FlexiGroup Limited and its controlled entities

Preliminary Final Report
For the financial year ended 30 June 2018

ABN 75 122 574 583

Table of Contents

Results for Announcement to the Market

FlexiGroup Limited and its controlled entities (also referred to as the Group or FlexiGroup) Results for Announcement to the Market are detailed below:

Key Information	Year Ended 30 June 2018 $m	Year Ended 30 June 2017 $m	Change on Previous Period $m	Change on Previous Period %
Total Portfolio Income	460.4	462.8	(2.6)	(1%)
(Loss)/profit from ordinary activities after tax attributable to shareholders of FlexiGroup Limited	(10.3)	87.4	(97.7)	(112%)
Net (loss)/profit for the year attributable to shareholders of FlexiGroup Limited	(10.3)	87.4	(97.7)	(112%)

Dividends	Amount per security	Franked amount per security
Current period – 2018		
Final dividend – payable on 12 October 2018	3.85 cents	100%
Interim dividend – paid 13 April 2018	3.85 cents	100%
Previous corresponding period – 2017		
Final dividend – payable on 13 October 2017	3.85 cents	100%
Interim dividend – paid 13 April 2017	3.85 cents	100%

Record date for determining entitlements to the dividends
7 September 2018 for final FY18 dividend.

Dividend Details

Our final ordinary dividend in respect of the year ended 30 June 2018 will have a record date of 7 September 2018 with payment to be made on 12 October 2018. The Board has determined that the dividend reinvestment plan will not operate in relation to this dividend.

Dividend or Distribution Reinvestment Plan Details

N/A

Brief Explanation on Results

Please refer to the Review of Operations for an explanation of the results.

Net Tangible Assets Per Security

	Year ended 30 June 2018 $	Year ended 30 June 2017 $
Ordinary shares	78 cents	63 cents

Control gained or lost over entitles in the Financial Year

Name of entitles where control was gained in the financial year	Date control gained
Nil	N/A

Name of entitles where control was lost in the financial year	Date control lost
Nil	N/A

Investment in Associates and Joint Ventures

Nil

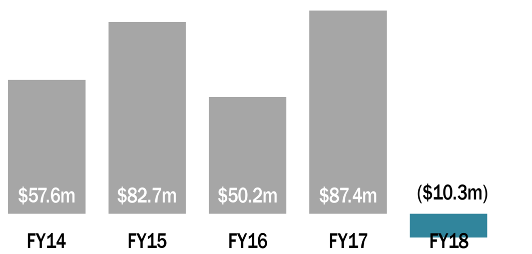
Other information

The Preliminary Final Report has been prepared in accordance with ASX Listing Rule 4.3A and has been derived from the unaudited Annual Financial Report. In accordance with the Corporations Act 2001, the Review of Operations is unaudited. The Review of Operations contains disclosures which are extracted or derived from the Annual Financial Report for the year ended 30 June 2018, which is in the process of being audited and is expected to be made available in September 2018.

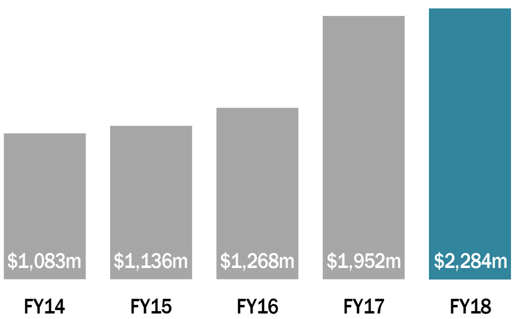
Group Performance Highlights

Cash NPAT[1] $88.2m, down 5%

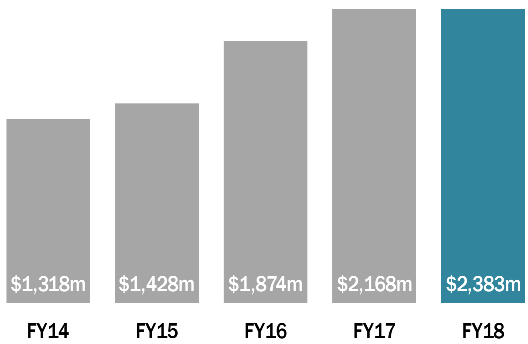
Statutory net (loss)/profit after tax ($10.3m), down 112%



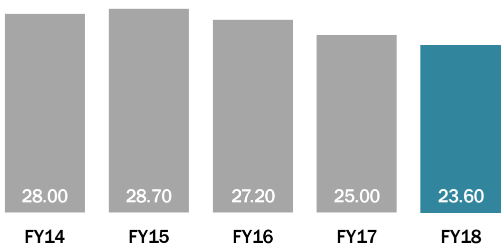
Volume $2,284m, up 17%



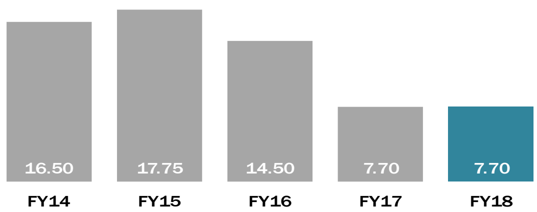
Receivables and loans[2] $2,383m, up 10%



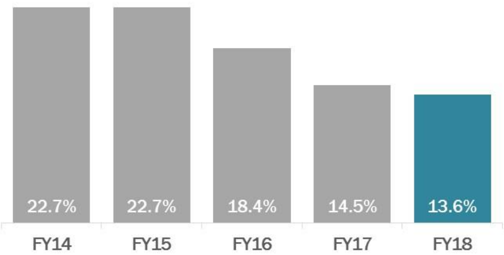
Cash NPAT[1] per share 23.6 cents, down 6%



Dividends per share 7.70 cents, flat



Cash ROE[3] 13.6%, down 0.9%



	June 2018	June 2017	Change %
Reported earnings			
Net (loss)/profit after tax ($m)	**(10.3)**	87.4	(112%)
Earnings per share (cents)	**(2.8)**	23.4	(112%)
Dividends per share (cents)	**7.7**	7.7	(0%)
Expense to income ratio (%)[(i)]	**51.3**	48.7	3%
Cash NPAT from continuing activities basis			
Cash NPAT from continuing activities ($m)	**88.2**	93.0	(5%)
Cash NPAT per share (cents)	**23.6**	25.0	(6%)
Cash NPAT return on equity (%)	**13.6**	14.5	(1%)
Cash expense to income ratio (%)	**49.4**	48.7	1%

[(i)] Calculated as operating expenses excluding impairments over net portfolio income

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

Review of Operations – Group Performance

Results and key performance indicators for the current and prior year are set out below on a cash NPAT basis, adjusting for amortisation of acquired intangibles, impairment of assets and customer remediation costs. The reported Cash NPAT includes $2.5m post tax restructuring costs that were incurred in 1H18. The normalisation for these costs is included in the investor presentation document, which does not form part of this Report.

