	**69.7**	112.9
Tax at the Australian tax rate of 30%	**20.9**	33.9
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Permanent differences[1]	**(0.2)**	(3.1)
Effect of differences in tax rates in foreign jurisdiction	**(0.9)**	(0.5)
Adjustments for current tax of prior periods	**(0.3)**	(0.1)
Income tax expense	**19.5**	30.2

(1) Includes amortisation of intangibles (non-compete acquisition arrangement), acquisition costs and goodwill impairment and others

(c) Amounts recognised directly in equity

	2016 $m	2015 $m
Deferred income tax expense related to items taken directly to equity	**1.2**	(1.1)

7. Income tax expense (continued)

(d) Deferred tax expense represent movements in deferred tax assets/liabilities

	2016 $m	2015 $m
Difference between lease principal to be returned as assessable income and depreciation on leased assets to be claimed as a tax deduction	**(2.1)**	(5.0)
Initial direct transaction costs	**(1.1)**	(0.3)
Other intangible assets	**0.1**	0.7
Provisions and other liabilities	**(9.8)**	(0.1)
	(12.9)	(4.7)

(e) Deferred tax assets and liabilities

	2016 $m	2015 $m
Deferred tax assets		
Provisions and other liabilities	**35.3**	14.0
Carryforward tax losses	**0.8**	-
Reclassified to disposal group held for sale (note 4)	**(0.2)**	-
Total deferred tax assets	**35.9**	14.0
Deferred tax liabilities		
Difference between lease principal to be returned as assessable income and depreciation on leased assets to be claimed as a tax deduction	**37.7**	39.1
Initial direct transaction costs	**9.1**	10.3
Plant and equipment	**0.7**	-
Other intangible assets	**13.9**	2.2
Total deferred tax liabilities	**61.4**	51.6
Net deferred tax liabilities	**25.5**	37.6
Amounts expected to be settled within 12 months	**(3.6)**	10.0
Amounts expected to be settled after more than 12 months	**29.1**	27.6
	25.5	37.6

(f) Carryforward tax losses

As at 30 June 2016, the Group had carryforward tax losses amounting to $2,839,616, which do not have an expiry date. The carryforward tax losses relate to the consolidated New Zealand tax group (excluding Fisher & Paykel Finance). The Group believes that it is more likely than not that the carryforward tax losses will be realised against future taxable income and has therefore recognised a deferred tax asset of $800,000.

(g) Tax consolidation legislation

FlexiGroup Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation from December 2006. The accounting policy on implementation of the legislation is set out in note 1(f).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing-agreement which, in the opinion of the Directors, 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 is 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

	2016 $m	2015 $m
Cash at bank and on hand	**174.4**	130.3

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:

	2016 $m	2015 $m
Balances as above	**174.4**	130.3
Balances per statement of cash flows	**174.4**	130.3

Included in cash at bank are amounts of $135.3 million (2015: $100.9 million) 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.

9. Inventories

	2016 $m	2015 $m
Equipment, parts and accessories*	**-**	2.7
Rental equipment	**0.9**	1.5
	0.9	4.2

* - Reclassified to disposal group held for sale in Note 4.

10. Receivables

	2016 $m	2015 $m
Gross investment in finance lease receivables (1)	**798.7**	838.4
Guaranteed residuals	**7.4**	8.5
Unguaranteed residuals	**55.9**	53.7
Unamortised initial direct transaction costs	**31.6**	34.9
Unearned future income	**(168.7)**	(183.7)
Net investment in finance lease receivables	**724.9**	751.8
Provision for doubtful debts	**(29.1)**	(14.3)
Net investment in finance leases after provision for doubtful debts	**695.8**	737.5
Other debtors	**14.3**	11.7
Total receivables	**710.1**	749.2

Total receivables are represented as follows:

	2016 $m	2015 $m
Gross investment in finance lease receivables:		
Due within one year	**437.1**	445.5
Due after one year but not later than five years	**454.2**	487.7
Due greater than five years	**2.3**	2.3
Unearned future income	**(168.7)**	(183.7)
Net investment in finance lease receivables	**724.9**	751.8
Provision for doubtful debts	**(29.1)**	(14.3)
Net investment in finance leases after provision for doubtful debts	**695.8**	737.5

10. Receivables (continued)

	2016 $m	2015 $m
Net investment in finance lease receivables analysed as follows:		
Due within one year	**333.9**	334.3
Due after one year but not later than five years	**389.0**	415.4
Due greater than five years	**2.0**	2.1
Total net investment in finance lease receivables	**724.9**	751.8

(1) Refer to note 25 (c) for disclosure of impaired lease receivables, past due but not impaired lease receivables and the fair value of lease receivables.

Movement in provision for doubtful debts

	2016 $m	2015 $m
Carrying amount at beginning of the year	**14.3**	9.1
Additions through business combinations	**-**	1.1
Provided for during the year, less write-offs previously provided for	**14.8**	4.1
Carrying amount at end of the year	**29.1**	14.3

11. Customer loans

	2016 $m	2015 $m
Gross customer loans [1]	**1,482.1**	780.4
Unearned future income	**(81.6)**	(69.5)
Net loan receivables	**1,400.5**	710.9
Provision for doubtful debts	**(28.3)**	(8.6)
	1,372.2	702.3
Maturity profile of net customer loans before provision for doubtful debts:		
Up to 1 year	**957.2**	540.3
1 to 5 years	**431.9**	170.6
Over 5 years	**11.4**	-
	1,400.5	710.9

(1) Refer to note 25 (c) for disclosure of impaired customer loans, past due but not impaired customer loans and the fair value of customer loans.

Movement in provision for doubtful debts

	2016 $m	2015 $m
Carrying amount at beginning of the year	**8.6**	9.7
Additions through business combinations	**18.7**	-
Provided for / (write-offs) during the year	**1.0**	(1.1)
Carrying amount at end of the year	**28.3**	8.6

Reconciliation of fair value of customer loans and lease receivables acquired in business combinations

	2016 $m	2015 $m
Gross customer loans and receivables	**635.1**	-
Provision for bad debts	**(18.7)**	-
Provisional fair value - note 26 (a)	**616.4**	-

Customer loans and receivables for the Fisher and Paykel Finance business acquired on 29 February 2016 are disclosed gross of provisions in notes 10 and 11 above. Provisions for bad debts acquired as part of the underlying net asset value are disclosed separately in bad debts provision to determine provisional fair value.

