

**FLEXIGROUP LIMITED**  
**ABN 75 122 574 583**

**Interim Report – For the half-year ended 31 December 2016**

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The interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2016 and any public announcements made by FlexiGroup Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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

Level 7  
179 Elizabeth Street  
Sydney NSW 2000

Your directors present their report on the consolidated entity consisting of FlexiGroup Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2016 (referred to hereafter as the "Group" or "FlexiGroup").

### **Directors**

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

Andrew Abercrombie (Chairman)  
Symon Brewis-Weston  
Rajeev Dhawan  
R John Skippen  
Jodie Leonard (appointed 1 December 2016)  
Christine Christian (appointed 1 December 2016)

### **Company Secretary**

Matthew Beaman (resigned 22 November 2016)  
Melissa Robinson (appointed 22 November 2016)

### **Principal activities**

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

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

## **OPERATING AND FINANCIAL REVIEW**

The Board presents its December 2016 Interim 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.

### **Building for Growth**

FlexiGroup is building a focused, stronger more sustainable business with profitable organic growth. Execution is on track. The Australian Cards business is exhibiting very strong growth, the Australian Commercial leasing business is showing promising signs and the Group has exciting growth prospects in Ireland. The Group has integrated the acquired Fisher and Paykel Finance business (now FlexiCards) and its long term growth prospects are sound.

Highlights of the 1H17 Results include:

- Cash NPAT increase of 18% to \$47.5 million, with 70% growth in volume, and 64% growth in closing receivables and loans at 31 December 2016
- Australian Cards experienced significant volume growth of 48% in 1H17, and remains on track for +50% growth for FY17
- Rebuild of AU Commercial Leasing continues with volumes up 84% v pcp and the announcement of new agreements expected in 3QFY17
- Ireland expansion proceeding as expected with funding lines agreed, platform build on track and distribution partnerships being established

## **FLEXIGROUP'S OPERATIONS**

### **Business Model**

FlexiGroup is a diversified financial services group providing no interest ever, retail and commercial leasing, interest free Visa / Mastercards, 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.

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

- Certegy, offering no interest ever products and cheque guarantee services.
- Australia Cards (formerly referred to as Interest Free Cards) offering consumer credit products that provide in store finance with core partners as well as revolving credit facilities.

- Australia Leasing business offering leasing products through key partners including major Australian and Irish retailers.
- New Zealand Leasing offering leasing products primarily to small and medium sized businesses.
- New Zealand Cards offering non-bank consumer credit by FlexiCards, through brands including Q Card and Farmers Finance Card. FlexiCards is referred to as NZ Cards in the rest of this report.

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

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

### Half Year ended 31 December Operating Results

The table below shows the key operational metrics for the half year to 31 December 2016 for FlexiGroup and its segments:

31 December 2016 A\$m	Certegy	Australia Cards	Australia Leasing	New Zealand Leasing	NZ Cards	Unallocated (i)	Total Continuing Operations	Other (ii)	Group
Summary of Results	2016	2016	2016	2016	2016	2016	2016	2016	2016
Net portfolio income	47.4	21.8	42.8	16.6	48.0	(5.0)	171.6	12.4	184.0
Operating expenses	(13.1)	(8.7)	(22.3)	(8.8)	(22.3)	-	(75.2)	(8.9)	(84.1)
Impairment losses on loans & receivables	(9.2)	(6.0)	(7.6)	(0.2)	(7.2)	-	(30.2)	(0.4)	(30.6)
Amortisation of acquired intangible assets	(0.4)	(0.2)	(0.1)	(0.4)	(0.1)	-	(1.2)	(0.5)	(1.7)
<b>Profit before tax</b>	<b>24.7</b>	<b>6.9</b>	<b>12.8</b>	<b>7.2</b>	<b>18.4</b>	<b>(5.0)</b>	<b>65.0</b>	<b>2.6</b>	<b>67.6</b>
Income tax (expense) / benefit	(7.4)	(2.1)	(3.8)	(2.1)	(5.2)	1.5	(19.1)	(0.8)	(19.9)
<b>Profit after tax</b>	<b>17.3</b>	<b>4.8</b>	<b>9.0</b>	<b>5.1</b>	<b>13.2</b>	<b>(3.5)</b>	<b>45.9</b>	<b>1.8</b>	<b>47.7</b>
Adjustments for underlying profit	0.3	0.2	0.5	0.5	0.1	-	1.6	0.3	1.9
<b>Cash NPAT (iii)</b>	<b>17.6</b>	<b>5.0</b>	<b>9.5</b>	<b>5.6</b>	<b>13.3</b>	<b>(3.5)</b>	<b>47.5</b>	<b>2.1</b>	<b>49.6</b>
Basic earnings per share (cents)							12.3		12.8
Cash earnings per share (cents)							12.8		13.3
Volume (\$)	278	238	103	46	310	-	975	3	978
Closing receivables and customer loans	478	389	287	193	651	-	1,998	174	2,172