Group Profit and Loss

A$m	**June 2018**	June 2017	Change %
Total portfolio income	**460.4**	462.8	(1%)
Interest expense	**(98.0)**	(102.0)	(4%)
Net portfolio income	**362.4**	360.8	0%
Receivables and customer loan impairment expenses	**(66.5)**	(62.8)	6%
Impairment of goodwill and intangible assets	**(94.7)**	-	n/a
Depreciation and amortisation expenses	**(17.5)**	(16.2)	8%
Operating and other expenses	**(168.5)**	(159.6)	6%
Profit before income tax	**15.2**	122.2	(88%)
Income tax expense	**(25.5)**	(34.8)	(27%)
Statutory (loss)/profit after income tax	**(10.3)**	87.4	(112%)
Non-cash items			
Amortisation of acquired intangible assets	**4.5**	4.2	7%
Impairment of Goodwill and Other Intangibles	**89.1**	-	n/a
Customer remediation provision	**4.9**	-	n/a
Other (i)	**-**	1.4	(100%)
Total non-cash items	**98.5**	5.6	1,659%
Group Cash NPAT (ii)	**88.2**	93.0	(5%)
Basic earnings per share (cents)	**(2.8)**	23.4	(112%)
Cash earnings per share (cents)	**23.6**	25.0	(6%)
Volume	**2,284**	1,952	17%
Closing receivables and customer loans (iii)	**2,383**	2,168	10%

(i) Other includes the write down of equity accounted investments, which do not reflect ongoing operations. The investment in associate was fully impaired at 30 June 2017.

(ii) Cash NPAT reflects the reported net profit after tax adjusted for material infrequent items and the amortisation of acquired intangibles. 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 guidance to shareholders and the market, and is calculated on a consistent basis each year.

(iii) Receivables and loans excludes provision for doubtful debts, unamortised transaction costs and other debtors.

Total portfolio income

Total portfolio income decreased 1% to $460.4m, primarily driven by 7% lower volume and 4% lower receivables in Consumer Leasing. This was partially offset by Australia Cards revenue which increased by 38%, driven by increased card spend and growth in long term finance.

Interest expense

Interest expense decreased 4% to $98.0m, driven by:

- lower cost of funds through improved funding terms in Australia Cards, NZ and Certegy; and
- decrease in net corporate debt interest expense by $2.5m due to a reduction in average corporate debt which also contributed to a decline in gearing[4] ratio from 53% to 36%.

[4] Gearing is recourse (corporate) borrowings as a percentage of equity excluding intangible assets.

Impairment losses on loans and receivables

The increase in impairment losses relates to under investment in our cards collection capability as a result of the strong volume growth in the portfolio. Management has responded to this, with early cycle delinquencies showing improvement. Overall impairment as a percentage of average net receivables remained stable at 3.0%, with increases in costs offset by improvement in NZ Cards and AU Commercial.

Impairment of goodwill and intangible assets

Impairment of goodwill and intangible assets resulted from the decline in forecast cash flows relating to the Flexirent Consumer Leasing business. The product was replaced by a more customer centric product in February 2018. For more details, refer to note 6 of the 31 December 2017 Half Year Financial Statements and note 13 of the Annual Financial Statements.

Depreciation and amortisation

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

Operating expenses

Operating expenses increased by 6% or $8.9m driven by customer remediation provision of $7m, one-off cost of restructuring $3.6m of which approximately $1m relates to redundancies and CPI increases on employment costs of $2m. The increase was partially offset by $4.6m in one-off costs in the prior year.

Non-cash items

Amortisation of acquired intangibles

The acquisition of companies over the years has resulted in the recognition of intangible assets that are amortised over their useful life ranging from 3 to 27 years. The amortisation of these intangible assets is treated as a cash NPAT adjustment because it does not affect cash distributions available to shareholders. During the year, $4.5m post tax has been amortised to the income statement (2017: $4.2m).

Impairment of goodwill and intangible assets

The impairment of goodwill and intangible assets is a cash NPAT adjustment as it is a material infrequent item which does not impact on-going operations.

Customer remediation

The customer remediation provision is a cash NPAT adjustment as it is a material infrequent item and has no effect on the Group's underlying performance. The provision relates to ongoing discussions being held with the Credit and Investments Ombudsman (CIO) regarding the Group's responsible lending practices in its Australia Consumer Leasing business.

Group Balance Sheet

A$m	**June 2018**	June 2017	Change %
Cash and cash equivalents	**125.3**	167.3	(25%)
Receivables and customer loans[(1)]	**2,368.1**	2,165.9	9%
Other assets	**10.9**	13.1	(17%)
Current tax receivable	**0.5**	3.8	(87%)
Goodwill	**236.5**	321.4	(26%)
Other intangible assets	**100.4**	114.4	(12%)
Disposal Group Assets	**12.5**	-	n/a
Total assets	**2,854.2**	2,785.9	2%
Payables	**51.7**	50.3	3%
Borrowings	**2,124.7**	2,007.7	6%
Other liabilities	**22.0**	30.9	(29%)
Current and deferred tax liabilities	**25.8**	25.2	(2%)
Disposal Group Liabilities	**2.4**	-	n/a
Total liabilities	**2,226.6**	2,114.1	5%
Equity	**627.6**	671.8	(7%)
Gearing	**36%**	53%	(18%)
ROE[(2)]	**13.6%**	14.5%	(1%)

[(1)] Includes other debtors as disclosed in the statutory accounts.

[(2)] Calculated based on Cash NPAT as a percentage of average equity.

Receivables and customer loans

Receivables and customer loans (including other debtors) increased by 9% to $2,368.1m (2017: $2,165.9) driven by Australia cards customer loans growth of $166.0m (34%) and NZ Cards customer loans growth of $32.8m (5%).

