FLEXIGROUP LIMITED
ABN 75 122 574 583

Interim Report – For the half-year ended 31 December 2018

Contents

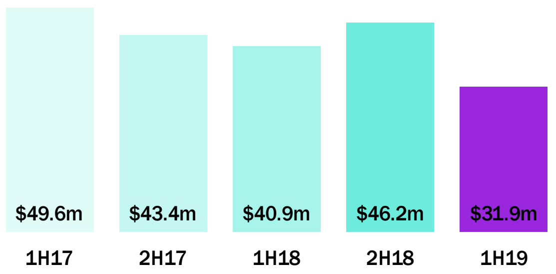
The interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2018 and any public announcements made by FlexiGroup Limited during the interim 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 principal place of business is:

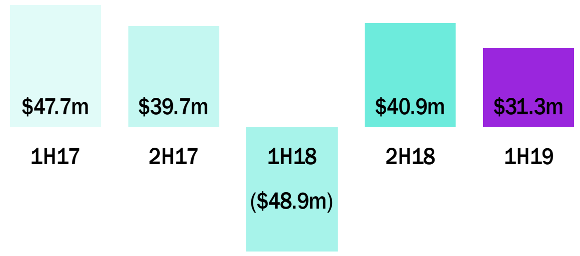
Level 7
179 Elizabeth Street
Sydney NSW 2000

Group performance highlights

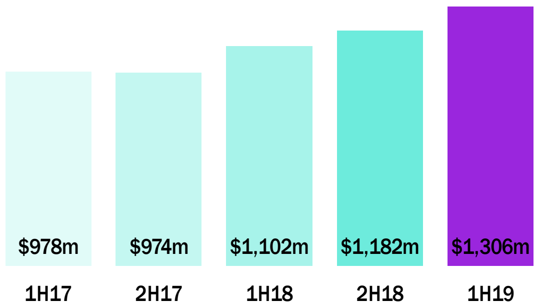
Cash earnings $31.9m down 22%[1]



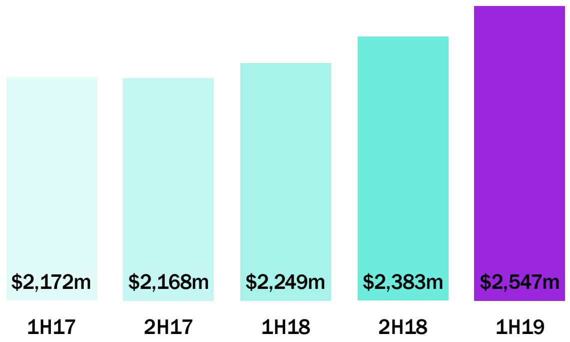
Statutory net profit after tax $31.3m up 164%[1]



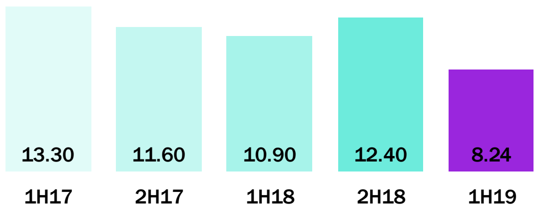
Volume $1,306m up 19%[1]



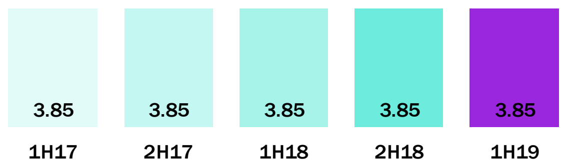
Receivables and customer loans[2] $2,547m up 13%[1]



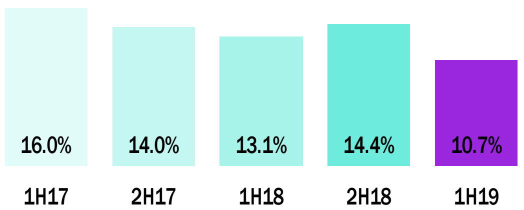
Cash earnings per share (EPS) 8.24 cents down 24%[1]



Stable dividends per share of 3.85 cents[1]



Cash earnings ROE[3] 10.7% down 2.4%[1]



	31 Dec 18	31 Dec 17	Change %
Reported earnings			
Net profit after tax ($m)	**31.3**	(48.9)	164%
Earnings per share (cents)	**8.1**	(13.1)	162%
Dividends per share (cents)	**3.85**	3.85	0%
Return on equity (%)	**10.5**	(15.6)	26%
Expense to income ratio (%)	**49.0**	51.9	3%
Cash earnings			
Cash earnings ($m)	**31.9**	40.9	(22%)
Cash earnings per share (cents)	**8.2**	10.9	(25%)
Cash earnings return on equity (%)	**10.7**	13.1	(2%)