12. Plant and equipment

	2016 $m	2015 $m
Plant and equipment		
Cost or fair value	**14.1**	15.2
Accumulated depreciation	**(8.0)**	(10.0)
Net book amount	**6.1**	5.2
Movement in plant and equipment at net book amount:		
Balance at the beginning of the year	**5.2**	6.1
Additions through business combinations	**1.3**	-
Additions	**5.5**	1.7
Assets held in a disposal group classified as held for sale	**(3.0)**	-
Disposals	**(0.2)**	(0.4)
Depreciation	**(2.7)**	(2.2)
Balance at the end of the year	**6.1**	5.2

13. Goodwill

(a) Carrying value

	2016 $m	2015 $m
Cost or fair value	**298.9**	150.4
Net book amount	**298.9**	150.4
Movement in goodwill at net book amount		
Balance at the beginning of the year	**150.4**	134.1
Additions or fair value adjustments through business combinations:		
- acquisition of subsidiaries (2016: note 26 (a)) (2015: note 26 (b) (c)) (provisional)	**156.2**	14.4
- Rentsmart (fair value adjustment)	**-**	1.8
- Telecom Rentals (fair value adjustment, note 26 (b))	**2.6**	-
Reclassification of Goodwill to disposal group held for sale	**(11.4)**	-
Effect of movements in exchange rates	**1.1**	(0.1)
Other	**-**	0.2
Balance at the end of the year	**298.9**	150.4

(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:

	2016	2015
Consumer & SME	**75.9**	75.9
No Interest Ever	**29.7**	29.7
Interest Free Cards	**18.9**	18.9
New Zealand Leasing	**17.2**	14.5
Think Office Technology (transferred to disposal group held for sale)	**-**	11.4
New Zealand Cards	**157.2**	-
	298.9	150.4

13. Goodwill (continued)

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 2017 financial year budget. Cash flows for a further 4 year period were extrapolated using declining growth rates such that the long term terminal growth was determined at 2% - 3%, which does not exceed the long term average for the sectors and economies in which the CGUs operate.

The key assumptions used in determining value in use for 30 June 2016 are:

Assumption	How determined
Forecast revenues and expenses	Forecast revenues and expenses beyond the 2017 financial year budget period have been extrapolated using declining growth rates such that the long-term terminal growth rates are as follows: Consumer and SME – 2% (2015: 2%) No Interest Ever – 3% (2015: 3%) Interest Free Cards – 3% (2015: 3%) New Zealand Leasing– 3% (2015: 3%) New Zealand Cards – 3% (2015: n/a)
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 as at 30 June 2016, 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 given that debt and interest underpin the CGUs operations. The pre-tax discount rates used for each CGU are as follows: Consumer and SME – 15.6% (2015: 13.7%) No Interest Ever – 15.7% (2015:12.6%) Interest Free Cards – 15.7% (2015: 12.9%) New Zealand Leasing – 13.4% (2015: 12.5%) New Zealand Cards – 14.9% (2015: n/a)

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 reasonably possible 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 2016.

14. Other Intangible assets

	IT development & software $m	Merchant & customer relationships and other rights $m	Non-compete agreements $m	Brand name $m	Total $m
At 1 July 2014	16.2	10.0	1.1	0.4	27.7
Additions	24.7	-	-	-	24.7
Disposals	(0.6)	-	-	-	(0.6)
Amortisation	(3.7)	(2.6)	(0.9)	-	(7.2)
At 30 June 2015	36.6	7.4	0.2	0.4	44.6
At 1 July 2015	**36.6**	**7.4**	**0.2**	**0.4**	**44.6**
Additions	**24.9**	**-**	**-**	**-**	**24.9**
Additions and changes in fair value through business combinations	**16.2**	**46.7**	**-**	**-**	**62.9**
Impairment[(1)]	**(17.6)**	**-**	**-**	**-**	**(17.6)**
Intangible assets included in a disposal group classified as held for sale	**-**	**(3.7)**	**-**	**(0.4)**	**(4.1)**
Amortisation	**(7.0)**	**(4.4)**	**(0.2)**	**-**	**(11.6)**
Effect of movements in exchange rates	**0.4**	**1.3**	**-**	**-**	**1.7**
At 30 June 2016	**53.5**	**47.3**	**-**	**-**	**100.8**

[(1)] Impairment relates to the write down of software costs relating to discontinued and restructured businesses and idle assets.

15. Payables

	2016 $m	2015 $m
Trade payables	**48.6**	35.6
Other payables	**0.5**	0.1
	49.1	35.7

16. Borrowings

	2016 $m	2015 $m
Secured		
Corporate debt	**142.0**	45.0
Secured loans	**1,828.4**	1,255.9
Total secured borrowings	**1,970.4**	1,300.9
Loss reserve	**(21.9)**	(26.4)
	1,948.5	1,274.5
Maturity profile of borrowings, net of loss reserve:		
Up to 1 year	**1,017.6**	774.6
1 to 5 years	**590.5**	499.9
Over 5 years	**340.4**	-
	1,948.5	1,274.5

16. Borrowings (continued)

Assets pledged as security

The loans are secured by rentals and payments receivable in respect of the underlying lease and loan receivable contracts. Under the terms of the funding arrangements, some of the funders retain a part of the gross amount funded as security against credit losses on the underlying leases. 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:

	2016 $m	2015 $m
Total loan facilities available	**2,459.4**	1,835.5
Loan facilities used at balance date	**(1,970.4)**	(1,300.9)
Loan facilities unused at balance date	**489.0**	534.6

17. Provisions

	2016 $m	2015 $m
Annual leave	**3.5**	4.0
Long service leave	**2.6**	1.0
Outstanding claims liability	**0.4**	-
Unearned premium liability	**0.3**	-
Other	**0.8**	0.5
	7.6	5.5

18. Derivative financial instruments

	2016 $m	2015 $m
Interest rate swaps used for hedging	**20.0**	7.3

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

	2016 Shares	2015 Shares	2016 $m	2015 $m
(a) Share capital				
Ordinary shares – fully paid	**372,302,450**	304,149,707	**307.7**	161.9
Subordinated perpetual notes	**49,129,075**	-	**49.1**	-
Total share capital	**421,431,525**	304,149,707	**356.8**	161.9

(b) Movement in ordinary shares

	Number of shares (m)	$m
1 July 2014	303.9	161.2
Issue of shares to employees from treasury shares	0.2	0.5
Issue of shares on vesting of options	0.1	0.2
30 June 2015	304.2	161.9
1 July 2015	**304.2**	**161.9**
Issue of shares	**68.2**	**150.0**
Equity raising costs, net of tax	**-**	**(3.9)**
Treasury shares acquired on market	**(0.3)**	**(0.8)**
Issue of shares to employees from treasury shares	**0.2**	**0.5**
30 June 2016	**372.3**	**307.7**

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 persons or by proxy, 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.