Goodwill

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

Other intangible assets

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

Payables

Payables include trade creditors, interest accruals, GST payable and sales incentive accruals. Balances have remained consistent with the prior year, reflecting the similar nature and timing of payments within the business.

Borrowings

Borrowings have increased by 6% to $2,124.7m, driven by the growth in receivables and customer loans, partially offset by a $19.5m net repayment of corporate debt and the impact of exchange rates on $NZ denominated balances.

Other liabilities

Other liabilities include provisions, derivative financial instruments and deferred and contingent consideration payable. The decrease in other liabilities is attributable to a $9.2m payment of the deferred consideration relating the acquisition of the NZ Cards business and a $6.5m decrease in fair value of derivative financial instruments as a result of usage and changes in the forward rates compared to the prior year. This was partially offset by a $7m customer remediation provision.

Current and deferred tax liabilities

Tax balances have remained consistent with the prior year.

Funding

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

At balance sheet date, the Group had $2,586.3m of wholesale debt facilities, with $527.6m undrawn and no indications that facilities will not be extended. The majority of the wholesale debt facilities ($2,091.1m) 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 $196.1m (June 2017: $177.5m) of corporate debt facilities were drawn to $104.3m (June 2017: $126.2m) at balance sheet date. These facilities are secured by the assets of the Group, and with maturity ranging between March 2020 and March 2021.

Gearing

The reduction in recourse corporate debt gearing to 36% (June 2017: 53%) is driven by repayment of corporate borrowings during the year through excess funds generated from operating activities.

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

Return on equity (‘RoE’)

ROE of 14% (June 2017: 14%) has remained stable.

Group Statement of Cash Flows

A$m	June 2018	June 2017	Change
NPAT	**(10.3)**	87.4	(112%)
Impairment loss on receivables and customer loans	**66.5**	62.8	6%
Depreciation and amortisation expenses	**17.5**	16.2	8%
Impairment of goodwill and other intangible assets	**94.7**	-	n/a
Changes in operating assets and liabilities	**14.1**	(6.8)	(307%)
Other non-cash movements	**6.2**	1.4	342%
Operating cash flow	**188.7**	161.0	17%

Consolidated cash flow

A$m	June 2018	June 2017	Change
Operating cash flow	**188.7**	161.0	17%
Capex	**(29.0)**	(24.6)	18%
Acquisitions and divestments	**(9.2)**	(7.6)	21%
Changes in customer loans and receivables	**(304.1)**	(159.0)	91%
Investing cash flow	**(342.3)**	(191.2)	79%
Proceeds from corporate borrowings	**149.3**	135.0	11%
Repayment of corporate borrowings	**(168.8)**	(150.8)	12%
Net movement in non-recourse borrowings	**165.5**	75.9	118%
Dividends and share based payments	**(29.0)**	(36.9)	(21%)
Financing cash flow	**117.0**	23.2	404%
Net decrease in cash	**(36.6)**	(7.0)	423%

Cash inflows from operating activities are up on prior year, with an increase of 17% to $188.7m (2017: $161.0m). The increase in cash inflows from operating activities is mainly due to $11.7m tax refunds from prior year returns and improvement in working capital management as reflected in the changes in operating assets and liabilities.

Cash outflows from investing activities increased by 79% to $342.3m (2017: $191.2m). There is significant increase in net investment in loans and receivables, driven by increased volume in both Australia and NZ Cards businesses. Capital expenditure increased by $4.4m compared with prior year due to the ongoing digitisation of customer systems.

Cash inflows from financing activities increased 404% to $117.0m (2017: $23.2m), due to an increase in non-recourse borrowings, offset by higher corporate debt repayments and the decrease in dividends paid, driven by a change in dividend policy.

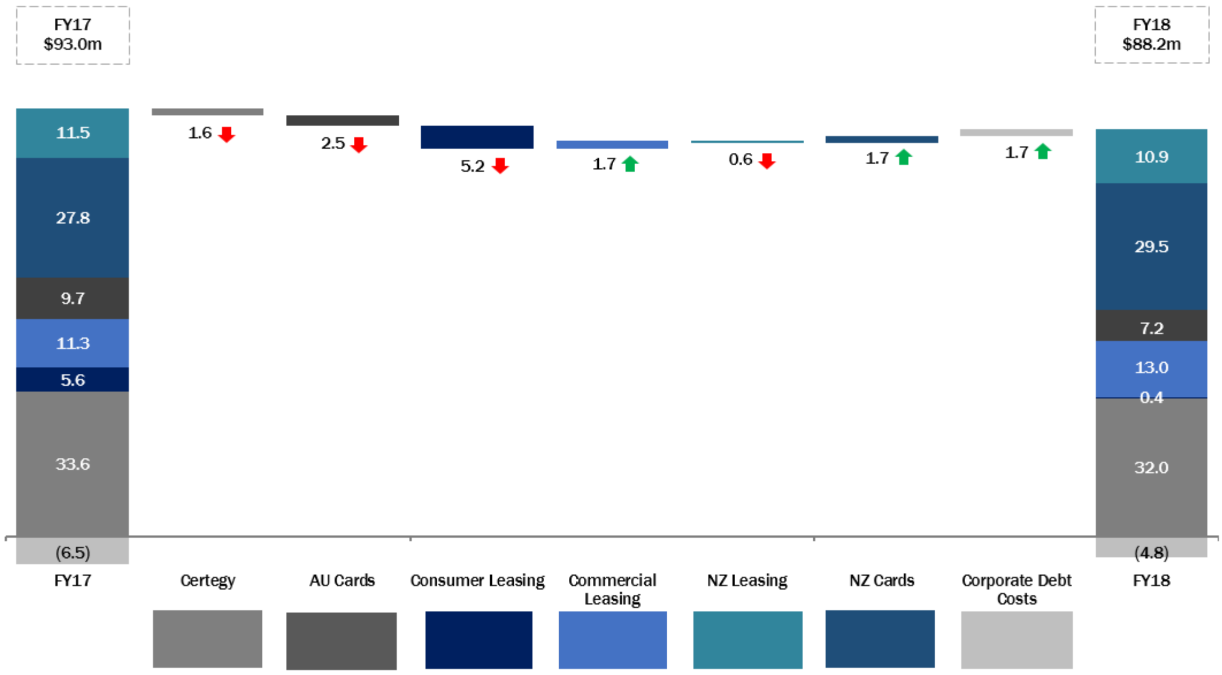
Review of Operations - Segment Performance

FlexiGroup's business consists of six core operating segments. Interest on acquisition debt obtained to fund the acquisition of the New Zealand Cards business is unallocated but forms part of maintainable cash NPAT.