31 December 2015 A\$m	Certegy	Australia Cards	Australia Leasing	New Zealand Leasing	NZ Cards	Unallocated (i)	Total Continuing Operations	Other (ii)	Group
Summary of Results	2015	2015	2015	2015	2015	2015	2015	2015	2015
Net portfolio income	48.6	18.5	46.1	15.3	-	(0.9)	127.6	16.5	144.1
Operating expenses	(14.0)	(5.5)	(25.1)	(7.5)	-	-	(52.1)	(7.9)	(60.0)
Impairment losses on loans & receivables	(9.6)	(4.1)	(7.6)	(0.8)	-	-	(22.1)	(2.8)	(24.9)
Amortisation of acquired intangible assets	-	(0.5)	(0.2)	(0.5)	-	-	(1.2)	(0.5)	(1.7)
<b>Profit before tax</b>	<b>25.0</b>	<b>8.4</b>	<b>13.2</b>	<b>6.5</b>	<b>-</b>	<b>(0.9)</b>	<b>52.2</b>	<b>5.3</b>	<b>57.5</b>
Income tax (expense) / benefit	(7.5)	(2.6)	(3.1)	(1.7)	-	0.3	(14.6)	(1.5)	(16.1)
<b>Profit after tax</b>	<b>17.5</b>	<b>5.8</b>	<b>10.1</b>	<b>4.8</b>	<b>-</b>	<b>(0.6)</b>	<b>37.6</b>	<b>3.8</b>	<b>41.4</b>
Adjustments for underlying profit	-	0.4	1.8	0.4	-	-	2.6	0.3	2.9
<b>Cash NPAT (iii)</b>	<b>17.5</b>	<b>6.2</b>	<b>11.9</b>	<b>5.2</b>	<b>-</b>	<b>(0.6)</b>	<b>40.2</b>	<b>4.1</b>	<b>44.3</b>
Basic earnings per share (cents)							11.7		12.9
Cash earnings per share (cents)							12.5		13.8
Volume (\$)	280	161	85	46	-	-	572	45	617
Closing receivables and customer loans	484	271	290	175	-	-	1,220	236	1,456

(i) Unallocated relates to net corporate debt interest.

(ii) Other relates to the results of the Enterprise and Think Office Technology (TOT) businesses that are in run-off and held for sale respectively. The results of these businesses are not taken into account by the Group in assessing the underlying performance.

(iii) Cash NPAT reflects the reported net profit after tax adjusted for items highlighted in Note 2 Segment Information. 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.

FlexiGroup recorded a statutory profit from continuing operations for the half year to 31 December 2016 of \$45.9m, an increase of 22% compared to the prior comparative period. Cash NPAT from continuing operations was \$47.5m, an increase of 18% period on period. A 64% growth in receivables and customer loans and 70% volume growth underpins the continuing operations Cash NPAT growth year on year. The 1H17 results include the contribution from NZ Cards, which was acquired on 28 February 2016.

The key drivers of profit growth over the period were:

- Net portfolio income from continuing operations increased by 34% to \$171.6m, underpinned by a 64% increase in receivables and customer loans. The increase in receivables and customer loans is driven by the contribution from NZ Cards and strong growth in Australia Cards and New Zealand Leasing.
- When measured as a percentage of average receivables and customer loans, Impairment losses from continuing operations decreased to 3.1% from 3.7%. The increase in impairment losses by 37% to \$30.2m was largely driven by the inclusion of NZ Cards.
- Operating expenses from continuing operations increased by 44% to \$75.2m, driven primarily by the contribution from NZ Cards of \$22.3m (97% of total increase) and the costs required to support volume growth in Australia Cards.
- Sales volume growth from continuing operations of 70% to \$975m was driven by the contribution from NZ Cards of \$310m (86% of total increase) and increased investment in the Australia Cards business, which has seen significant volume growth of 48% to \$238m predominantly through the partnership with the Flight Centre Travel Group.

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

### **Key Developments (*Incorporating Significant Changes in the State of Affairs*)**

On 8 August 2016, The Group signed a significant new commercial agreement with Flight Centre Travel Group Limited, to provide interest free finance to approved customers across Australia. This agreement has started to generate significant volumes for the Australia Cards business and is expected to underpin growth in this segment.

### **Segment Results Analysis**

#### ***Certegy***

Certegy's Cash NPAT of \$17.6m (2015: \$17.5m), is consistent with prior year. This is a result of:

- Sales volumes of \$278m (2015: \$280m), and closing customer loans of \$478m were in line with expectations, and the decrease period on period is driven by softer trading conditions during the half.
- Net portfolio income decreased by 2% to \$47.4m (2015: \$48.6m) primarily driven by a 1% decrease in average net customer loans.
- The reduction in impairment losses of \$9.2m (2015: \$9.6m) is reflective of the continuous improvements to our risk controls and customer collections capability.
- Operating expenses decreased to \$13.1m (2015: \$14.0m) due to efficiencies realised from changes in technology.
- Closing customer loans decreased 1% to \$478m (2015: \$484m).

#### ***Australia Cards***

Australia Cards' Cash NPAT of \$5.0m (2015: \$6.2m) decreased by 19% primarily due to a \$1.5m net profit impact of the investment to drive the Flight Centre store roll out and volume growth during the period. Excluding the impact of this net investment, Cash NPAT increased from \$6.2m to \$6.5m. The major drivers to Cash NPAT during the period were:

- Sales volume of \$238m (2015: \$161m) and closing customer loans of \$389m (2015: \$271m), a 48% and 44% growth respectively, reflect a strong success in driving our strategic partnerships with retailers.
- Net portfolio income increased by 18% to \$21.8m (2015: \$18.5m), attributable to increase in interest bearing customer loans.
- Impairment losses are \$6.0m (2015: \$4.1m) in line with the 44% growth in customer loans.
- Operating expenses increased to \$8.7m (2015: \$5.5m) due to costs to support the 48% volume growth.