(c) Movement in subordinated perpetual notes

	Number of notes (m)	$m
1 July 2015	**-**	**-**
Issue of subordinated perpetual notes	**49.1**	**49.1**
30 June 2016	**49.1**	**49.1**

FlexiGroup Limited has issued unsecured subordinated perpetual notes during the year as part of the consideration for the acquisition of Fisher & Paykel Finance. The face value of the notes is $49.1m, the A$ equivalent of NZ$ 55m. Interest is payable on the perpetual notes at the sole and absolute discretion of the issuer. 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 dividends to the ordinary shareholders.

19. Contributed equity (continued)

FlexiGroup Limited has the option and discretion to redeem the perpetual notes through the repayment of principal and any capitalised interest, or convert the perpetual notes into 28.5 million ordinary shares. As there is no present obligation to pay any principal amount or any interest, the perpetual notes have been classified as equity. The perpetual notes have no right to share in any surplus assets or profits, dividends and no voting rights.

(d) Options and performance rights

Information relating to the FlexiGroup Employee Options and Performance Rights Plan, including details of options and performance rights exercised and lapsed during the financial year and options and performance rights outstanding at the end of the financial year, is set out in note 24.

(e) Movement in treasury shares

	Number of shares (m)	$m
1 July 2014	0.2	-
Utilised against vested options	(0.2)	-
30 June 2015	-	-
1 July 2015	**-**	**-**
Treasury shares acquired on market	**0.3**	**0.8**
Issue of shares to employees from treasury shares	**(0.2)**	**(0.5)**
30 June 2016	**0.1**	**0.3**

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).

(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 benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. 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 dividend policy as well as its plans for acquisition and disposal of assets.

20. Reserves and retained earnings

	2016 $m	2015 $m
(a) Reserves		
Share-based payment reserve	**1.8**	1.1
Foreign currency translation reserve	**9.8**	0.8
Share capital reserve	**0.3**	0.3
Cash flow hedge reserve	**(3.8)**	(5.2)
	8.1	(3.0)
Movements:		
Share-based payment reserve		
Balance at 1 July	**1.1**	0.6
Transfer to share capital	**(0.5)**	(0.2)
Share-based payment expense	**1.3**	0.8
Other changes	**(0.1)**	(0.1)
Balance at 30 June	**1.8**	1.1

20. Reserves and retained earnings (continued)

	2016 $m	2015 $m
Movements:		
Foreign currency translation reserve		
Balance at 1 July	**0.8**	4.2
Other comprehensive income	**9.0**	(3.4)
Balance at 30 June	**9.8**	0.8
Movements:		
Share capital reserve		
Balance at 1 July	**0.3**	0.3
Balance at 30 June	**0.3**	0.3
Movements:		
Cash flow hedge reserve		
Balance at 1 July	**(5.2)**	(2.7)
Other comprehensive income	**1.4**	(2.5)
Balance at 30 June	**(3.8)**	(5.2)

(b) Retained earnings

Movements in retained profits were as follows:		
Balance at 1 July	**251.6**	221.4
Net profit for the year	**50.2**	82.7
Dividends (note 21)	**(54.3)**	(52.5)
Balance at 30 June	**247.5**	251.6

(c) Nature and purpose of reserves

(i) 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.

(ii) 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
- other share-based payment transactions

(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.

(iv) Share capital reserve

As part of the acquisition of Australian Print Holdings Pty Limited (trading as Think Office Technology), a portion of the purchase consideration is a contingent amount to be settled in equity if performance hurdles are met.

21. Dividends

	Parent entity 2016 $m	Parent entity 2015 $m
Final dividends paid		
2015 final dividend paid on 16 October 2015: 9.0 cents (2014 final dividend paid on 17 October 2014: 8.5 cents) per ordinary share franked to 100%	**27.3**	25.8
Interim dividends paid		
2016 interim dividend paid on 15 April 2016: 7.25 cents (2015 interim dividend paid on 17 April 2015: 8.75 cents) per ordinary share franked to 100%	**27.0**	26.7
Total dividends paid [1]	**54.3**	52.5

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

	Parent entity 2016 $m	Parent entity 2015 $m
Final dividends proposed but not recognised at year end		
2016: 7.25 cents (2015: 9.0 cents) per ordinary share franked to 100%	**27.0**	27.4

Franked dividends

The franked dividends recommended after 30 June 2016 will be franked out of existing franking credits, or out of franking credits arising from the payment of income tax in the year ending 30 June 2016.

	Consolidated 2016 $m	Consolidated 2015 $m	Parent entity 2016 $m	Parent entity 2015 $m
Franking credits available for subsequent financial years based on a tax rate of 30% (2015: 30%)	**37.5**	20.4	**37.5**	20.4

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

	2016 Cents	2015 Cents[1]
Total basic earnings per share attributable to the ordinary equity holders of the Company	**14.5**	26.4
Total diluted earnings per share attributable to the ordinary equity holders of the Company	**14.5**	26.3

(1) Prior year EPS restated from 27.2 cents for basic EPS and 27.1 cents for diluted EPS to 26.4 cents basic EPS and 26.3 cents diluted EPS for the impact of 9,923,665 bonus shares in rights issue conducted during 2016. The rights issue was conducted at a discount to the prevailing share price immediately before the issue.

22. Earnings per share (continued)

(b) Reconciliation of earnings used in calculating earnings per share	2016 $m	2015 $m
Profit attributable to the ordinary equity shareholders of the Company used in calculating:		
- basic earnings per share	**50.2**	82.7
- diluted earnings per share	**50.2**	82.7

(c) Weighted average number of ordinary shares	2016 Number	2015 Number(1)
Weighted average number of ordinary shares used in calculation of basic earnings per share	**346,353,523**	313,882,166
Add: potential ordinary shares considered dilutive	**-**	1,215,825
Weighted average number of ordinary shares used in calculating diluted earnings per share	**346,353,523**	315,097,991

(1) Prior year EPS restated for impact of bonus shares in rights issue conducted during 2016. Ordinary share capital to fund the acquisition of F&P Finance was raised in November 2015 and the results of the acquired entity were consolidated effective 1 March 2016.

Information concerning the classification of securities

Options

Options and performance rights granted to employees under the FlexiGroup Long Term Incentive Plan are settled through an on-market share purchase. The share options and performance rights are not considered to be dilutive. The options and performance rights have not been included in the determination of basic and diluted earnings per share. Details relating to the options and performance rights are set out in note 24.