[1] Growth compared to prior comparative period
[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 % of average equity

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 2018 (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)
Christine Christian (Deputy Chairman)
Rajeev Dhawan
Jodie Leonard
Carole Campbell
Symon Brewis-Weston (resigned 3 September 2018)

Company Secretaries

Isobel Rogerson (appointed 22 November 2018)
Elizabeth Wray

Principal activities

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

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

OPERATING AND FINANCIAL REVIEW

The Board presents its December 2018 Interim Operating and Financial Review, which is designed to provide shareholders with a clear and concise overview of FlexiGroup's operations and financial position of the Group. The review complements the Financial Report.

Review of Operations – Group Performance

Results for the half year and comparative period are set out on page 4 and have been restated to reflect the adoption of AASB 9 – Financial Instruments (AASB 9) and AASB 15 – Revenue from contracts with customers (AASB 15). AASB 15 has been applied retrospectively from 1 July 2017, allowing for comparability across previous half year reporting periods. As permitted by AASB 9 the Group has not restated previously reported financial periods, but applied these changes prospectively from 1 July 2018. Refer to Note 1 – Summary of significant accounting policies in the Financial Report for details regarding the Group's transition to AASB 9 and AASB 15.

Cash NPAT of $31.9m; represents a 22% decrease compared with $40.9m in the prior comparative period. Net receivables increased to $2,547m, representing a 13% increase in the prior comparative period and 7% increase compared to June 2018. Cash EPS of 8.2c represents a 25% decrease from prior comparative period of 10.9c, reflecting the decrease in Cash NPAT.

A$m	Dec-18	Dec-17	Change %
Interest income	**186.2**	178.1	5%
Interest expense	**(50.2)**	(46.5)	(8%)
Other portfolio income	**49.9**	51.0	(2%)
Net income	**185.9**	182.6	2%
Receivables and customer loan impairment expenses	**(52.9)**	(32.0)	(65%)
Impairment of goodwill and intangible assets	**-**	(94.7)	100%
Depreciation and amortisation expenses	**(7.1)**	(9.9)	28%
Operating and other expenses	**(83.9)**	(84.9)	1%
Profit before income tax	**42.0**	(38.9)	208%
Income tax expense	**(10.7)**	(10.0)	(7%)
Statutory profit/(loss) after income tax	**31.3**	(48.9)	164%
Non-cash items:			
Amortisation of acquired intangible assets	**1.6**	2.4	33%
Impairment of goodwill and intangible assets	**-**	89.1	(100%)
Customer remediation	**0.4**	**-**	(100%)
Sale of Think Office Technology	**(2.3)**	-	(100%)
Other	**0.9**	(1.7)	(153%)
Total non-cash items	**0.6**	89.8	(99%)
Group Cash NPAT[1]	**31.9**	40.9	(22%)
Basic earnings per share (cents)	**8.1**	(13.1)	162%
Cash earnings per share (cents)	**8.2**	10.9	(25%)
Volume	**1,306**	1,102	19%
Closing receivables and customer loans[2]	**2,547**	2,249	13%

1. 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.

2. Receivables and loans excludes provision for doubtful debts, unamortised transaction costs and other debtors.

Interest income

Interest income increased 5% to $186.2m. Key drivers of this result were strong growth in card spend and long term finance rolling into interest bearing. In addition, Commercial volumes were strong in the half.

Interest expense

Interest expense increased by 8% on the prior comparative period due to the increase in borrowings to fund the growth in receivables.

Impairment losses on loans and receivables

The increase in impairment losses has been driven by:

- change in accounting standards from 1 July 2018, which requires a fundamentally different method to measuring loan loss provisioning based upon an expected rather than incurred loss approach. Refer to note 1 for details regarding the basis of measuring impairment losses in the half;
- provision increase in Commercial Leasing segment relating to exposures from an equipment finance vendor program;
- strong growth in the receivables portfolio particularly in AU Cards; and
- write-offs of aged customer balances in AU Cards.

Impairment of goodwill and intangible assets

Impairment of goodwill and other intangible assets in the prior comparative period related to the legacy products in the Consumer leasing business which was written off. For more details, refer note 6 of the 31 December 2017 interim financial statements.