Segment Summary

A$m	June 2018	June 2017	Change %
Certegy	**32.0**	33.6	(5%)
Australia Cards	**7.2**	9.7	(26%)
Consumer Leasing	**0.4**	5.6	(93%)
Commercial Leasing	**13.0**	11.3	15%
NZ Leasing	**10.9**	11.5	(5%)
NZ Cards	**29.5**	27.8	6%
Unallocated[(1)]	**(4.8)**	(6.5)	26%
Total Cash NPAT from continuing operations	**88.2**	93.0	(5%)

[(1)] Unallocated relates to net corporate debt interest



Segment Analysis

Certegy

A$m	June 2018	June 2017	Change %
Net portfolio income	**92.9**	94.2	(1%)
Operating expenses	**(29.3)**	(26.2)	(12%)
Impairment losses on customer loans	**(18.0)**	(19.6)	8%
Volume	**541.0**	524.0	3%
Closing customer loans	**492.2**	466.0	6%
Cash NPAT	**32.0**	33.6	(5%)

Cash NPAT of $32.0m represents a 5% decrease compared to the prior year and is driven by:

- Volume increased by 3% to $541m and customer loans increased by 6% to $492.2m, demonstrating the improvements made through product digitisation and in the buyer and seller experience.
- Impairment losses decreased by 8% to $18.0m, reflecting strong discipline in seller accreditation and credit decisioning processes.
- Operating expenses increased by 12% to $29.3m, primarily driven by investment in front-end digitisation of the product and a non-recurring restructuring expense of $0.6m.

Australia Cards

A$m	June 2018	June 2017	Change %
Net portfolio income	**61.3**	44.5	38%
Operating expenses	**(25.1)**	(17.9)	(40%)
Impairment losses on customer loans	**(25.8)**	(12.7)	(103%)
Volume	**740.1**	534.0	39%
Closing customer loans	**648.6**	483.0	34%
Cash NPAT	**7.2**	9.7	(26%)

Australia Cards' Cash NPAT of $7.2m represents a decrease of 26% compared to the prior year.

- Net portfolio income increased 38%, in line with the growth in customer loans of 34% and volume of 39%.
- Number of active customer accounts have increased 22% to over 180,000, with 61% growth in card spend year on year.
- Impairment losses have increased by $13.1m reflecting the growth in the loans portfolio. The growth is proportionally higher than receivables growth due to under investment in our cards collections capabilities. Management have put additional measures in place to mitigate this, with early cycle delinquencies showing improvement.
- Operating expenses increased by 40% to $25.1m driven by investment to support volume growth, together with Skye card development and launch costs.

Consumer Leasing

A$m	June 2018	June 2017	Change %
Net portfolio income	**51.8**	62.8	(18%)
Operating expenses	**(45.0)**	(44.9)	(0%)
Impairment losses on receivables	**(7.6)**	(10.5)	28%
Volume	**104.0**	112.0	(7%)
Closing receivables	**152.0**	158.0	(4%)
Cash NPAT	**0.4**	5.6	(93%)

Cash NPAT is $0.4m, a decrease of 93% on the prior year. The decline in profits resulted from the following factors:

- Net portfolio income decreased by 18% to $51.8m, primarily driven by the run off in Flexirent, not fully offset by volumes growth in LISA.
- LISA was launched in February 2018 and provides a more customer centric product, which also addresses heightened regulatory expectations.
- Operating expenses were in line with FY17 at $45.0m with operational efficiencies offset by investment in the refreshed LISA product, the Ireland Flexi-Fi business and restructuring costs of $2.2m.
- Impairment losses decreased by 28% to $7.6m, driven by improved recoveries from active management of arrears and improved credit quality of LISA and SMARTWAY.

Commercial Leasing

A$m	June 2018	June 2017	Change %
Net portfolio income	**41.6**	41.4	0%
Operating expenses	**(23.6)**	(21.7)	(9%)
Impairment losses on receivables	**0.5**	(6.6)	108%
Volume	**147.8**	94.0	57%
Closing receivables	**284.9**	260.0	10%
Cash NPAT	**13.0**	11.3	15%

Cash NPAT is $13.0m, an increase of 15% on the prior corresponding year. This resulted from the following factors:

- Net portfolio income flat year-over-year, which was driven by higher fee and other income, partially offset by lower net interest income from lower average receivables / changing business mix
- Operating expenses increased 9% to $23.6m, reflecting costs incurred to support sales initiatives
- Impairment losses decreased by 108%, driven by lower losses and improved recoveries from continuous management of arrears as well as a provision release of $4.2m as a result of improved credit quality and collections capability from prior years.
- The increase in sales volume of 57% to $147.8m was underpinned by the growth of the Managed Services channel and improved digital processing in the core commercial business. This translated to closing receivables increasing by 10% to $284.9m.

New Zealand Leasing

A$m	June 2018	June 2017	Change %
Net portfolio income	**30.9**	33.1	(7%)
Operating expenses	**(14.6)**	(16.9)	14%
Impairment losses on receivables	**(1.3)**	(0.7)	(86%)
Volume	**84.5**	92.0	(8%)
Closing receivables	**155.7**	182.0	(14%)
Cash NPAT	**10.9**	11.5	(5%)

New Zealand Leasing's Cash NPAT is $10.9m, a decrease of 5% on the prior year, driven by:

- Net portfolio income decreased primarily due to appreciation of the Australia dollar, and the reduction in volume and average net receivables. Fee and other income benefited from continued strong end of term performance.
- Operating expenses decreased due to disciplined cost management and efficiencies from the integration of the NZ Leasing and Cards businesses.
- Net receivables decreased, however sales volume increased year on year in the second half of 2018 reflecting positive momentum driven by new management structure.
- Overall portfolio performance is stable compared to prior years.