23. Reconciliation of profit after income tax to net cash inflow from operating activities

	2016 $m	2015 $m
Net profit for the year after tax	**50.2**	82.7
Receivables and loan impairment expenses	**78.6**	44.5
Depreciation and amortisation	**14.3**	9.4
Impairment of goodwill and other intangible assets	**8.5**	-
Loss on write-off of IT development and software	**17.6**	-
Share-based payment expense	**1.2**	0.8
Exchange differences	**(1.2)**	(2.0)
Other non-cash movements	**4.6**	1.3
Net cash inflows from operating activities before changes in operating assets and liabilities	**173.8**	136.7
Change in operating assets and liabilities:		
Increase in other receivables	**(0.8)**	(0.6)
Increase/(decrease) in payables	**1.1**	(11.8)
Increase in inventories	**(0.6)**	(1.3)
(Increase)/decrease in current tax liabilities	**(11.9)**	0.3
Decrease in net deferred tax liabilities	**(14.2)**	(2.1)
Net cash inflows from operating activities	**147.4**	121.2

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 and 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 and performance rights granted under the plan:

Consolidated and parent entity – 2016

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
3/6/11	31/12/16	$0.00	38,751	-	(11,475)	(7,901)	19,375*	-
3/6/11	31/12/16	$2.11	852,875	-	(212,328)	(214,110)	426,437*	-
5/8/11	31/12/16	$0.00	24,998	-	-	(12,500)	12,498*	-
19/3/12	31/12/16	$2.18	75,000	-	(13,500)	(24,000)	37,500*	-
23/4/12	31/12/16	$2.27	15,000	-	(6,750)	(750)	7,500*	-
10/8/12	31/3/16	$3.05	571,100	-	-	-	571,100*	-
3/7/14	31/3/16	$0.00	140,000	20,000	(160,000)	-	-	-
1/12/14	15/10/18 15/10/19 31/10/20 31/10/21	$0.00	4,720,000	-	-	(1,554,000)	3,166,000**	-
26/11/15	15/10/18 15/10/19 31/10/20 31/10/21	$0.00	-	1,401,000	-	(48,000)	1,353,000	-
Total			**6,437,724**	**1,421,000**	**(404,053)**	**(1,861,261)**	**5,593,410**	**-**
Weighted average exercise price***			**$0.58**	**$0.00**			**$0.00**	

Consolidated and parent entity – 2015

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
3/6/11	31/12/16	$0.00	76,670	-	(21,250)	(16,669)	38,751	-
3/6/11	31/12/16	$2.11	1,304,000	-	(176,125)	(275,000)	852,875	81,125
5/8/11	31/12/16	$0.00	24,998	-	-	-	24,998	-
19/3/12	31/12/16	$2.18	150,000	-	(75,000)	-	75,000	75,000
23/4/12	31/12/16	$2.27	20,000	-	(5,000)	-	15,000	5,000
10/8/12	31/3/16	$3.05	971,000	-	(164,385)	(235,515)	571,100	271,350
3/7/14	31/3/16	$0.00	-	140,000	-	-	140,000	-
1/12/14	15/10/18 15/10/19 31/10/20 31/10/21	$0.00	-	6,080,000	-	(1,360,000)	4,720,000	-
Total			**2.546,668**	**6,220,000**	**(441,760)**	**(1,887,184)**	**6,437,724**	**432,475**
Weighted average exercise price**			**$2.39**	**$2.00**			**$0.58**	

The weighted average share price at the date of exercise of options and performance rights exercised during the year ended 30 June 2016 was $2.58 (2015: $3.57).

The weighted average remaining contractual life of share options and performance rights outstanding at the end of the year was 2.6 years (2015: 3.6 years).

* These instruments are all either TSR performance lapsed or expired and remain in share based payments reserve.

** Includes 496,000 performance rights that are TSR lapsed and remain in share based payments.

*** Excludes the weighted average exercise price of lapsed and expired options.

24. Share-based payments (continued)

(a) Long Term Incentive Plan (continued)

Fair value of options and performance rights

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 and 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 options.

The model inputs for performance rights granted during the year ended 30 June 2016 included:

a) Exercise price: nil, performance rights issued

b) Grant date: 26 November 2015 (2015: 1 December 2014)

c) Expiry date: various per performance rights granted, refer table on page 21

d) Share price at grant date: $2.74 (2015: $2.94)

e) Expected price volatility of the Company's shares: 35% (2015: 30%)

f) Expected dividend yield: 6.2% (2015: 5.6% - 6%)

g) Risk-free interest rate: 1.96% - 2.14% (2015: 2.35% - 2.45%)

Shares provided on exercise of remuneration options and performance rights

Nil (2015: 53,647) ordinary shares in the Company were issued as a result of the exercise of any remuneration options and performance rights. Vested performance rights and options are settled through an on market share purchase and do not result in an increase in issued share capital.

(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. 49,200 shares were issued under this plan in 2016.

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 ESAP. 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 under which 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 FlexiGroup 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, and

- 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.

24. Share-based payments (continued)

(b) Employee share plan (continued)

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 Share Trading Policy, shares acquired under the ESP may be dealt with freely. Details of FlexiGroup's Share Trading Policy are in the Corporate Governance Statement.

Employee gift offer

There were no employee gift offers in the year ended 30 June 2016 (2015:-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:

	2016 **$**	2015 $
Options and performance rights issued under LTIP	**1,325,000**	787,471

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 risk 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, commodity prices and equity prices.

25. Financial risk management (continued)

(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.
- an Interest Free Cards business portfolio where the payments are variable 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 of net interest receivable or payable monthly. The settlement dates coincide with the dates on which interest is payable on the underlying debt. The contracts are settled on a net basis. 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 profit or loss when the hedging relationship ceases. In the year ended 30 June 2016 nil amounts were reclassified into profit or loss (2015 – 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:

	2016		2015	
	Weighted average interest rate %	**$m**	Weighted average interest rate %	$m
Floating rate borrowings	**2.11%**	**1,772.5**	2.22%	1,163.4
Interest rate swaps (notional principal amount)	**2.06%**	**(1,289.9)**	2.24%	(911.6)
Unhedged variable borrowings		**482.6**		251.8

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:

	2016	2015
	$m	$m
Cash and cash equivalents	**174.4**	130.3
Loss reserve on borrowings	**21.9**	26.4
Floating rate borrowings	**1,772.5**	1,163.4
Interest rate swaps (notional principal amount)	**1,289.9**	911.6

Based on the variable rate financial assets and financial liabilities held at 30 June 2016, if interest rates had changed by, +/- 100 basis point 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 $1.3m lower / $1.3m higher (2015: $3.0m lower / $3.1m higher).

25. Financial risk management (continued)

(a) Interest rate risk (continued)

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 73% (2015 – 78%) 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 no longer being expected to occur in the current or prior period.

(b) Foreign exchange risk

Foreign exchange risk results from 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 reporting date (translation risk).