Depreciation and amortisation

Depreciation and amortisation decreased 28% due to the write-off of Consumer leasing intangible assets in the prior year (resulting in lower depreciation charge in the current period), as well as the sale of Think Office Technology (TOT) which had $2.3m in depreciable intangible assets at the time of sale.

Operating expenses

Operating expenses decreased 1% to $83.9m driven by:

- prior comparative period including $3.6m in restructuring costs as well as TOT costs of $2.2m
- improved cost management of consulting, property and outsourcing costs of $4.7m, partially offset by increased investment in technology, collections, advertising and marketing expenses of $7.5m and
- increase in wages from CPI increases of 2%.

Non-cash items

Amortisation of acquired intangibles

The acquisition of companies over the years has resulted in the recognition of intangible assets that are amortised over their useful life ranging from 3 to 27 years. The amortisation of these intangible assets is treated as a non-cash item because it does not affect cash distributions available to shareholders. During the half year $1.6m post tax has been amortised to the income statement (December 2017: $2.4m).

Impairment of goodwill and intangible assets

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

Other

Other includes the correction of historical errors, relating to lease classification and the correction of share based payment and cash flow hedge reserves. The Directors believe these are one-off in nature and do not reflect ongoing operations and as a result have been treated as a Cash NPAT adjustment.

Group Balance Sheet

A$m	Dec-18	Jun-18	Change %
Cash and cash equivalents	**117.5**	125.3	(6%)
Receivables and customer loans[1]	**2,474.2**	2,352.2	5%
Investment in associate	**13.1**	-	100%
Other assets	**9.8**	10.9	(10%)
Current tax receivable	**0.3**	0.5	(40%)
Deferred tax assets	**28.8**	-	100%
Goodwill	**243.3**	236.5	3%
Other intangible assets	**107.6**	100.4	7%
Disposal group assets	**-**	12.5	(100%)
Total assets	**2,994.6**	2,838.3	6%
Payables	**44.8**	51.7	(13%)
Borrowings	**2,309.4**	2,124.7	9%
Other liabilities	**47.3**	22.0	115%
Current and deferred tax liabilities	**12.7**	21.0	(40%)
Disposal group liabilities	**-**	2.4	(100%)
Total liabilities	**2,414.2**	2,221.8	9%
Equity	**580.4**	616.5	(6%)
Gearing[2]	**70%**	36%	34%
ROE[3]	**10.7%**	13.6%	(2.9%)

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

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

[3] Calculated based on Cash NPAT as a percentage of average equity.

Receivables and customer loans

Receivables and customer loans (including other debtors) increased by 5% to $2,474.2m compared to June 2018 driven by:

- AU Commercial customer loans growth of $46m (16%);
- NZ Cards customer loans growth of $57m (8%) and;
- AU Cards customer loans growth of $36m (5%).

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

Goodwill

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

Other intangible assets

Other intangible assets include merchant and customer relationships, brand names and capitalised projects. These are amortised over the useful life ranging from 3 to 27 years. The balance has increased through investment in capitalised projects and movements in AUD/NZ exchange rates.

Disposal group assets and liabilities

Disposal group assets and liabilities at June 2018 relates to Think Office Technology. This was sold in July 2018, for further details refer to note 3 and 14 of these financial statements.

Payables

Payables include trade creditors, interest accruals, GST payable and sales incentive accruals. The decrease in payables has been due to the timing of payment of trade creditors, reduction in incentive accruals, and the unwind of the deferred rent incentives.

Borrowings

Borrowings have increased by 9% to $2,309.4m, driven by the growth in receivables and customer loans.

Other liabilities

Other liabilities include provisions, derivative financial instruments and deferred and contingent consideration payable. The increase is mainly driven by the provision for undrawn credit commitments of $24.2m which arose on adoption of AASB 9, refer to note 7 in the financial statements for further details.

Funding

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

At balance sheet date, the Group had $2,668.9m of wholesale debt facilities, with $486.4m undrawn and no indications that facilities will not be extended. The majority of the wholesale debt facilities ($2,004.6m) 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 $198.1m (June 2018: $196.1m) of corporate debt facilities were drawn to $161.8m (June 2018: $104.3m) at balance sheet date. These facilities are secured by the assets of the Group and with maturity dates ranging from March 2020 to March 2021.

Gearing

The increase in recourse corporate debt gearing to 70% (June 2018: 36%) was driven by a combination of repayment of corporate borrowings in the prior year and an increase in corporate debt to fund growth across our major business lines, including AU Commercial, Certegy and Ireland. The Group is working to securitise a portion of these assets, with the proceeds to be used to repay corporate debt and increase capacity in warehouse funding facilities.