New Zealand Cards

A$m	June 2018	June 2017	Change %
Net portfolio income	**90.7**	93.9	(3%)
Operating expenses	**(35.3)**	(42.6)	17%
Impairment losses on customer loans	**(14.3)**	(12.6)	(13%)
Volume	**666.2**	594.0	12%
Closing customer loans	**649.8**	617.0	5%
Cash NPAT	**29.5**	27.8	6%

Cash NPAT of $29.5m represents an increase of 6% compared to the prior year (in NZ$ terms 9%), offset by weakening NZD:

- In underlying New Zealand dollars, net portfolio income has increased by 4% reflecting strong growth in the Mastercard receivables, after excluding acquisition related adjustments recorded in 2017.
- Operating expenses decreased to $35.3m due to a focus on cost management.
- The 13% increase in impairment corresponds to the higher growth in receivables with continued strong portfolio performance.

Consolidated Income Statement
For the year ended 30 June 2018

	Notes	Consolidated 2018 $m	Consolidated 2017 $m
Total portfolio income	5	**460.4**	462.8
Interest expense		**(98.0)**	(102.0)
Net portfolio income		**362.4**	360.8
Employment expenses		**(91.9)**	(84.5)
Receivables and customer loan impairment expenses		**(66.5)**	(62.8)
Impairment of goodwill and other intangible assets	6 (a)	**(94.7)**	-
Depreciation and amortisation expenses	6 (b)	**(17.5)**	(16.2)
Operating and other expenses	6 (c)	**(76.6)**	(75.1)
Profit before income tax		**15.2**	122.2
Income tax expense	7(a)	**(25.5)**	(34.8)
(Loss) / Profit for the year attributable to shareholders of FlexiGroup Limited		**(10.3)**	87.4

		2018	2017
		cents	cents
(Loss)/Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic earnings per share		**(2.8)**	23.4
Diluted earnings per share		**(2.8)**	23.4

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

Consolidated Statement of Comprehensive Income

For the year end 30 June 2018

	Consolidated	
	2018 $m	2017 $m
(Loss) / Profit for the year	**(10.3)**	87.4
Other comprehensive income		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	**(9.6)**	4.1
Changes in the fair value of cash flow hedges, net of tax	**4.2**	5.2
Other comprehensive income for the year, net of tax	**(5.4)**	9.3
Total comprehensive income for the year attributable to shareholders of FlexiGroup Limited	**(15.7)**	96.7

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

Consolidated Statement of Financial Position
As at 30 June 2018

	Notes	Consolidated 2018 $m	Consolidated 2017 $m
Assets			
Cash and cash equivalents		**125.3**	167.3
Inventories		**2.6**	4.7
Receivables	8	**599.9**	628.3
Customer loans	9	**1,768.2**	1,537.6
Current tax receivable		**0.5**	3.8
Plant and equipment		**8.3**	8.4
Goodwill		**236.5**	321.4
Other intangible assets		**100.4**	114.4
Assets of disposal group held for sale	4 (a)	**12.5**	-
Total assets		**2,854.2**	2,785.9
Liabilities			
Payables		**51.7**	50.3
Borrowings	10	**2,124.7**	2,007.7
Current tax liabilities		**12.7**	0.5
Provisions		**14.6**	7.9
Derivative financial instruments		**6.4**	12.9
Deferred and contingent consideration		**1.0**	10.1
Deferred tax liabilities		**13.1**	24.7
Liabilities of disposal group held for sale	4 (a)	**2.4**	-
Total liabilities		**2,226.6**	2,114.1
Net assets		**627.6**	671.8
Equity			
Contributed equity	11	**362.8**	361.2
Reserves	12	**10.3**	17.0
Retained earnings	12	**254.5**	293.6
Total equity		**627.6**	671.8

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

Consolidated Statement of Changes in Equity
For the year end 30 June 2018

Consolidated	**Contributed equity**	**Reserves**	**Retained earnings**	**Total**
	$m	**$m**	**$m**	**$m**
2017				
Balance at the beginning of the year	356.8	8.1	247.5	612.4
Profit for the year	-	-	87.4	87.4
Other comprehensive income	-	9.3	-	9.3
Total comprehensive income for the year	-	9.3	87.4	96.7
Issue of shares on reinvestment of dividend	4.4	-	-	4.4
Share based payment income	-	(0.4)	-	(0.4)
Dividends provided for or paid	-	-	(41.3)	(41.3)
Balance at the end of the year	361.2	17.0	293.6	671.8
2018				
Balance at the beginning of the year	**361.2**	**17.0**	**293.6**	**671.8**
Loss for the year	**-**	**-**	**(10.3)**	**(10.3)**
Other comprehensive loss	**-**	**(5.4)**	**-**	**(5.4)**
Total comprehensive income for the year	**-**	**(5.4)**	**(10.3)**	**(15.7)**
Treasury shares purchased on market	**(0.2)**	**-**	**-**	**(0.2)**
Transfer from treasury shares on vesting of sign on rights	**0.1**	**-**	**-**	**0.1**
Transfer from share capital reserve	**0.3**	**(0.3)**	**-**	**-**
Expired options and rights transferred from share based payments reserve	**1.4**	**(1.4)**	**-**	**-**
Share based payment expense	**-**	**0.5**	**-**	**0.5**
Other changes	**-**	**(0.1)**	**-**	**(0.1)**
Dividends provided for or paid	**-**	**-**	**(28.8)**	**(28.8)**
Balance at the end of the year	**362.8**	**10.3**	**254.5**	**627.6**

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

Consolidated Statement of Cash Flows

For the year end 30 June 2018

	Notes	Consolidated 2018 $m	2017 $m
Cash flows from operating activities			
Interest and fee income received		**487.3**	491.2
Payment to suppliers and employees		**(180.1)**	(193.8)
Interest paid		**(97.1)**	(102.7)
Income taxes paid, net of refunds		**(21.4)**	(33.7)
Net cash inflow from operating activities	14	**188.7**	161.0
Cash flows from investing activities			
Payment for purchase of plant and equipment and software		**(29.0)**	(24.6)
Payment for business acquisitions, net of cash acquired		**-**	(2.4)
Payment for deferred consideration relating to business acquisitions		**(9.2)**	(3.5)
Payment for equity investment		**-**	(1.7)
Net movement in:			
Customer loans		**(307.1)**	(229.2)
Receivables due from customers		**3.0**	70.2
Net cash outflow from investing activities		**(342.3)**	(191.2)
Cash flows from financing activities			
Dividends paid		**(28.8)**	(36.9)
Treasury shares purchased on market		**(0.2)**	-
Drawdown of corporate borrowings		**149.3**	135.0
Repayment of corporate borrowings		**(168.8)**	(150.8)
Net movement in:			
Non-recourse borrowings		**181.5**	76.3
Loss reserve on non-recourse borrowings		**(16.0)**	(0.4)
Net cash inflow from financing activities		**117.0**	23.2
Net decrease in cash and cash equivalents		**(36.6)**	(7.0)
Cash and cash equivalents at the beginning of the year		**167.3**	174.4
Effects of exchange rate changes on cash and cash equivalents		**(2.5)**	(0.1)
Cash and cash equivalents at the end of the year		**128.2**	167.3