The Group does not hedge the capital invested in the overseas operations thereby accepting the foreign currency translation risk on invested capital.

The Group does not have any significant balances denominated in foreign currencies, other than net investments in foreign subsidiaries, and hence is not exposed to profit and loss foreign currency risk. 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.

(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 balance sheet. 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 bureau 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 the management. The Group has a specialist collection 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.

Loans and receivables

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 table below provides information about customer loans and receivables from customers by payment due status.

25. Financial risk management (continued)

(c) Credit risk (continued)

	Contracts	$m
30 June 2016		
Unimpaired past due loans and receivables		
Past due under 30 days	**53,009**	**148.1**
Past due 30 days to under 60 days	**11,552**	**25.0**
Past due 60 days to under 90 days	**6,645**	**10.9**
Past due 90 days and over	**12,749**	**6.9**
Total unimpaired past due loans and receivables (1)	**83,955**	**190.9**
Total unimpaired loans and receivables (1)	**893,183**	**2,093.8**
Unimpaired past due as a percentage of total unimpaired loans and receivables		**9.1%**
Unimpaired past due 30 days and over as a percentage of total unimpaired loans and receivables		**2.0%**
As at 30 June 2015		
Unimpaired past due loans and receivables		
Past due under 30 days	38,772	83.3
Past due 30 days to under 60 days	12,013	16.0
Past due 60 days to under 90 days	5,032	6.1
Past due 90 days and over	5,683	3.1
Total unimpaired past due loans and receivables(1)	61,500	108.5
Total unimpaired loans and receivables(1)	674,983	1,427.8
Unimpaired past due as a percentage of total unimpaired loans and receivables		7.6%
Unimpaired past due 30 days and over as a percentage of total unimpaired loans and receivables		1.8%

(1) This excludes unamortised initial direct transactions costs and gross of provision for doubtful debts.

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 large number of small dollar accounts comprising the portfolio 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, no unimpaired past due loans are identified and the allowance for losses is calculated on a collective basis. However, a small portion of the Group's receivables are individually significant (primarily in the Enterprise portfolio). At 30 June 2016, there were no material individually significant impaired loans.

The Group either writes off or recognises a 100% allowance for all past due receivables between 120 and 180 days past due (2015: 120 and 180 days past due) depending on the portfolio.

(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 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 $260.0m (2015: $495.0m) through the asset-backed securitisation program and proceeds from its operating cash flows.

Loan covenants

The Group has complied with all debt covenants throughout the reporting period for corporate debt.

25. Financial risk management (continued)

(d) Liquidity risk (continued)

Contractual maturity of financial liabilities on an undiscounted basis

The table below shows cashflows 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 balance sheet as amounts incorporate net cashflows 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.

	Less than 1 year $m	**1 to 2 years $m**	**2 to 5 years $m**	**5 years plus $m**	**Total $m**
At 30 June 2016					
Non-derivative financial liabilities					
Payables	**49.1**	-	-	-	**49.1**
Borrowings before loss reserves	**1,097.8**	**347.6**	**342.1**	**370.8**	**2,158.3**
Derivative financial instruments					
Interest rate swaps	**4.8**	**2.7**	**0.6**	**-**	**8.1**
Total undiscounted financial liabilities	**1,151.7**	**350.3**	**342.7**	**370.8**	**2,215.5**
At 30 June 2015					
Non-derivative financial liabilities					
Payables	35.7	-	-	-	35.7
Borrowings before loss reserves	831.0	325.1	203.3	0.3	1,359.7
Derivative financial instruments					
Interest rate swaps	5.3	2.1	0.3	-	7.7
Total undiscounted financial liabilities	872.0	327.2	203.6	0.3	1,403.1

(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 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.

25. Financial risk management (continued)

(e) Fair value of financial assets and financial liabilities (continued)

Payables

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

Borrowings

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

Derivative financial instruments

The fair values of interest rate swaps are determined based on quotes for similar transactions in an active market.

	Note	Carrying amount	Fair value
		$m	$m
2016			
Financial assets			
Cash and cash equivalents	8	**174.4**	**174.4**
Receivables	10	**710.1**	**710.1**
Customer loans	11	**1,372.2**	**1,372.2**
Financial liabilities			
Payables	15	**49.1**	**49.1**
Borrowings [1]			
- Floating interest rate [1]		**1,772.5**	**1,772.5**
- Fixed interest rate		**197.9**	**200.4**
Total borrowings before loss reserves	16	**1,970.4**	**1,972.9**
Derivative financial instruments	18	**20.0**	**20.0**
2015			
Financial assets			
Cash and cash equivalents	8	130.3	130.3
Receivables	10	749.2	749.2
Customer loans	11	702.3	702.3
Financial liabilities			
Payables	15	35.7	35.7
Borrowings [1]			
- Floating interest rate [1]		1,163.4	1,163.4
- Fixed interest rate		137.5	138.8
Total borrowings before loss reserves	16	1,300.9	1,302.2
Derivative financial instruments	18	7.3	7.3

(1) Refer Note 25(a) for further information on how the Group manages its interest rate risk.

25. Financial risk management (continued)

(e) Fair value of financial assets and financial liabilities (continued)

Fair value hierarchy

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

(a) Receivables and customer loans

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.

(b) Borrowings

These are classified as level 2 as the inputs into the fair value models used to determine fair value are observable. Other financial assets and financial liabilities, including derivative financial instruments are classified as Level 1.

26. Business combination

Acquisition 2016

(a) Summary of acquisition – Fisher & Paykel Finance

On 18 March 2016 (consolidated effective 1 March 2016), the Group completed the acquisition of 100% of the issued share capital of Fisher & Paykel Finance Holdings Limited (FPFHL) from AF Investments Limited. FPFHL is a leading provider of non-bank consumer credit in New Zealand, which expands the distribution network of the Group's existing business across Australia and New Zealand. Details of the purchase consideration, the net assets acquired and goodwill are as follows:

Purchase consideration	**$m**
Cash paid	**227.7**
Perpetual notes (preference shares)	**49.1**
Deferred consideration	**8.1**[1]
	284.9

[1] This relates to the deferred cash consideration that is payable on 18 March 2018. The deferred consideration is NZ$10m and has been present valued at 30 June 2016.

The carrying amounts and fair values of the assets and liabilities acquired were:

	Carrying value $m	**Provisional fair value[2] $m**
Cash and cash equivalents	**42.4**	**42.4**
Receivables and customer loans	**616.4**	**616.4**
Other assets	**7.7**	**7.7**
Plant and equipment	**1.3**	**1.3**
Other intangible assets	**58.8**	**58.8**
Deferred tax liabilities	**(2.9)**	**(2.9)**
Trade and other payables	**(24.3)**	**(24.3)**
Loans and borrowings	**(569.6)**	**(569.6)**
Current tax liabilities	**(1.1)**	**(1.1)**
Net carrying value	**128.7**	**128.7**
Consideration		**284.9**
Goodwill recognised		**156.2**

[2] The initial accounting of the acquisition of Fisher & Paykel Finance Holdings Limited is stated on a provisional basis as at 30 June 2016. The final purchase price allocation will be performed during the 2017 financial year.