The Group continues to optimise its capital structure to maximise shareholder value.

Return on equity ('ROE')

ROE of 10.7% decreased 290 basis points (bp) compared to 30 June 2018 and 240bp compared to the prior comparative period driven by a decrease in cash earnings.

Group Statement of Cash Flows

A$m	Dec-18	Dec-17	Change
NPAT	**31.3**	(48.9)	164%
Impairment loss on receivables and customer loans	**55.2**	32.0	73%
Impairment of goodwill and other intangible assets	**-**	94.7	(100%)
Depreciation and amortisation expenses	**7.1**	9.9	(28%)
Changes in other operating assets and liabilities	**(26.4)**	(14.8)	79%
Other non-cash movements	**0.6**	(2.2)	(127%)
Operating cash flow	**67.8**	70.7	(4%)

Consolidated cash flow

A$m	Dec-18	Dec-17	Change
Operating cash flow	**67.8**	70.7	(4%)
Capex	**(11.6)**	(14.9)	(22%)
Changes in customer loans and receivables	**(205.6)**	(141.4)	45%
Investing cash flow	**(217.2)**	(156.3)	39%
Dividends paid	**(14.4)**	(14.4)	0%
Treasury shares purchased on market	**(0.1)**	(0.2)	(50%)
Net movement in non-recourse borrowings	**98.7**	78.3	26%
Repayment of corporate borrowings	**(85.0)**	(60.8)	40%
Drawdown of corporate borrowings	**141.2**	52.4	169%
Financing cash flow	**140.4**	55.3	154%
Net decrease in cash	**(9.0)**	(30.3)	(70%)

Cash inflows from operating activities are down on prior period, a decrease of 4% to $67.8m (December 2017: $70.7m). The decrease in cash inflows from operating activities is mainly due to higher tax payments in NZ which benefitted from carried forward tax losses in the prior comparative period.

Cash outflows from investing activities increased by 39% to $217.2m (December 2017: $156.3m). The increase was due to increase in customer loans and receivables from the Cards and Commercial businesses.

Cash inflows from financing activities increased 154% to $140.4m (December 2017: $55.3m), due to an increase in non-recourse borrowings and the net increase in the corporate debt facility to support business growth.

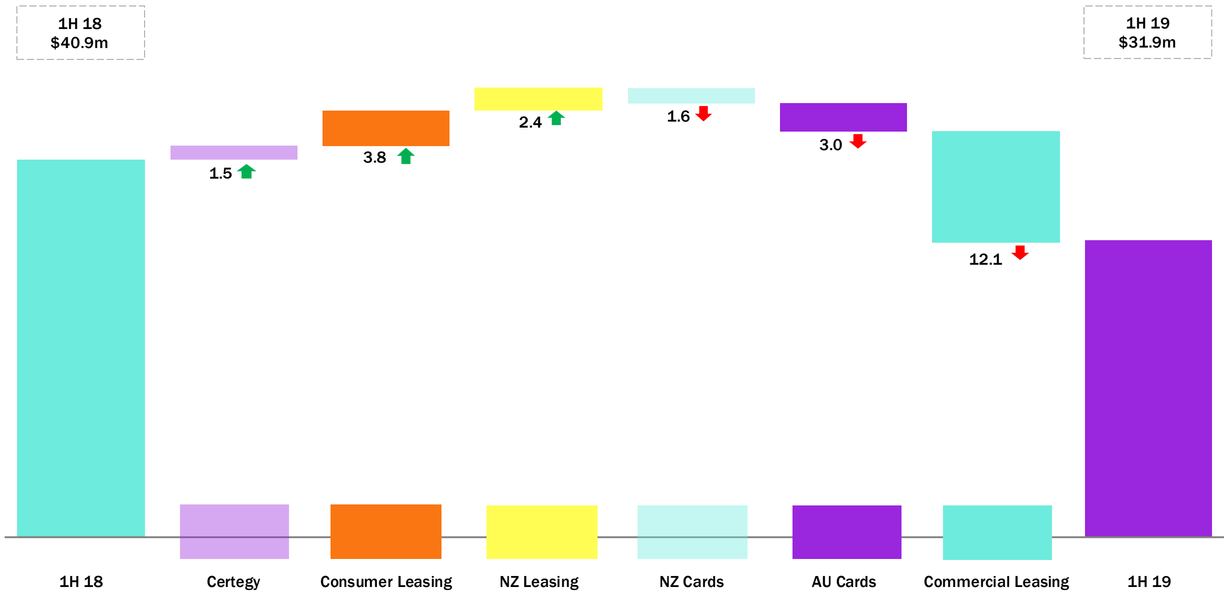
Review of Operations - Segment Performance