### ***Australia Leasing***

Cash NPAT of \$9.5m (2015: \$11.9m), a decrease of 20% on prior year, driven by:

- Net portfolio income decreased by 7% to \$42.8m (2015: \$46.1m), which is driven by change in product mix from consumer to commercial.
- Operating expenses decreased by 11% to \$22.3m (2015: \$25.1m), due to focus on cost management.
- Impairment losses have remained consistent at \$7.6m (2015: \$7.6m) through continuous management of arrears and customer collections.
- Sales volume increased by 21% to \$103m (2015: \$85m), primarily due higher commercial and Ireland sales.
- Closing receivables of \$287m (2015: \$290m) have remained consistent with the prior comparative period.

### ***New Zealand Leasing***

New Zealand Leasing's Cash NPAT is \$5.6m (2015: \$5.2m), an increase of 8% on the prior year, driven by:

- Net portfolio income increased by 8% to \$16.6m (2015: \$15.3m) which was mainly due to strong end of term performance, particularly from the Equico portfolio.
- Operating expenses grew by 17% to \$8.8m (2015: \$7.5m). This was primarily due to the impact of the integrated acquired NZ Cards leasing business expenses and additional costs required to drive volume and receivables growth.
- Impairment costs have decreased by 75% to \$0.2m (2015: \$0.8m), reflecting the high quality of this portfolio.
- Sales volumes have remained consistent at \$46m, with an increased focus on writing higher yielding new core business.
- Closing receivables of \$193m (2015: \$175m) represents growth of 10%. This is in line with consistent volume performance and integration of the Leasing business acquired as part of NZ Cards.

### ***New Zealand Cards***

NZ Cards' Cash NPAT is \$13.3m, driven by:

- Net portfolio income of \$48.0m underpinned by solid margins across all products, benefiting from a reduction in funding costs.
- Operating expenses were \$22.3m, which includes spend associated with two new cards in the product portfolio - Q MasterCard and Flight Centre MasterCard.
- Impairment losses were \$7.2m, which have remained stable month on month as arrears continue to perform well.
- Volume of \$310m over the period is in line with expectations and has been driven by encouraging initial volumes from the two new Scheme products, particularly Q MasterCard.
- The closing customer loans balance of \$651m has been driven by the growth in the new MasterCard products, offsetting the reduction in the mature Q and Farmers Card portfolios. Q MasterCard was launched in September 2016 allowing customers the flexibility to now use their card globally anywhere MasterCard is accepted, online and in store. The Flight Centre MasterCard was delivered to market in December 2016. This is an innovative and market leading product which incorporates long term finance options, the benefits of a MasterCard as well as a loyalty programme.

## Financial Position and Cash Flows

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

A\$m	December 2016	June 2016
<b>Summary financial position</b>		
Cash at bank	186.5	174.4
Inventories	1.3	0.9
Receivables and customer loans	2,150.8	2,082.3
Other assets	20.5	22.3
Goodwill and intangibles	428.7	399.7
<b>Total assets</b>	<b>2,787.8</b>	<b>2,679.6</b>
Borrowings	2,032.7	1,948.5
Other liabilities	110.2	118.7
<b>Total liabilities</b>	<b>2,142.9</b>	<b>2,067.2</b>
<b>Equity</b>	<b>644.9</b>	<b>612.4</b>
Gearing <sup>(i)</sup>	82%	67%
ROE <sup>(ii)</sup>	16%	19%
Cash inflows from operating activities (Dec 2015 comparative)	100.8	64.6

(i) Gearing is recourse borrowings as a percentage of equity excluding intangible assets.

(ii) Calculated based on Group Cash NPAT as detailed on page 3 as a percentage of average equity.

### Receivables and customer loans

Receivables and customer loans (including other debtors) increased by 3% to \$2,150.8m compared to June 2016. Net receivables and customer loans from continuing operations of \$1,998.0m (2015: \$1,220.0m) are underpinned by the contribution from both the NZ Cards and Australia Cards businesses.

### Return on Equity ("RoE")

The Company has continued to achieve consistently high returns underpinned by growth in cash profitability. ROE of 16% (June 2016: 19%) has reduced primarily due to additional capital requirements to support the growth in Australia Cards customer loans, the impact of discontinued businesses during the period and the reshaping of profit pool to cards compared to leasing. The Group expects long term ROE to increase as customer loans growth in Australia Cards mature into interest bearing.

### Gearing

The increase in recourse corporate debt gearing to 82% (June 2016: 67%) is driven by additional capital requirements during the period.

The Group continues to optimise its capital structure to maximise shareholder value. The leverage is expected to normalise as the Cards portfolio matures.

### Cash Flows

Cash inflows from operating activities are up on prior year, with an increase of 56% to \$100.8m (2015: \$64.6m). The increase in cash inflows from operating activities is mainly driven by the contribution from NZ Cards and an increase in underlying cash profit.

Cash outflows from investing activities increased by 147% to \$138.0m (2015: \$55.9m), primarily driven by an increase in net investment in receivables and customer loans of \$118.5m. The Company spent \$3.5m in paying the deferred consideration from a prior year acquisition and \$4.1m for the acquisition of some merchant relationships to support the Oxipay start up business, and an equity investment in Business and Capital Pty Ltd. ("Kikka").

Cash inflows from financing activities increased to \$49.4m (June 2016: -\$2.8m), driven mainly by an increase in corporate debt drawdown and non-recourse borrowings to support receivables and customer loans growth.