The goodwill is attributable to the high profitability, market presence and distribution networks of the acquired business. It will not be deductible for tax purposes.

Transaction costs of $13.0m were incurred in the acquisition and these have been disclosed either in equity or profit and loss.

26. Business combination (continued)

(a) Summary of acquisition – Fisher & Paykel Finance (continued)

The acquired business contributed total portfolio income of $41.7m and net profit after tax of $7.6m to the Group from 1 March 2016, the date on which risks and rewards of ownership was transferred. If the acquisition had occurred on 1 July 2015, total portfolio income and profit for the year to 30 June 2016 would have been $97.1m and $23.3m respectively. These amounts have been calculated using the Group accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 July 2015, together with the consequential tax effects.

Acquisitions 2015

(b) Summary of acquisition – Telecom Rentals Limited (TRL)

On 30 April 2015 the Group announced the acquisition of 100% of the issued share capital of TRL, a wholly owned subsidiary of Spark New Zealand Limited. The acquisition provides the Group with significant scale for the existing New Zealand business and allows the Group to penetrate new distribution channels.

At 30 June 2015, provisional fair values were disclosed owing to the late completion of the transaction. Below are the acquisition details disclosed at 30 June 2015, together with the final fair values determined through the purchase price allocation exercise done during the period.

Purchase consideration	**$m**
Cash paid	17.0
Senior portfolio acquisition debt (1)	74.0
Credit support for senior portfolio acquisition debt	17.4
	108.4

	Carrying value $m	**Provisional fair value $m**	**Final fair value $m**
Cash and cash equivalents	0.1	0.1	0.1
Receivables	101.0	101.0	93.3
Other assets	0.7	0.7	0.7
Other Intangible assets	-	-	4.1
Deferred tax assets	0.3	0.3	1.3
Trade and other payables	(3.0)	(3.0)	(3.0)
Deferred tax liabilities	(3.5)	(3.5)	(3.5)
Net carrying value	95.6	95.6	93.0
Consideration		108.4	108.4
Goodwill recognised		12.8	15.4

(1) As part of the funding for TRL acquisition, the Group obtained a senior portfolio debt facility that was backed by a subsequent funding of TRL receivables. Consequently, the cash outflow disclosed in investing activities in the statement of cash flows represents the equity value that the Group paid on the acquisition.

(c) The Group also acquired certain assets of Digital Business Technology Pty Limited through the Think Office Technology subsidiary on 2 March 2015.

The purchase consideration consisted of an outright cash payment of $1.8m. The consideration resulted in a goodwill amount of $1.6m being recognised.

27. Lease commitments

	2016 $'m	2015 $'m
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.		
Non-cancellable operating leases contracted for but not capitalised in the financial statements due:		
- within one year	**4.5**	3.9
- later than one year but not later than five years	**17.8**	11.2
- later than five years	**1.1**	3.6
	23.4	18.7

FlexiGroup entered into a call centre service agreement, where the Group will receive call centre services for an initial period of 3 years. At 30 June 2016, the minimum future commitment on this agreement was approximately $10.3m (2015: $17.1m). Additionally, in the normal course of the business at 30 June 2016 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.

28. Contingent liabilities

There are no material contingent liabilities at the date of this report (2015: $nil).

29. 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 2016 of NZ$ 5.5m (A$ 5.2m) is greater than the minimum required solvency capital of NZ$ 3.0m (A$ 2.9m). The insurance business of CISL comprises less than three percent of the total assets of the Group.

30. Group entities

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):

Entity name	Footnote	Country of incorporation	Percentage of shares held 2016	2015
FlexiGroup SubCo Pty Limited	(2)	Australia	100%	100%
Flexirent Holdings Pty Limited	(2)	Australia	100%	100%
Flexirent Capital Pty Limited	(2)	Australia	100%	100%
Flexirent SPV Number 1 Pty Limited	(3)	Australia	100%	100%
Flexirent SPV Number 2 Pty Limited		Australia	100%	100%
Flexirent SPV Number 3 Pty Limited	(3)	Australia	100%	100%
Flexirent SPV Number 4 Pty Limited	(3)	Australia	100%	100%
Flexirent SPV Number 6 Pty Limited	(3)	Australia	100%	100%
Flexicare Claims Management Pty Limited	(2)	Australia	100%	100%
Subfinco Pty Limited		Australia	100%	100%
Certegy Ezi-Pay Pty Ltd	(2)	Australia	100%	100%
FlexiGroup Employee Share Plan Trust		Australia	100%	100%
FlexiGroup Management Pty Limited		Australia	100%	100%
FlexiGroup New Zealand Limited		New Zealand	100%	100%