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

Segment Summary

A$m	Dec-18	Dec-17	Change %
Certegy	**17.4**	15.9	9%
Consumer Leasing	**3.9**	0.1	Large
NZ Leasing	**7.0**	4.6	52%
NZ Cards	**10.8**	12.4	(13%)
Australia Cards	**0.4**	3.4	(88%)
Commercial Leasing	**(7.6)**	4.5	(269%)
Total Cash NPAT	**31.9**	40.9	(22%)

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



Segment Analysis

Certegy

A$m	Dec-18	Dec-17	Change %
Net income	**45.9**	46.5	(1%)
Operating expenses	**(13.0)**	(15.7)	17%
Impairment losses on customer loans	**(8.6)**	(8.2)	(5%)
Cash NPAT	**17.4**	15.9	9%
Volume	**298.5**	267.1	12%
Closing customer loans	**513.6**	480.3	7%

Cash NPAT is $17.4m, a 9% increase on the prior comparative period. The increase resulted from the following factors:

- Operating expenses reducing, with significant investment in product development during the prior comparative period not repeating.
- Net income remains stable, with growth offset by some margin compression reflecting an increase in average deal size and term.
- Impairment losses have increased at a lower rate than customer loans, reflecting strong discipline in the customer collections capability.

Consumer Leasing

A$m	Dec-18	Dec-17	Change %
Net income	**23.1**	27.2	(15%)
Operating expenses	**(17.4)**	(22.5)	23%
Impairment losses on receivables	**(1.1)**	(4.9)	78%
Cash NPAT	**3.9**	0.1	Large
Volume	**52.4**	51.9	1%
Closing receivables	**147.2**	155.4	(5%)

Cash NPAT is $3.9m, a significant increase on the prior comparative period. The increase resulted from the following factors:

- Operating expenses decreased by 23% to $17.4m. This reduction was a result of the prior year investment to support the growth in the Ireland Flexi-Fi business and one off restructuring costs.
- Impairment losses decreased by 78% to $1.1m, driven by book run-off and improved recoveries from active management of arrears.
- The increase in sales volume of 1% to $52.4m was driven by the growth in the Ireland Flexi-Fi business. This was partly offset by the decline of the Australian Consumer Leasing volume.
- Net income was 15% lower driven by lower margins and volumes in the LISA product.

New Zealand Leasing

A$m	Dec-18	Dec-17	Change %
Net income	**13.2**	15.9	(17%)
Operating expenses	**(3.5)**	(8.9)	61%
Impairment losses on receivables	**(0.6)**	(0.7)	14%
Cash NPAT	**7.0**	4.6	52%
Volume	**31.2**	37.3	(16%)
Closing receivables	**145.9**	158.6	(8%)

Cash NPAT is $7.0m, a 52% increase on the prior comparative period. The increase resulted from the following factors:

- Operating expenses decreased 61% to $3.5m reflecting tight cost control and synergy realisation through combining activities with NZ Cards.
- Impairment losses remained relatively unchanged, reflecting the strong credit quality of the book with arrears continuing to be monitored closely.
- Net income was 17% lower driven by a decline in sales volume.

New Zealand Cards

A$m	Dec-18	Dec-17	Change %
Net income	**46.1**	46.6	(1%)
Operating expenses	**(23.7)**	(19.8)	(20%)
Impairment losses on customer loans	**(7.8)**	(8.1)	4%
Cash NPAT	**10.8**	12.4	(13%)
Volume	**393.5**	339.2	16%
Closing customer loans	**730.7**	634.4	15%

Cash NPAT is $10.8m, a 13% decrease on the prior comparative period. The decline is due to the following factors:

- Net income has remained relatively unchanged from the prior comparative period, with the increase in interest income from growth in receivables being offset by margin decline.
- Operating expenses increased by 20% to $23.7m to support strong new business growth.
- Impairment losses decreased by 4% to $7.8m reflecting continued strong underwriting and collections performance, impact of new expected credit loss provisioning requirement and refinement of provision overlays.