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

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:

	2018	2017
Statement of Financial Position	**125.3**	167.3
TOT cash balance disclosed as disposal group held for sale (note 4)	**2.9**	-
Statement of cash flows	**128.2**	167.3

Contents of the notes to the preliminary final report

1. Statement of significant accounting policies

a. Basis of preparation

The Preliminary Final Report (the Report) has 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. The Report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The Report is presented in Australian dollars, which is the functional currency of FlexiGroup Limited and its controlled entities, and has been prepared on the basis of historical cost except in accordance with relevant accounting policies where assets and liabilities are stated at their fair values.

The Annual Financial Report is in the process of being audited and is expected to be made available in September 2018. This Report should also be read in conjunction with any public announcement made by FlexiGroup during the year in accordance with continuous disclosure requirements arising under the Corporations Act 2001 and ASX Listing Rules.

b. Significant accounting policies

The significant accounting policies applied by the Group in this Preliminary Final Report are the same as those applied in the FlexiGroup Limited Annual Report for the year ended 30 June 2017. There were no new accounting standards applicable in the 2018 financial year.

On adoption of AASB 9 Financial Instruments, the Group will record a transition adjustment to the opening balance sheet, retained earnings and other comprehensive income at 1 July 2018 primarily for the impact of adoption of the impairment requirements of AASB 9. The transition adjustment will reduce opening retained earnings by $57m after-tax ($82m pre-tax). The outcome is driven by:

- The requirement to capture significant committed but undrawn amounts in the exposure at default (EAD) for all revolving products;
- The requirement to calculate a lifetime probability of default (PD) for stage 2 assets;
- The inclusion of model overlays, forward-looking information and a probability weighted downturn scenario

The Group will continue to refine and validate components of the expected credit loss (ECL) impairment models and develop related technology solutions and controls during the financial year ending 30 June 2019. More detailed information will be included in the Annual Report.

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 the same as those applied in the FlexiGroup Annual Report for the year ended 30 June 2017.

3. Segment information

(a) Description of segments

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

The CEO considers the business from a product perspective and has identified six reportable segments; Certegy (including Oxipay), Australia Cards business, Consumer Leasing (consisting of LISA, FlexiRent, SmartWay and FlexiWay), Commercial Leasing, New Zealand Leasing and New Zealand Cards.

During the year, a new segment, Commercial Leasing was established. Management see this segment as providing strong growth and profitability through a focus on driving new business in operating and finance leases, chattel mortgages and managed services. The Commercial Leasing segment resulted from the amalgamation of the Enterprise (disclosed as “Other” in FY17), Think Office Technology (TOT) and SME businesses. SME was reported as part of Australia Leasing in FY17 which also included Consumer Leasing. As a consequence, the remaining businesses in the previous Australia Leasing now form the Consumer Leasing segment, which is also reported separately. Additionally, there is an unallocated segment which consists of net corporate debt interest. Prior year comparatives have been restated to reflect the changes to reportable segments.

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

The segment information provided to the CEO for the reportable segments for the year ended 30 June 2018 is as below:

3. Segment information (continued)

(b) Operating segments

2018	Certegy	Australia Cards	Consumer Leasing	Commercial Leasing	NZ Leasing	NZ Cards	Unallocated	Total
Total portfolio income	111.0	79.2	60.0	49.8	37.3	123.1	-	460.4
Interest expense	(18.1)	(17.9)	(8.2)	(8.2)	(6.4)	(32.4)	(6.8)	(98.0)
Net portfolio income	92.9	61.3	51.8	41.6	30.9	90.7	(6.8)	362.4
Operating expenses	(29.3)	(25.1)	(45.0)	(23.6)	(14.6)	(35.3)	-	(172.9)
Impairment (losses) / reversals on receivables and customer loans	(18.0)	(25.8)	(7.6)	0.5	(1.3)	(14.3)	-	(66.5)
Impairment of goodwill and other intangible assets	-	-	(94.7)	-	-	-	-	(94.7)
Customer remediation provision[3]	-	-	(7.0)	-	-	-	-	(7.0)
Amortisation of acquired intangible assets	(1.1)	(0.5)	(0.2)	(0.9)	(1.0)	(2.4)	-	(6.1)
Profit before income tax	44.5	9.9	(102.7)	17.6	14.0	38.7	(6.8)	15.2
Income tax expense	(13.3)	(3.0)	9.0	(5.3)	(4.0)	(10.9)	2.0	(25.5)
Statutory (loss)/profit for the year	31.2	6.9	(93.7)	12.3	10.0	27.8	(4.8)	(10.3)
Recurring non-cash adjustments:								
Amortisation of acquired intangible assets[1]	0.8	0.3	0.1	0.7	0.9	1.7	-	4.5
Non-recurring adjustments								
Impairment of goodwill and intangible assets[2]	-	-	89.1	-	-	-	-	89.1
Customer remediation provision[3]	-	-	4.9	-	-	-	-	4.9
Cash net profit after tax	32.0	7.2	0.4	13.0	10.9	29.5	(4.8)	88.2
Total segment assets at 30 June 2018	570.3	680.4	175.4	346.8	168.9	912.4	-	2,854.2

(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 27 years. The amortisation of acquired intangible assets (excluding IT development and software), is a cash NPAT adjustment because it is a non-cash item and does not affect cash distributions available to shareholders.

(2) Impairments relate to the write down of the Consumer Leasing business. The impairment is non-cash and does not affect cash distributions available to shareholders.

(3) This relates to a provision for customer remediation as a result of the proactive arrangement with CIO on the Company's responsible lending obligations. The amount is non-recurring and does not reflect the Group's underlying performance.