## 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.

At balance sheet date the Group had \$2,369.6m of wholesale debt facilities, with \$492.3m undrawn and no indications that facilities will not be extended. The majority of the wholesale debt facilities (\$1,978.1m) have no bullet repayment on maturity, with outstanding balances repaying in line with receivables and customer loans if availability periods were not to be extended. These facilities are secured against underlying pools of receivables and customer loans. The remaining wholesale debt facilities either have a soft bullet or have sufficient lead time for re-extension when approaching maturity.

The Group's \$187.5m (2015: \$100.0m) of corporate debt facilities, increased to fund the acquisition of NZ Cards, were drawn to \$177.0m (2015: nil) 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 return and value.

The Group continues to be focused on growing profitability through targeting receivables and customer loans growth primarily in the revolving cards segments. The acquisition of FlexiCards has resulted in the cards portfolio growing to 52% of Group net receivables and customer loans, providing for sustainable organic profit growth.

The Group is executing the strategy, with anticipated benefits beginning to be realised. The Flight Centre agreement reported to the market on 8 August 2016 has generated significant customer loans and volume growth for the Group and continues to show potential to more than double the Australia Cards business revenue over the next several years.

Significant opportunities also exist for organic growth in Ireland and Commercial Leasing. Ireland expansion is ahead of schedule, with funding lines agreed and the build of the platform to support the expansion on track. The Commercial Leasing rebuild continues, with volumes increasing by 84% compared to prior year and new partnership agreements in the pipeline.

The Group is also reviewing its funding strategy to support further growth and continued rollout of cards. This also includes a review of capital management strategies, that has resulted in the dividend policy being rebased from 50%-60% of Cash NPAT to 30%-40% with effect from 1H17. This has also resulted in the Dividend Reinvestment Plan being activated for the FY17 interim dividend. The reset of the dividend policy ensures that the growth of the business can be sustainably funded.

The Group 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 Group is exiting some non-core business areas and has commenced redeploying capital to core and strategic business units. This will allow the Group to focus on its core competencies and drive future growth. The Group is also on course in transitioning from being Australia focused to becoming a trans-tasman organisation.

The Group'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 Group will continue to grow volume by leveraging existing merchant relationships and pursuing new sales channels in the future. The Cards businesses are driving Group volume growth through new channels and products.

Additionally, the roll out of new products is expected to drive long-term volume growth. The Group will continue to drive cost savings through rationalisation of IT and operational platforms particularly in the cards businesses.

## Innovation

The Group continues to identify underserved markets as part of its overall growth strategy and continues to create new products to service those markets.

## Prospects for future financial years

The business strategies put in place have positioned the Group for growth.

The Group faces a number of risks including the inability to achieve volume growth targets, the unavailability of funding and the increase to the cost of funds. In addition, macroeconomic risks in Australia and New Zealand could lead to a deterioration of credit quality and increased impairments.

## Shareholder returns

	Half year ended 31 December		Year ended 30 June					
	2016	2015	2016	2015	2014	2013	2012	2011
TSR (%)	n/a	n/a	(16%)	(14%)	(26%)	92%	18%	76%
Dividends per share (cents)	3.85	7.25	14.50	17.75	17.80	14.50	12.50	11.50
Cash EPS (cents) (Group)	13.3	13.8	28.01	28.71	27.10	24.30	21.50	19.30
Share price (high)	\$2.49	\$3.12	\$3.12	\$4.00	\$4.99	\$4.74	\$2.65	\$2.39
Share price (low)	\$1.85	\$2.22	\$1.71	\$2.70	\$2.98	\$2.55	\$1.60	\$1.17
Share price (close)	\$2.26	\$3.02	\$1.74	\$2.91	\$3.17	\$4.36	\$2.60	\$2.07

## Earnings per share

	Half Year 2016 cents	Half Year 2015 cents
Basic earnings per share (statutory)	12.8	12.9
Diluted earnings per share (statutory)	12.8	12.9
Cash earnings per share (continuing operations)	12.8	12.5 <sup>1</sup>

<sup>1</sup> Prior period comparative have been restated to be consistent with current year calculation.

## Dividends on ordinary shares

	2016		2015	
	cents	\$m	cents	\$m
Interim dividend for the year - paid in April	3.85	14.3	7.25	27.0
<b>Dividends paid during the year</b>				
Final dividend for 2016 (PY:2015) - paid in October	7.25	27.0	9.00	27.4
Total dividends paid during the year	7.25	41.3	9.00	27.4
Total dividends declared for the financial year	3.85	14.30	7.25	27.0

The interim dividend for 2017 has a record date of 10 March 2017 and is expected to be paid on 13 April 2017.

## Matters subsequent to end of the financial year

As at the date of this report the directors are not aware of any matter or circumstance that has arisen since 31 December 2016 that has significantly affected, or may significantly affect:

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

## Environmental regulation

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



**Auditor's Independence Declaration**

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 10.

**Rounding of amounts**

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

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



**Andrew Abercrombie**

Chairman  
Sydney  
20 February 2017



## Auditor's Independence Declaration

As lead auditor for the review of FlexiGroup Limited for the half-year ended 31 December 2016, I declare that to the best of my knowledge and belief, there have been:

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

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

A handwritten signature in black ink, appearing to read 'Rob Spring', is written over a light grey circular stamp.

Rob Spring  
Partner  
PricewaterhouseCoopers

Sydney  
20 February 2017

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Liability limited by a scheme approved under Professional Standards Legislation.