Australia Cards

A$m	Dec-18	Dec-17	Change %
Net income	**37.7**	25.5	48%
Operating expenses	**(17.4)**	(12.6)	(38%)
Impairment losses on customer loans	**(19.7)**	(7.9)	(149%)
Cash NPAT	**0.4**	3.4	(88%)
Volume	**395.5**	357.8	11%
Closing customer loans	**679.3**	575.1	18%

Cash NPAT of $0.4m, an 88% decrease on the prior comparative period. The decline is due to the following factors:

- Net income grew 48%, as a result of strong growth in receivables (in particular interest bearing receivables) and card usage.
- Operating expenses increased by 38% to $17.4m driven by:
  - Investment in improved collections systems and processes;
  - Additional servicing cost to support customer growth;
  - Launch of new Skye card product into market during 1H FY19.
- Impairment losses increased by $11.8m, driven by the new expected loss provisioning requirement and the carry forward impact of collections issues identified during FY18, which resulted from past underinvestment in collections systems and processes. Management continue to focus on the remediation plan to ensure losses revert to lower levels.

Commercial Leasing

A$m	Dec-18	Dec-17	Change %
Net income	**19.9**	20.8	(4%)
Operating expenses	**(13.7)**	(12.1)	(13%)
Impairment losses on receivables	**(15.1)**	(2.2)	Large
Cash NPAT	**(7.6)**	4.5	(269%)
Volume	**134.7**	48.7	177%
Closing receivables	**330.6**	246.3	34%

Cash NPAT is ($7.6m), a significant decrease on the prior comparative period. The decline in profits resulted from the following factors:

- Net income decreased by 4% to $19.9m, driven by lower margins from changing portfolio mix.
- Operating expenses increased 13% to $13.7m driven by investment in sales team to stimulate new business growth.
- Impairment losses increased to $15.1m, driven primarily by additional provision recognised relating to equipment finance vendor programs.
- Sales volume has grown 177% driven by Managed Services and Broker channels. As a result closing receivables increased 34% on the prior comparative period.

Shareholder returns

	Half year ended 31 December		Year ended 30 June				
	2018	2017	2018	2017	2016	2015	2014
TSR	n/a	n/a	26%	(3%)	(16%)	(14%)	(26%)
Dividends per share (cents)	3.85	3.85	7.70	7.70	14.50	17.75	17.80
Cash EPS (cents)	8.24	10.90	23.60	25.00	28.00	28.70	27.10
Share price (high)	$2.34	$1.95	$2.33	$2.58	$3.12	$4.00	$4.99
Share price (low)	$1.31	$1.44	$1.44	$1.55	$1.71	$2.70	$2.98
Share price (close)	$1.36	$1.72	$2.22	$1.83	$1.74	$2.91	$3.17

Earnings per share

	Half Year ended 31 Dec 2018 cents	Half Year ended 31 Dec 2017 cents
Basic earnings per share	**8.1**	(13.1)
Diluted earnings per share	**8.1**	(13.1)
Cash earnings per share	**8.2**	10.9

Dividends on ordinary shares

	2018		2017	
	cents	**$m**	cents	$m
Interim dividend for the year - paid in April	**3.85**	**14.4**	3.85	14.4
Dividends paid during the half year				
Final dividend for 2018 (PY: 2017) - paid in October	**3.85**	**14.4**	3.85	14.4
Total dividends paid during the half year	**3.85**	**14.4**	3.85	14.4
Total dividends declared for the financial year	**3.85**	**14.4**	3.85	14.4

Matters subsequent to end of the financial year

Other than the matters disclosed in Note 15 of the Interim Financial Report, as at the date of this report the directors are not aware of any matter or circumstance that has arisen since 31 December 2018 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 14.

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
25 February 2019

Auditor's Independence Declaration

As lead auditor for the review of FlexiGroup Limited for the half-year ended 31 December 2018, 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.

Rob Spring
Partner
PricewaterhouseCoopers

Sydney
25 February 2019

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T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

A$m	Notes	31 Dec 18 $m	31 Dec 17 $m
Interest income		**186.2**	178.1
Interest expense		**(50.2)**	(46.5)
Other portfolio income	4	**49.9**	51.0
Net income		**185.9**	182.6
Employment expenses		**(45.8)**	(47.4)
Receivables and customer loan impairment expenses		**(52.9)**	(32.0)
Impairment of goodwill and intangible assets		**-**	(94.7)
Depreciation and amortisation expenses	5	**(7.1)**	(9.9)
Other operating expenses	5	**(38.1)**	(37.5)
Profit / (loss) before income tax		**42.0**	(38.9)
Income tax expense		**(10.7)**	(10.0)
Profit / (loss) for the year attributable to shareholders of FlexiGroup Limited		**31.3**	(48.9)

Earnings per share for profit attributable to the ordinary equity holders of the Company:	**cents**	cents
Basic earnings per share	**8.1**	(13.1)
Diluted earnings per share	**8.1**	(13.1)

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

The December 2018 financial results reflect the adoption of AASB 9 and AASB 15. As permitted by AASB 9, the Consolidated Entity has not restated previously reported financial periods. The impact of AASB 15 has been adopted from 1 July 2017. Refer to Note 1 for the impact to the Group of the initial adoption of AASB 9 and AASB 15.