3. Segment information (continued)

(b) Operating segments (continued)

2017	Certegy	Australia Cards	Consumer Leasing	Commercial Leasing	NZ Leasing	NZ Cards	Unallocated	Total
Total portfolio income	113.4	57.5	74.1	51.8	40.1	125.9	-	462.8
Interest expense	(19.0)	(13.0)	(11.3)	(10.4)	(7.0)	(32.0)	(9.3)	(102.0)
Net portfolio income	94.4	44.5	62.8	41.4	33.1	93.9	(9.3)	360.8
Operating expenses	(26.7)	(17.9)	(44.9)	(21.7)	(16.9)	(42.6)	-	(170.8)
Impairment losses on receivables and customer loans	(19.7)	(12.7)	(10.5)	(6.6)	(0.7)	(12.6)	-	(62.8)
Amortisation of acquired intangible assets	(1.0)	(0.6)	(0.2)	(1.0)	(0.8)	(1.4)	-	(5.0)
Profit before income tax	47.0	13.3	7.1	12.1	14.7	37.3	(9.3)	122.2
Income tax expense	(14.1)	(4.0)	(0.1)	(4.6)	(4.3)	(10.5)	2.8	(34.8)
Statutory profit for the year	32.9	9.3	7.0	7.5	10.4	26.8	(6.5)	87.4
Recurring non-cash adjustments:								
Amortisation of acquired intangible assets[(1)]	0.7	0.4	0.3	0.7	1.1	1.0	-	4.2
Other[(2)]	-	-	1.4	-	-	-	-	1.4
Cash net profit after tax	33.6	9.7	5.6	11.3	11.5	27.8	(6.5)	93.0
Total segment assets at 30 June 2017	544.0	513.5	330.0	280.2	205.3	912.9	-	2,785.9

(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 NPAT adjustment because it is a non-cash item and does not affect cash distributions available to shareholders.

(2) Other includes the write down of equity accounted investments, which do not reflect ongoing operations. The investment in associate was fully impaired at 30 June 2017.

4. Disposal group held for sale

On 17 July 2018, FlexiGroup Australia Holdings Pty Ltd, a fully owned subsidiary of FlexiGroup, signed a share sale agreement to sell Australian Print Holdings Pty Limited (trading as Think Office Technology 'TOT'), a fully owned subsidiary entity within the Commercial Leasing segment, into a joint venture structure. At 30 June 2018, the sale process was active and as a result TOT is disclosed as a disposal group held for sale in the statement of financial position. Refer to Note 16 "Events occurring after the reporting date" for further information.

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

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

	2018 $m	2017 $m
Cash and cash equivalents	**2.9**	-
Inventories	**1.9**	-
Receivables	**1.3**	-
Plant and equipment	**2.0**	-
Goodwill	**1.9**	-
Other intangible assets	**2.3**	-
Deferred tax asset	**0.2**	-
Total assets of disposal group held for sale	**12.5**	-
Payables	**1.1**	-
Provisions	**0.8**	-
Deferred tax liabilities	**0.5**	
Total liabilities of disposal group held for sale	**2.4**	-

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

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

5. Total portfolio income

	2018 $m	2017 $m
Gross interest and finance lease income	**387.4**	394.3
Amortisation of initial direct transaction costs	**(24.5)**	(26.9)
Other portfolio income	**87.2**	85.0
Sale of goods	**6.0**	4.8
Interest income	**2.7**	3.3
Sundry income	**1.6**	2.3
Total portfolio income	**460.4**	462.8

6. Expenses

	2018 $m	2017 $m
(a) Impairment of goodwill and other intangible assets		
Impairment of goodwill	**75.9**	-
Impairment of other intangible assets	**18.8**	-
Total impairment of goodwill and other intangible assets	**94.7**	-
(b) Depreciation and amortisation expenses		
Depreciation of plant and equipment	**3.1**	2.6
Amortisation of other intangible assets	**14.4**	13.6
Total depreciation and amortisation expenses	**17.5**	16.2
(c) Operating and other expenses		
Advertising and marketing	**9.1**	9.0
Cost of goods sold	**3.8**	3.1
Customer remediation provision	**7.0**	-
Information technology and communication	**15.5**	15.4
Operating lease rental expenses	**5.5**	5.5
Other occupancy, equipment and related costs	**3.6**	3.7
Outsourced operation costs	**11.1**	10.7
Professional, consulting and other service provider costs	**19.5**	17.8
Share of associate’s loss, net of impairment	**-**	2.0
Onerous lease expenses	**-**	2.6
Other	**1.5**	5.3
Total operating and other expenses	**76.6**	75.1

7. Income tax expense

	2018 $m	2017 $m
(a) Income tax expense		
Current tax	**38.0**	33.0
Deferred tax expense	**(12.5)**	1.8
	25.5	34.8

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

	2018 $m	2017 $m
Profit before income tax expense	**15.2**	122.2
Tax at the Australian tax rate of 30%	**4.6**	36.7
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Impairment of goodwill	**22.8**	-
Permanent differences[(1)]	**(1.1)**	(0.5)
Effect of differences in tax rates in foreign jurisdiction	**(0.8)**	(1.4)
Income tax expense	**25.5**	34.8

[(1)] Includes non-recoverable R&D expenditure, non-deductible costs and others.

7. Income tax expense (continued)

	2018 $m	2017 $m
(c) Amounts recognised directly in equity		
Deferred income tax expense related to items taken directly to equity	**(1.7)**	(2.2)

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

	2018 $m	2017 $m
Difference between lease principal to be returned as assessable income and depreciation on leased assets to be claimed as a tax deduction	**(6.3)**	(4.7)
Initial direct transaction costs	**(1.4)**	(1.2)
Other intangible assets	**(2.0)**	0.6
Provisions and other liabilities	**(2.7)**	7.1
	(12.5)	1.8

(e) Deferred tax assets and liabilities

	2018 $m	2017 $m
Deferred tax assets		
Provisions and other liabilities	**35.3**	31.3
Reclassified to disposal group held for sale (note 4)	**(0.2)**	-
Total deferred tax assets	**35.1**	31.3
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	**28.1**	33.1
Initial direct transaction costs	**6.3**	7.9
Plant and equipment	**1.5**	0.3
Other intangible assets	**12.4**	14.7
Reclassified to disposal group held for sale (note 4)	**(0.5)**	-
Others	**0.4**	-
Total deferred tax liabilities	**48.2**	56.0
Net deferred tax liabilities	**13.1**	24.7