**FlexiGroup Limited**  
**Consolidated income statement**  
For the half-year ended 31 December 2016

		<b>Consolidated</b>	
	<b>Note</b>	<b>31 Dec 16</b>	<b>31 Dec 15</b>
		<b>\$m</b>	<b>\$m</b>
Total portfolio income	<b>4</b>	<b>235.5</b>	176.6
Interest expense		<b>(51.5)</b>	(32.5)
Net portfolio income		<b>184.0</b>	144.1
Employment expenses		<b>(43.7)</b>	(32.3)
Receivables and customer loan impairment expenses		<b>(30.6)</b>	(24.9)
Depreciation and amortisation expenses	<b>5</b>	<b>(6.6)</b>	(5.9)
Operating expenses	<b>5</b>	<b>(35.5)</b>	(23.5)
Profit before income tax		<b>67.6</b>	57.5
Income tax expense		<b>(19.9)</b>	(16.1)
Profit for the year attributable to shareholders of FlexiGroup Limited		<b>47.7</b>	41.4

Earnings per share for profit attributable to the ordinary equity holders of the Company:		<b>cents</b>	cents
Basic earnings per share		<b>12.8</b>	12.9
Diluted earnings per share		<b>12.8</b>	12.9

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

**FlexiGroup Limited**  
**Consolidated statement of comprehensive income**  
For the half-year ended 31 December 2016

	<b>Consolidated</b>	
	<b>31 Dec 16</b>	31 Dec 15
	<b>\$m</b>	\$m
<b>Profit for the half-year</b>	<b>47.7</b>	41.4
<b>Other comprehensive income</b>		
<i>Items that may be reclassified to profit and loss</i>		
Exchange differences on translation of foreign operations	<b>5.5</b>	3.7
Changes in the fair value of cash flow hedges, net of tax	<b>5.8</b>	2.5
<b>Other comprehensive income for the half-year, net of tax</b>	<b>11.3</b>	6.2
<b>Total comprehensive income for the half-year</b>	<b>59.0</b>	47.6

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

**FlexiGroup Limited**  
**Consolidated statement of financial position**  
As at 31 December 2016

	Note	Consolidated	
		31 Dec 16 \$m	30 Jun 16 \$m
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	186.5	174.4
Inventories		1.3	0.9
Receivables		661.8	710.1
Customer loans		1,489.0	1,372.2
Plant and equipment		6.5	6.1
Goodwill		321.6	298.9
Intangible assets		107.1	100.8
Assets of disposal group held for sale	3	14.0	16.2
<b>Total assets</b>		<b>2,787.8</b>	<b>2,679.6</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Payables		50.4	49.1
Borrowings		2,032.7	1,948.5
Current tax liabilities		7.9	1.8
Provisions		7.7	7.6
Deferred and contingent consideration		9.9	8.2
Derivative financial instruments		12.4	20.0
Deferred tax liabilities		20.2	25.5
Liabilities of disposal group held for sale	3	1.7	6.5
<b>Total liabilities</b>		<b>2,142.9</b>	<b>2,067.2</b>
<b>Net assets</b>		<b>644.9</b>	<b>612.4</b>
<b>Equity</b>			
Contributed equity	8	356.8	356.8
Reserves		19.9	8.1
Retained earnings		268.2	247.5
<b>Total equity</b>		<b>644.9</b>	<b>612.4</b>

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

**FlexiGroup Limited**  
**Consolidated statement of changes in equity**  
For the half-year ended 31 December 2016

<b>Consolidated</b>	<b>Contributed equity</b>	<b>Reserves</b>	<b>Retained earnings</b>	<b>Total</b>
	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
<b>2015</b>				
Balance at the beginning of the half-year	161.9	(3.0)	251.6	410.5
Profit for the half-year	-	-	41.4	41.4
Other comprehensive income	-	6.2	-	6.2
Total comprehensive income for the half-year	-	6.2	41.4	47.6
Share based payments expense	-	1.2	-	1.2
Issue of shares to employees on vesting of performance rights	0.5	(0.5)	-	-
Deferred tax asset on share based payment	-	0.5	-	0.5
Issue of shares	146.2	-	-	146.2
Treasury shares purchased on market	(0.7)	-	-	(0.7)
Cash settlement on vesting of options	-	(0.1)	-	(0.1)
Dividends paid	-	-	(27.4)	(27.4)
Balance at the end of the half-year	307.9	4.3	265.6	577.8
<b>2016</b>				
<b>Balance at the beginning of the half-year</b>	<b>356.8</b>	<b>8.1</b>	<b>247.5</b>	<b>612.4</b>
Profit for the half-year	-	-	47.7	47.7
Other comprehensive income	-	11.3	-	11.3
Total comprehensive income for the half-year	-	11.3	47.7	59.0
Share based payments expense	-	0.5	-	0.5
Dividends paid	-	-	(27.0)	(27.0)
<b>Balance at the end of the half-year</b>	<b>356.8</b>	<b>19.9</b>	<b>268.2</b>	<b>644.9</b>