30. Group entities (continued)

Entity name	**Footnote**	**Country of incorporation**	**Percentage of shares held**	
			2016	2015
Flexirent Ireland Group Holdings Limited		Ireland	100%	100%
Flexirent Ireland Limited		Ireland	100%	100%
Flexirent SPV Number 7 Pty Limited		Australia	100%	100%
FlexiGroup NZ SPV1 Limited		New Zealand	100%	100%
Flexi ABS Trust 2010-1		Australia	-	100%
Flexi ABS Trust 2010-2		Australia	100%	100%
Flexi ABS Trust 2011-1	(3)	Australia	100%	100%
Flexi ABS Trust 2012-1	(3)	Australia	100%	100%
Flexi ABS Trust 2013-1		Australia	100%	100%
Flexi ABS Trust 2013-2	(3)	Australia	100%	100%
Flexi ABS Trust 2014-1		Australia	100%	100%
Flexi ABS Trust 2015-1		Australia	100%	100%
Flexi ABS Trust 2015-2		Australia	100%	100%
Flexi ABS Trust 2016-1		Australia	100%	-
Flexi ABS Warehouse Trust No. 2		Australia	100%	100%
Flexi ABS Warehouse Trust No. 3		Australia	100%	100%
Flexi Online New Zealand Limited		New Zealand	-	100%
Flexi Online Pty Limited		Australia	-	100%
Lombard Finance Pty Limited	(2)	Australia	100%	100%
Lombard Warehouse Trust No.1		Australia	100%	100%
FlexiGroup NZ SPV 2 Limited		New Zealand	100%	100%
Flexi LCAL Warehouse Trust		Australia	100%	100%
Once Credit Pty Limited	(2)	Australia	100%	100%
Lighthouse Warehouse Trust No.9		Australia	100%	100%
Flexirent SPV Number 8 Pty Limited		Australia	100%	100%
RentSmart Unit Trust	(3)	Australia	100%	100%
RentSmart Pty Limited	(2)	Australia	100%	100%
SmartCheck Pty Limited	(2)	Australia	100%	100%
RentSmart Finance Limited	(2)	Australia	100%	100%
RentSmart Servicing Pty Limited	(2)	Australia	100%	100%
RentSmart Trust	(3)	Australia	100%	100%
RentSmart (NZ) Pty Limited		New Zealand	100%	100%
Australian Print Holdings Pty Limited	(2)	Australia	100%	100%
TOT CNS Pty Limited	(2)	Australia	100%	100%
TOT TSV Pty Limited	(2)	Australia	100%	100%
TOT MKY Pty Limited	(2)	Australia	100%	100%
TOT GNE Pty Limited	(2)	Australia	100%	100%
TOT SC Pty Limited	(2)	Australia	100%	100%
TOT TBA Pty Limited	(2)	Australia	100%	100%
ICT Finance Pty Limited	(2)	Australia	100%	100%
FlexiGroup NZ SPV 3 Limited		New Zealand	100%	100%
TRL Leasing Limited		New Zealand	100%	100%
Fisher & Paykel Finance Holdings Limited	(1)	New Zealand	100%	-
Fisher & Paykel Finance Limited	(1)	New Zealand	100%	-
Columbus Financial Services Limited	(1)	New Zealand	100%	-
Consumer Insurance Services Limited	(1)	New Zealand	100%	-
Consumer Finance Limited	(1)	New Zealand	100%	-
Equipment Finance Limited	(1)	New Zealand	100%	-
Fisher & Paykel Financial Services Limited	(1)	New Zealand	100%	-
Retail Financial Services Limited	(1)	New Zealand	100%	-
RFS Trust 2006-1	(1)	New Zealand	100%	-
Q Card Trust	(1)	New Zealand	100%	-

(1) Controlling interest acquired during the year ended 30 June 2016.

(2) These controlled entities have entered into a deed of cross guarantee (refer Note 34) 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 2001 (Cth)* requirements for preparation, audit and publication of an annual financial report.

(3) These trusts are in the process of being wound up.

31. Key management personnel disclosures

(a) Directors

The following persons were Directors of FlexiGroup Limited during the financial year:

S Brewis-Weston*	Executive Director and Chief Executive Officer
A Abercrombie	Non-Executive Director
R J Skippen	Non-Executive Director
R Dhawan	Non-Executive Director

* S Brewis-Weston commenced as CEO on 8 February 2016 and was appointed as a Director on 22 February 2016.

(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:

D Stevens	Chief Financial Officer
R May	General Manager - Certegy
P Lirantzis	Chief Operating Officer
M Burke*	General Manager - Consumer and SME
V Gilpin **	General Manager – Sales

* M Burke ceased as KMP upon his resignation on 13 May 2016.

** V Gilpin commenced on 23 May 2016.

(c) Key management personnel compensation

	2016	**2015**
	$	**$**
Short-term employee benefits	**3,607,347**	3,578,220
Post-employment benefits	**197,417**	154,644
Long-term benefits	**36,186**	18,297
Share-based payments	**251,238**	312,467
Total	**4,092,188**	4,063,628

Further remuneration disclosures are provided in sections A–D of the Remuneration Report on pages 13-29.

(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 A Abercrombie. The rental arrangements for these premises are based on market terms.

	2016	2015
	$	$
Rental expense for premises	**172,917**	179,872

32. Related party transactions

(a) Parent entity

The parent entity of the Group is FlexiGroup Limited.

(b) Subsidiaries

Interests in Group entities are set out in note 30.

Transactions with related parties

There were no transactions between the Group and related parties other than those disclosed in note 31 (d).

33. 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

	2016 $	2015 $
(a) Audit and assurance services		
Audit Services		
PwC Australian firm:		
Audit and review of financial statements	**552,000**	525,000
Related practices of PwC Australian firm	**298,000**	11,761
Other assurance Services		
PwC Australian firm:		
Other assurance services including due diligence services	**628,743**	117,992
Total remuneration for audit and assurance services	**1,478,743**	654,753

	2016 $	2015 $
(b) Non-audit services		
Taxation services		
PwC Australian firm:		
Tax compliance and advice on transactions	**11,060**	11,322
Related practices of PwC Australian firm	**-**	97,728
Other services		
PwC Australian firm:		
Advisory	**6,774**	-
Total remuneration for non-audit services	**17,834**	109,050
Total remuneration of PwC	**1,496,577**	763,803

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.

34. Closed group

The table below presents the consolidated proforma income statement and balance sheet 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 30, 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.

34. Closed group (continued)

(a) Statement of comprehensive income

	2016 $m	2015 $m
Total portfolio income	**86.0**	82.8
Dividend income	**78.4**	87.0
Interest expense	**(7.1)**	(10.6)
Net portfolio income	**157.3**	159.2
Employment expenses	**(57.5)**	(55.6)
Receivables and customer loan impairment expenses	**(30.9)**	(33.4)
Depreciation and amortisation expenses	**(11.2)**	(9.4)
Operating and other expenses	**(13.1)**	(52.4)
Profit before income tax	**44.6**	8.4
Income tax expense	**8.0**	3.9
Profit for the year	**52.6**	12.3
Other comprehensive income		
Items that may be reclassified to profit or loss		
Changes in the fair value of cash flow hedges, net of tax	**1.4**	(2.5)
Other comprehensive income for the year, net of tax	**1.4**	(2.5)
Total comprehensive income for the year	**54.0**	9.8

(b) Statement of financial position

	2016 $m	2015 $m
Assets		
Cash and cash equivalents	**24.3**	54.7
Receivables and customer loans	**195.0**	115.5
Inventories	**4.4**	3.5
Plant and equipment	**7.8**	5.0
Goodwill	**140.3**	148.8
Other intangible assets	**44.3**	44.5
Other financial assets	**174.1**	22.9
Total assets	**590.2**	394.9
Liabilities		
Payables	**34.5**	51.5
Borrowings	**177.6**	151.1
Current tax liabilities	**-**	11.4
Provisions	**5.4**	5.1
Deferred and contingent consideration	**3.5**	5.9
Deferred tax liabilities	**8.8**	27.2
Total liabilities	**229.8**	252.2
Net assets	**360.4**	142.7
Equity		
Contributed equity	**355.2**	159.6
Reserves	**7.1**	(16.7)
Retained profits / (accumulated losses)	**(1.9)**	(0.2)
Total equity	**360.4**	142.7

35. Parent entity financial information

(a) Summary financial information

The parent entity financial information is presented as follows:

Balance sheet	**2016 $m**	2015 $m
Current assets	**346.3**	47.8
Total assets	**580.5**	276.2
Current liabilities	**(8.7)**	(6.3)
Total liabilities	**(168.7)**	(6.3)
Shareholders' equity		
Issued share capital [(1)]	**759.2**	563.7
Share based payment reserve	**(10.2)**	(10.2)
Accumulated losses	**(337.1)**	(283.6)
	411.9	269.9
Profit for the year	**(0.8)**	-
Total comprehensive income	**(0.8)**	-

(1) Includes $49.1m subordinated perpetual notes that were issued as part of the acquisition consideration for the F&P Finance purchase.