8. Receivables

	2018 $m	2017 $m
Gross investment in finance lease receivables	**684.9**	721.8
Guaranteed residuals	**7.9**	5.4
Unguaranteed residuals	**42.9**	51.3
Unamortised initial direct transaction costs	**24.3**	30.3
Unearned future income	**(157.3)**	(176.2)
Net investment in finance lease receivables	**602.7**	632.6
Provision for doubtful debts	**(16.6)**	(24.0)
Net investment in finance leases after provision for doubtful debts	**586.1**	608.6
Loan to associate	**-**	1.3
Other debtors	**13.8**	18.4
Total receivables	**599.9**	628.3

8. Receivables (continued)

Movement in provision for doubtful debts

Movement in provision for doubtful debts:		
Carrying amount at beginning of the year	**24.0**	29.1
Provided for during the year, net of utilisation of provisions	**(7.4)**	(5.1)
Carrying amount at end of the year	**16.6**	24.0

9. Customer loans

	2018 $m	2017 $m
Gross customer loans	**1,894.6**	1,655.3
Unearned future income	**(90.5)**	(89.3)
Net loan receivables	**1,804.1**	1,566.0
Provision for doubtful debts	**(35.9)**	(28.4)
Net investment in customer loans	**1,768.2**	1,537.6

Movement in provision for doubtful debts

Carrying amount at beginning of the year	**28.4**	28.3
Additions or fair value adjustments through business combinations	**-**	12.8
Provided for during the year, net of utilisation of provisions	**7.5**	(12.7)
Carrying amount at end of the year	**35.9**	28.4

10. Borrowings

	2018 $m	2017 $m
Secured		
Corporate debt	**104.3**	126.2
Secured loans	**2,058.7**	1,903.8
Total secured borrowings	**2,163.0**	2,030.0
Loss reserve	**(38.3)**	(22.3)
Total borrowings	**2,124.7**	2,007.7

11. Contributed equity

Share capital

	2018 Shares	2017 Shares	2018 $m	2017 $m
Ordinary shares – fully paid	**374,050,685**	374,145,403	**313.7**	312.1
Subordinated perpetual notes	**49,129,075**	49,129,075	**49.1**	49.1
Total share capital	**423,179,760**	423,274,478	**362.8**	361.2

12. Reserves and retained earnings

	2018 $m	2017 $m
Reserves		
Share-based payment reserve	**0.4**	1.4
Foreign currency translation reserve	**4.3**	13.9
Share capital reserve	**-**	0.3
Cash flow hedge reserve	**5.6**	1.4
Balance at 30 June	**10.3**	17.0

13. Earnings per share

	2018 Cents	2017 Cents
(a) Earnings per share		
Total basic earnings per share attributable to the ordinary equity holders of the Company	**(2.8)**	23.4
Total diluted earnings per share attributable to the ordinary equity holders of the Company	**(2.8)**	23.4

(b) Reconciliation of earnings used in calculating earnings per share

Profit attributable to the ordinary equity shareholders of the Company used in calculating:		
- basic earnings per share	**(10.3)**	87.4
- diluted earnings per share	**(10.3)**	87.4

	2018 Number	2017 Number
(c) Weighted average number of ordinary shares		
Weighted average number of ordinary shares used in calculation of basic earnings per share	**374,061,938**	372,631,358
Add: potential ordinary shares considered dilutive	**-**	-
Weighted average number of ordinary shares used in calculating diluted earnings per share	**374,061,938**	372,631,358

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

	2018 $m	2017 $m
Net (loss)/profit for the year after tax	**(10.3)**	87.4
Receivables and loan impairment expenses	**66.5**	62.8
Depreciation and amortisation	**17.5**	16.2
Customer remediation provision	**7.0**	-
Share of losses from associate	**-**	2.0
Impairment of goodwill and other intangible assets	**94.7**	-
Share-based payment expense/(benefit)	**0.5**	(0.4)
Exchange differences	**(0.3)**	(0.6)
Other non-cash movements	**(1.0)**	0.4
Net cash inflows from operating activities before changes in operating assets and liabilities	**174.6**	167.8

14. Reconciliation of profit after income tax to net cash inflow from operating activities (continued)

	2018	2017
Change in operating assets and liabilities:	**$m**	**$m**
Decrease/(increase) in other receivables	**5.4**	(8.7)
Increase in current tax receivables	**-**	(0.5)
Increase/(decrease) in payables	**3.2**	(0.8)
Decrease in inventories	**0.1**	0.2
Decrease/(increase) in current tax liabilities	**16.5**	(1.3)
(Decrease)/increase in net deferred tax liabilities	**(11.1)**	4.3
Net cash inflows from operating activities	**188.7**	161.0

15. Contingent liabilities

FlexiGroup and its wholly-owned consumer leasing subsidiary, Flexirent Capital Pty Limited (Flexirent), have been proactively engaging with the CIO regarding historic responsible lending practices in relation to the Flexirent product, which ceased being sold in February 2018. As part of this engagement, FlexiGroup has been focussed on seeking to ensure that its practices meet evolving consumer demands and community expectations and utilise available technology. A remediation program has been agreed with the CIO to compensate affected customers.

Based on information available to date, a provision of $7m has been recognised in the financial statements with respect to the refund of fees charged to impacted customers that can be identified and the financial impact being reliably estimated.

Discussions with the Australian Securities and Investments Commission (ASIC) and the CIO are still ongoing with respect to other matters and it is possible that future remediation may be undertaken. At this stage, uncertainties remain as to the nature, timing and amount of this. Flexirent continues to work proactively with both ASIC and the CIO, to ensure its responsible lending practices are appropriate.

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

16. Events occurring after the reporting period

On 17 July 2018, FlexiGroup Australia Holdings Pty Ltd, a fully owned subsidiary of FlexiGroup, signed a share sale agreement to sell Australian Print Holdings Pty Limited (trading as Think Office Technology 'TOT'), a fully owned subsidiary entity within the Commercial Leasing segment. A joint venture has been formed with EFEX Group, and FlexiGroup will retain a 35% interest in the new joint venture. The effective sale date is 1 July 2018 and the Group will equity account the investment as an associate going forward. TOT, with a book value of $10.1m, was sold to the acquirer for a fair value of $13.8m, being the fair value of assets contributed to the JV, resulting in a profit on sale of $2.3m to be recognised in FY19. Refer note 4.

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