A$m	31 Dec 18	31 Dec 17
Profit / (loss) for the half-year	**31.3**	(48.9)
Other comprehensive income		
Items that may be reclassified to profit and loss		
Exchange differences on translation of foreign operations	**8.3**	(12.7)
Changes in the fair value of cash flow hedges, net of tax	**(0.9)**	0.1
Other comprehensive income for the year, net of tax	**7.4**	(12.6)
Total comprehensive income for the year attributable to shareholders of FlexiGroup Limited	**38.7**	(61.5)

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

The December 2018 financial results reflect the adoption of AASB 9 and AASB 15. As permitted by AASB 9, the Consolidated Entity has not restated previously reported financial periods. The impact of AASB 15 has been adopted from 1 July 2017. Refer to Note 1 for the impact to the Group of the initial adoption of AASB 9 and AASB 15.

A$m	Note	31 Dec 18	30 Jun 18
Assets			
Cash and cash equivalents	6	**117.5**	125.3
Inventories		**1.7**	2.6
Receivables	7	**607.2**	599.9
Customer loans	7	**1,867.0**	1,752.3
Investment in associate		**13.1**	-
Current tax receivable		**0.3**	0.5
Plant and equipment		**8.1**	8.3
Deferred tax assets		**28.8**	-
Goodwill		**243.3**	236.5
Other intangible assets		**107.6**	100.4
Assets of disposal group held for sale	3	**-**	12.5
Total assets		**2,994.6**	2,838.3
Liabilities			
Payables		**44.8**	51.7
Borrowings		**2,309.4**	2,124.7
Current tax liabilities		**12.7**	12.7
Provisions		**41.5**	14.6
Derivative financial instruments		**5.5**	6.4
Deferred and contingent consideration		**0.3**	1.0
Deferred tax liabilities		**-**	8.3
Liabilities of disposal group held for sale	3	**-**	2.4
Total liabilities		**2,414.2**	2,221.8
Net assets		**580.4**	616.5
Equity			
Contributed equity	9	**362.9**	362.8
Reserves		**9.8**	2.1
Retained earnings		**207.7**	251.6
Total equity		**580.4**	616.5

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

The December 2018 financial results reflect the adoption of AASB 9 and AASB 15. As permitted by AASB 9, the Consolidated Entity has not restated previously reported financial periods. The impact of AASB 15 has been adopted from 1 July 2017. Refer to Note 1 for the impact to the Group of the initial adoption of AASB 9 and AASB 15.

A$m	Note	Contributed equity	Reserves	Retained earnings	Total
2017					
Balance at the beginning of the half-year		361.2	17.0	293.6	671.8
Change from initial application of AASB 15	1	-	-	(8.9)	(8.9)
Correction of error(1)		-	(4.8)	4.8	-
Re-stated balance as at 1 July 2017		361.2	12.2	289.5	662.9
Loss for the half-year		-	-	(48.9)	(48.9)
Other comprehensive income		-	(12.6)	-	(12.6)
Total comprehensive income for the half-year		-	(12.6)	(48.9)	(61.5)
Share based payment expense		-	0.5	-	0.5
Transfer to share capital from share based payment reserve		1.4	(1.4)	-	-
Transfer to share capital from profit reserve		0.3	(0.3)	-	-
Treasury shares purchased on market		(0.2)	-	-	(0.2)
Transfer from treasury shares		0.1	-	-	0.1
Dividends provided for or paid		-	-	(14.4)	(14.4)
Balance at the end of the half-year		362.8	(1.6)	226.2	587.4
2018					
Balance at the beginning of the half-year		**362.8**	**10.3**	**254.5**	**627.6**
Change from initial application of AASB 15	**1**	**-**	**-**	**(11.1)**	**(11.1)**
Correction of error(1)		**-**	**(8.2)**	**8.2**	**-**
Re-stated balance as at 30 June 2018		**362.8**	**2.1**	**251.6**	**616.5**
Change from initial application of AASB 9	**1**	**-**	**-**	**(59.3)**	**(59.3)**
Re-stated balance as at 1 July 2018	**1**	**362.8**	**2.1**	**192.3**	**557.2**
Profit for the half-year		**-**	**-**	**31.3**	**31.3**
Other comprehensive income		**-**	**7.4**	**-**	**7.4**
Total comprehensive income for the half-year		**-**	**7.4**	**31.3**	**38.7**
Share based payment expense		**-**	**0.5**	**-**	**0.5**
Transfer to share capital from share based payment reserve		**0.2**	**(0.2)**	**-**	**-**
Treasury shares purchased on market		**(0.1)**		**-**	**(0.1)**
Dividends provided for or paid		**-**	**-**	**(15.9)**	**(15.9)**
Balance at the end of the half-year		**362.9**	**9.8**	**207.7**	**580.4**