(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 30, footnote (2)) from the *Corporations Act 2001 (Cth)* 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 enter into 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 2001 (Cth)*.

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 2016 (2015: $nil).

36. Securitisation and special purpose vehicles

The Group sells receivables and customer loans to securitisation vehicles through its asset-backed securitisation program and other special purpose vehicles. The securitisation and special purpose vehicles are consolidated as set out in Note 30 as the Group is exposed or has rights to variable returns and has the ability to affect its returns through its power over the securitisation vehicles. The Group may serve as a sponsor, server, liquidity provider, purchaser of notes and/or purchaser of residual interest units.

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

36. Securitisation and special purpose vehicles (continued)

	2016 $m	2015 $m
Receivables	**625.5**	656.7
Customer loans	**1,353.2**	683.9
Cash held by securitisation vehicles	**130.4**	99.2
	2,109.1	1,439.8
Borrowings related to receivables and customer loans	**1,828.9**	1,227.9

The group has reclassified $459.8m of receivables in the 2015 comparative to customer loans to ensure consistency with the classification in the consolidated statement of financial position. There is no change to the total disclosed above.

37. Events occurring after the reporting period

On 1 August 2016, the Company completed the acquisition of a 15% equity interest in Kikka Capital for $2m, an online non-bank lender to Australian small and medium businesses. The Company has also agreed to provide a future funding line to Kikka and the Company has an option to increase its investment in the future.

On 8 August 2016, The Company signed a significant new commercial agreement with Flight Centre Travel Group Limited to provide interest free finance to approved customers across Australia. This agreement is expected to generate significant volumes for the cards business.

There have been no other significant events occurring after the end of the reporting period.

Directors' declaration

In the Directors' opinion:

(a) the financial statements and notes set out on pages 46 to 99 are in accordance with the *Corporations Act 2001*, including:

   (i) complying with 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 2016 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 become 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 30 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue to the deed of cross guarantee in note 34.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

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

Andrew Abercrombie
Chairman

Sydney
29 August 2016

Independent auditor's report to the members of FlexiGroup Limited

Report on the financial report

We have audited the accompanying financial report of FlexiGroup Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for FlexiGroup Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility 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 is free from material misstatement, whether due to fraud or error. In Note 1 (a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of FlexiGroup Limited is in accordance with the *Corporations Act 2001,* including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1 (a).

Report on the Remuneration Report

We have audited the remuneration report included in pages 13 to 29 of the directors' report for the year ended 30 June 2016. 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.

Auditor's opinion

In our opinion, the remuneration report of FlexiGroup Limited for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

Rob Spring
Partner

Sydney
29 August 2016

Shareholder information

The shareholder information set out below was applicable as at 31 July 2016:

A. Distribution of equity securities

	Class of equity security			
	Ordinary shares		Options	
	No of holders	No of shares	No of holders	No of options
1 – 1,000	2,588	1,387,528	-	-
1,001 – 5,000	5,365	14,784,766	-	-
5,001 – 10,000	2,149	15,927,121	-	-
10,001 – 50,000	2,111	42,872,726	-	-
50,001 – 100,000	228	15,885,265		
100,001 and over	158	281,494,244	-	-
Total	12,599	372,351,650	-	-

There were 580 holders of less than a marketable parcel of Ordinary shares.

B. Equity security holders

Twenty largest quoted equity security holders.

The names of the 20 largest holders of quoted equity securities are listed below:

Name	Ordinary shares	
	Number held	Percentage of issued shares%
The Abercrombie Group Pty Ltd	66,120,122	17.76
HSBC Custody Nominees (Australia) Limited	43,325,957	11.64
Nominees Australia Limited	37,236,537	10.00
Citicorp Nominees Pty Limited	36,001,800	9.67
JP Morgan Nominees Australia Limited	32,417,443	8.71
BNP Paribas Noms Pty Ltd	17,497,737	4.70
Behan Superannuation Pty Ltd	4,790,000	1.29
BNP Paribas Noms (NZ) Ltd	4,174,681	1.12
Mr Brendan Charles Behan & Mrs Dawn Helen Behan	3,080,000	0.83
Warbont Nominees Pty Ltd	2,000,000	0.54
AMP Life Limited	1,701,279	0.46
SM & RW Brown Pty Ltd	1,200,000	0.32
RBC Investor Services Australia Nominees Pty Limited	1,083,055	0.29
National Nominess Limited	1,080,530	0.29
Brispot Nominees Pty Ltd	1,065,917	0.29
ABN AMRO Clearing Sydney Nominees Pty Ltd	696,468	0.19
Timsim Holdings Pty Ltd	650,000	0.17
Brazil Farming Pty Ltd	638,229	0.17
Mr Dennis John Banks	584,741	0.16
Dyna-Strux Aust Pty Ltd	500,000	0.13
Total	255,844,496	68.73

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	4,023,000	46

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	90,000,000	24.17

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 shall have one vote and upon a poll, each share shall have one vote.

b) Options, performance rights and subordinated perpetual notes

No voting rights.

Corporate Directory

Directors	Andrew Abercrombie *(Chairman)* Symon Brewis- Weston Rajeev Dhawan R John Skippen
Secretary	Matthew Beaman
Notice of Annual General Meeting	The Annual General Meeting of FlexiGroup Limited will be held at the Pullman Sydney Hype Park, 36 College Street, Sydney NSW 2010 at 4pm on 22 November 2016.
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 Darling Park Tower 2 201 Sussex Street Sydney NSW 2000 Australia
Solicitors	King & Wood Mallesons Level 60, Governor Phillip Tower 1 Farrer Place Sydney NSW 2000 Australia
Bankers	Commonwealth Bank of Australia Westpac Banking Corporation
Stock Exchanges listing	FlexiGroup Limited shares are listed on the Australian Stock Exchange
Website	**www.flexigroup.com.au**