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

**FlexiGroup Limited**  
**Consolidated statement of cash flows**  
For the half-year ended 31 December 2016

	<b>Consolidated</b>	
	<b>31 Dec 16</b>	31 Dec 15
	<b>\$m</b>	\$m
<b>Cash flows from operating activities</b>		
Interest and fee income received from customers	250.2	182.2
Payments to suppliers and employees	(84.3)	(61.7)
Borrowing costs	(51.5)	(32.5)
Taxation paid	(13.6)	(23.4)
<b>Net cash inflows from operating activities</b>	<b>100.8</b>	64.6
<b>Cash flows from investing activities</b>		
Payment for purchase of plant and equipment and software	(11.9)	(11.7)
Payment for deferred consideration relating to business acquisitions	(3.5)	(1.5)
Payment for business acquisitions	(2.4)	-
Payment for equity investment	(1.7)	-
Net movement in:		
Customer loans	(157.3)	(57.1)
Receivables due from customers	38.8	14.4
<b>Net cash outflows from investing activities</b>	<b>(138.0)</b>	(55.9)
<b>Cash flows from financing activities</b>		
Dividends paid	(27.0)	(27.4)
Proceed from equity raising, net of transaction cost	-	146.2
Treasury shares purchased on market	-	(0.7)
Drawdown of corporate borrowings	52.0	43.0
Repayment of corporate borrowings	(17.0)	(88.0)
Net movement in non-recourse borrowings	41.1	(79.0)
Net movement in loss reserves on non-recourse borrowings	0.3	3.2
Cash settlement on vesting of options	-	(0.1)
<b>Net cash inflows/ (outflows) from financing activities</b>	<b>49.4</b>	(2.8)
Net increase in cash and cash equivalents	12.2	5.9
Cash and cash equivalents at the beginning of the half-year	174.4	130.3
Effects of exchange rate changes on cash and cash equivalents	0.6	1.0
<b>Cash and cash equivalents at end of the half-year</b>	<b>187.2</b>	137.2
<i>Reconciliation of cash and cash equivalents:</i>		
Cash and cash equivalents on the statement of financial position	186.5	137.2
Cash and cash equivalents in disposal group per note 3	0.7	-
<b>Cash and cash equivalents per above</b>	<b>187.2</b>	137.2

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

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

**(a) Basis of preparation**

The condensed interim consolidated financial statements for the half-year ended 31 December 2016 have been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The condensed interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements. As a result, they should be read in conjunction with the annual consolidated financial statements for the year ended 30 June 2016 and any public announcements made in the period by FlexiGroup Limited ('the Group') in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the *ASX Listing Rules*.

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

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

The accounting policies adopted in the preparation of the condensed interim consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2016.

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

- *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.

*(iii) Disclosure*

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



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

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

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

In preparing these condensed interim consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements for the year ended 30 June 2016.

**Note 2 Segment information**

**(a) Description of segments**

Management has determined the operating segments based on the reports reviewed by the Chief Executive Officer (CEO) that are used to make strategic decisions. 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; Certegy, Australia Cards business (Lombard and Once Credit), Australia Leasing (consisting of FlexiRent, SmartWay, FlexiWay and FlexiCommercial), New Zealand Leasing, and New Zealand Cards (FlexiCards). The Enterprise and Think Office Technology businesses, which were previously reported as part of Australia Leasing are now disclosed as Other. These businesses are either in run-off or held as a disposal group for sale. Additionally, an unallocated segment has been identified in the current year and this consists of net corporate debt interest. Prior year comparatives have been restated to reflect the changes to reportable segments.

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

The segment information provided to the Chief Executive Officer for the reportable segments for the half year ended 31 December 2016 is as below:

**Note 2 Segment information (continued)**

**(b) Operating segments**

Half year 31 December 2016	Certeqy \$m	Australia Cards \$m	Australia Leasing \$m	NZ Leasing \$m	NZ Cards \$m	Unallocated (i) \$m	Sub-total continuing operations \$m	Other (ii) \$m	Total \$m
Total portfolio income	56.9	27.4	49.9	20.5	64.9	-	219.6	15.9	235.5
Interest expense	(9.5)	(5.6)	(7.1)	(3.9)	(16.9)	(5.0)	(48.0)	(3.5)	(51.5)
Net portfolio income	47.4	21.8	42.8	16.6	48.0	(5.0)	171.6	12.4	184.0
Impairment losses on receivables and customer loans	(9.2)	(6.0)	(7.6)	(0.2)	(7.2)	-	(30.2)	(0.4)	(30.6)
Amortisation of acquired intangible assets	(0.4)	(0.2)	(0.1)	(0.4)	(0.1)	-	(1.2)	(0.5)	(1.7)
Other expenses	(13.1)	(8.7)	(22.3)	(8.8)	(22.3)	-	(75.2)	(8.9)	(84.1)
<b>Profit before income tax</b>	<b>24.7</b>	<b>6.9</b>	<b>12.8</b>	<b>7.2</b>	<b>18.4</b>	<b>(5.0)</b>	<b>65.0</b>	<b>2.6</b>	<b>67.6</b>
Income tax expense	(7.4)	(2.1)	(3.8)	(2.1)	(5.2)	1.5	(19.1)	(0.8)	(19.9)
<b>Statutory profit for the year</b>	<b>17.3</b>	<b>4.8</b>	<b>9.0</b>	<b>5.1</b>	<b>13.2</b>	<b>(3.5)</b>	<b>45.9</b>	<b>1.8</b>	<b>47.7</b>
<i>Recurring non-cash adjustments</i>									
Amortisation of acquired intangible assets	0.3	0.2	0.2	0.5	0.1	-	1.3	0.3	1.6
<i>One-off non-cash adjustments</i>									
Other	-	-	0.3	-	-	-	0.3	-	0.3
<b>Cash net profit after tax</b>	<b>17.6</b>	<b>5.0</b>	<b>9.5</b>	<b>5.6</b>	<b>13.3</b>	<b>(3.5)</b>	<b>47.5</b>	<b>2.1</b>	<b>49.6</b>
<b>Total segment assets at 31 Dec 2016</b>	<b>576.6</b>	<b>382.0</b>	<b>704.9</b>	<b>230.5</b>	<b>759.6</b>	<b>-</b>	<b>2,652.4</b>	<b>134.2</b>	<b>2,787.8</b>

(i) Unallocated relates to net corporate debt interest.

(ii) This relates to non-core businesses (Enterprise and TOT) that are in run-off or held as a disposal group for sale respectively.

**Note 2 Segment information (continued)**

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

<b>Half year 31 December 2015</b>	Certeqy \$m	Australia Cards \$m	Australia Leasing \$m	NZ Leasing \$m	NZ Cards \$m	Unallocated (i) \$m	Sub-total continuing operations \$m	Other (ii) \$m	Total \$m
Total portfolio income	58.2	22.8	56.7	18.9	-	-	156.6	20.0	176.6
Interest expense	(9.6)	(4.3)	(10.6)	(3.6)	-	(0.9)	(29.0)	(3.5)	(32.5)
Net portfolio income	48.6	18.5	46.1	15.3	-	(0.9)	127.6	16.5	144.1
Impairment losses on receivables and customer loans	(9.6)	(4.1)	(7.6)	(0.8)	-	-	(22.1)	(2.8)	(24.9)
Amortisation of acquired intangible assets	-	(0.5)	(0.2)	(0.5)	-	-	(1.2)	(0.5)	(1.7)
Other expenses	(14.0)	(5.5)	(25.1)	(7.5)	-	-	(52.1)	(7.9)	(60.0)
<b>Profit before income tax</b>	25.0	8.4	13.2	6.5	-	(0.9)	52.2	5.3	57.5
Income tax expense	(7.5)	(2.6)	(3.1)	(1.7)	-	0.3	(14.6)	(1.5)	(16.1)
<b>Statutory profit for the year</b>	17.5	5.8	10.1	4.8	-	(0.6)	37.6	3.8	41.4
<i>Recurring non-cash adjustments</i>									
Amortisation of acquired intangible assets	-	0.4	0.1	0.4	-	-	0.9	0.3	1.2
<i>One-off non-cash adjustments</i>									
Acquisition costs	-	-	1.7	-	-	-	1.7	-	1.7
<b>Cash net profit after tax</b>	17.5	6.2	11.9	5.2	-	(0.6)	40.2	4.1	44.3
<b>Total segment assets at 30 June 2016</b>	532.6	328.8	669.3	223.8	756.6	-	2,511.1	168.5	2,679.6

(i) Unallocated relates to net corporate debt interest.

(ii) This relates to non-core businesses (Enterprise and TOT) that are in run-off or held as a disposal group for sale respectively.

**Note 3 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 wholly 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 in the near future.

**(a) Impairment loss relating to the disposal group**

No impairment losses have been recognised for the period. The disposal group's carrying amount is equal to its fair value less costs to sell.

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

As at 31 December 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.

	<b>31 Dec 16</b>	30 Jun 16
	<b>\$m</b>	\$m
Cash and cash equivalents	<b>0.7</b>	-
Inventories	<b>3.0</b>	3.9
Receivables	<b>1.5</b>	3.1
Plant and equipment	<b>2.6</b>	3.0
Deferred tax assets	<b>0.2</b>	0.2
Goodwill	<b>1.9</b>	1.9
Other intangible assets	<b>4.1</b>	4.1
<b>Total assets of disposal group held for sale</b>	<b>14.0</b>	16.2
Payables	<b>1.1</b>	2.5
Provisions	<b>0.6</b>	0.5
Deferred and contingent consideration	<b>-</b>	3.5
<b>Total liabilities of disposal group held for sale</b>	<b>1.7</b>	6.5
Net assets of disposal group held for sale	<b>12.3</b>	9.7

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

The non-recurring fair value measurement of the disposal group is \$12.3m (30 June 2016: \$9.7m). 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. The increase in the value is a result of the payment of a deferred consideration (which was classified in the disposal group at 30 June 2016).

**Note 4 Total portfolio income**

	<b>Half-year ended 31 Dec 16 \$m</b>	Half-year ended 31 Dec 15 \$m
Gross interest and finance lease income	200.1	147.1
Amortisation of initial direct transaction costs	(12.7)	(15.8)
Other portfolio income	43.0	38.9
Sale of goods	2.5	3.8
Other income	1.0	1.1
Interest income – banks	1.6	1.5
<b>Total portfolio income</b>	<b>235.5</b>	<b>176.6</b>

**Note 5 Expenses**

	<b>Half-year ended 31 Dec 16 \$'m</b>	Half-year ended 31 Dec 15 \$'m
Depreciation of plant and equipment	1.3	0.9
Amortisation of other intangible assets	5.3	5.0
<b>Total depreciation and amortisation</b>	<b>6.6</b>	<b>5.9</b>

**Operating expenses**

Acquisition costs relating to business combinations	-	1.7
Advertising and marketing expenses	4.8	1.8
Cost of sales	1.7	2.3
Information technology and communication expenses	7.5	5.5
Operating lease rental expenses	2.6	2.0
Occupancy and other related expenses	1.8	1.2
Outsourced operation costs	4.5	3.9
Onerous lease expenses	2.6	-
Professional and consulting fees	7.6	3.2
Other	2.4	1.9
<b>Total operating expenses</b>	<b>35.5</b>	<b>23.5</b>

**Note 6 Cash and cash equivalents**

	<b>31 Dec 16 \$m</b>	30 Jun 16 \$m
Restricted	129.0	135.3
Unrestricted	57.5	39.1
<b>Total cash and cash equivalents</b>	<b>186.5</b>	<b>174.4</b>

**Note 7 Dividends**

	<b>Half-year ended 31 Dec 2016</b>	<b>Half-year ended 31 Dec 2015</b>
	<b>\$m</b>	<b>\$m</b>
<b>Ordinary shares</b>		
Dividends provided for or paid during the half-year	<u>27.0</u>	<u>27.4</u>

On 20 February 2017 the Directors have recommended the payment of an interim dividend of 3.85 cents per fully paid ordinary share, fully franked based on tax paid at 30%. The interim dividend totalling \$14.3m is expected to be paid on 13 April 2017 out of retained profits at 31 December 2016 and has not been recognised as a liability at the end of the half-year.

**Note 8 Contributed equity**

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

	<b>Consolidated Number of shares (m)</b>	<b>\$m</b>
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
<b>30 June 2016</b>	<u>372.3</u>	<u>307.7</u>
1 July 2016	<b>372.3</b>	<b>307.7</b>
Issue of shares	-	-
<b>31 Dec 2016</b>	<u><b>372.3</b></u>	<u><b>307.7</b></u>

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

	<b>Consolidated Number of shares (m)</b>	<b>\$m</b>
1 July 2016	49.1	49.1
Issue of subordinated perpetual shares	-	-
<b>31 Dec 2016</b>	<u>49.1</u>	<u>49.1</u>

<b>Total contributed equity</b>	<b>356.8</b>
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## Note 9 Business Combinations

### 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:

<b>Purchase consideration</b>	<b>\$m</b>
Cash paid	227.7
Perpetual notes (preference shares)	49.1
Deferred consideration	8.1 <sup>(1)</sup>
	<b>284.9</b>

<sup>(1)</sup> 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	Provisional fair value	Final
	\$m	\$m	\$m
Cash and cash equivalents	42.4	42.4	42.4
Receivables and customer loans	616.4	616.4	598.4
Other assets	7.7	7.7	7.6
Plant and equipment	1.3	1.3	1.1
Other intangible assets	58.8	58.8	56.1
Deferred tax (liabilities) /asset	(2.9)	(2.9)	2.9
Trade and other payables	(24.3)	(24.3)	(24.3)
Loans and borrowings	(569.6)	(569.6)	(569.6)
Current tax liabilities	(1.1)	(1.1)	(1.1)
Net carrying value	128.7	128.7	113.5
Consideration		284.9	284.9
Goodwill recognised		156.2	171.4

(b) On 29 August 2016, the Group acquired the merchant relationships of Take Home Layby Pty Ltd (also referred to as Oxipay) for a consideration of \$3.4m of which \$1m is deferred.

## Note 10 Related party transactions

### Rental of Melbourne premises

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

	Half-year ended 31 Dec 2016	Half-year ended 31 Dec 2015
	\$	\$
Rental of Melbourne premises	94,703	94,703

## Note 11 Contingencies

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

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

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

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

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

*Level 2:* inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

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

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

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

*Cash and cash equivalents*

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

*Receivables and customer loans*

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

*Payables*

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

*Borrowings*

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

Set out below is a comparison of the carrying amounts and fair values of financial assets and liabilities as at 31 December 2016 and 30 June 2016:

	<b>Carrying amount</b>	<b>Fair value</b>	Carrying amount	Fair value
	<b>31 Dec 16</b>	<b>31 Dec 16</b>	30 Jun 16	30 Jun 16
	<b>\$m</b>	<b>\$m</b>	\$m	\$m
<b>Financial assets</b>				
Cash and cash equivalents	186.5	186.5	174.4	174.4
Receivables	661.8	661.8	710.1	710.1
Customer loans	1,489.0	1,489.0	1,372.2	1,372.2
<b>Financial liabilities</b>				
Payables	50.4	50.4	49.1	49.1
Borrowings				
- Floating interest rate	1,857.6	1,857.6	1,772.5	1,772.5
- Fixed interest rate	196.7	197.9	197.9	200.4
Total borrowings before loss reserves	<u>2,054.3</u>	<u>2,055.5</u>	1,970.4	1,972.9
Derivatives financial instruments	12.4	12.4	20.0	20.0



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

**Fair value hierarchy**

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

*Receivables and customer loans*

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

*Borrowings and derivative financial instruments*

These are classified as level 2 as the inputs into the fair value models (being current market rates) used to determine fair value are observable.

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

**Note 13 Securitisation and special purpose vehicles**

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

	<b>31 Dec 16</b>	30 Jun 16
	\$m	\$m
Receivables	<b>630.9</b>	625.5
Customer loans	<b>1,462.0</b>	1,353.2
Cash held by securitisation vehicles	<b>145.0</b>	130.4
	<b>2,237.9</b>	2,109.1
Borrowings related to receivables and customer loans	<b>1,855.7</b>	1,828.9

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

As at the date of this report the directors are not aware of any matter or circumstance that has arisen since 31 December 2016 that has significantly affected, or may significantly affect:

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

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

In the opinion of the directors:

- a) the financial statements and notes of the Group are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
  - (ii) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- b) there are reasonable grounds to believe that FlexiGroup Limited will be able to pay its debts as and when they become due and payable.

On behalf of the Board



**Andrew Abercrombie**  
Chairman

Sydney  
20 February 2017



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

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

We have reviewed the accompanying half-year financial report of FlexiGroup Limited (the company), which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for FlexiGroup Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during that half-year.

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

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

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

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of FlexiGroup Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

### ***Independence***

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

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**Conclusion**

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date;
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*.

A handwritten signature in cursive script that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in cursive script, appearing to be 'Rob Spring'.

Rob Spring  
Partner

Sydney  
20 February 2017