(1) Relates to cash flow hedge reserve balances that arose on the acquisition of Fisher and Paykel, which were not released to interest expense in prior periods as the hedge relationships were not re-designated at Group level.

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

The December 2018 financial results reflect the adoption of AASB 9 and AASB 15. As permitted by AASB 9, the Consolidated Entity has not restated previously reported financial periods. The impact of AASB 15 has been adopted from 1 July 2017. Refer to Note 1 for the impact to the Group of the initial adoption of AASB 9 and AASB 15.

A$m	31 Dec 18	31 Dec 17
Cash flows from operating activities		
Interest and fee income received from customers	**244.5**	239.1
Payments to suppliers and employees	**(99.3)**	(103.4)
Borrowing costs	**(53.4)**	(48.2)
Taxation paid	**(24.0)**	(16.8)
Net cash inflows from operating activities	**67.8**	70.7
Cash flows from investing activities		
Payment for purchase of plant and equipment and software	**(11.6)**	(14.9)
Net movement in:		
Customer loans	**(174.6)**	(175.6)
Receivables due from customers	**(31.0)**	34.2
Net cash outflows from investing activities	**(217.2)**	(156.3)
Cash flows from financing activities		
Dividends paid	**(14.4)**	(14.4)
Treasury shares purchased on market	**(0.1)**	(0.2)
Drawdown of corporate borrowings	**141.2**	52.4
Repayment of corporate borrowings	**(85.0)**	(60.8)
Net movement in:		
Non-recourse borrowings	**95.2**	77.3
Loss reserves on non-recourse borrowings	**3.5**	1.0
Net cash inflows from financing activities	**140.4**	55.3
Net decrease in cash and cash equivalents	**(9.0)**	(30.3)
Cash and cash equivalents at the beginning of the half-year	**125.3**	167.3
Effects of exchange rate changes on cash and cash equivalents	**1.2**	(3.2)
Cash and cash equivalents at end of the half-year	**117.5**	133.8

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

The December 2018 financial results reflect the adoption of AASB 9 and AASB 15. As permitted by AASB 9, the Consolidated Entity has not restated previously reported financial periods. The impact of AASB 15 has been adopted from 1 July 2017. Refer to Note 1 for the impact to the Group of the initial adoption of AASB 9 and AASB 15.

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 2018 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 2018 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.*

Comparative information has been restated for the correction of a historical error in relation to the cash flow hedge reserve, which arose on the acquisition of the Fisher and Paykel business in New Zealand. As the swaps acquired were not designated in hedge relationships, the reserve was required to unwind to Interest Expense over the remaining term of the derivatives. Refer to Statement of Changes in Equity for the impact of the adjustment to prior periods. Comparative information has been restated resulting in a reclassification between Reserves and Retained Earnings.

(i) New Australian Accounting Standards and amendments to Accounting Standards that are effective in the current period

Other than the items disclosed below, the Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

AASB 15: Revenue from contracts with customers:

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

1. Identify the contract with a customer;

2. Identify the separate performance obligations;

3. Determine the transaction price;

4. Allocate the transaction price to each performance obligation identified in Step 2; and

5. Recognise revenue when a performance obligation is satisfied.

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

The Group applied the retrospective approach in adopting AASB 15 to allow for comparability of Net Income across reporting periods, which recognises the cumulative effect of initial application of AASB 15 through opening retained earnings as at 1 July 2017. The significant changes to the Group as a result of adopting AASB 15 are:

- Interest income is disclosed on the face of the Income Statement.
- Annual fees are no longer recognised upfront, but when the performance obligation to the customer is delivered, which is a 12 month period. Establishment and application fees are now disclosed as part of Interest Income.
- Servicing fees and Payment Processing Fees charged for servicing a financial arrangement were previously disclosed as part of Interest Income and have now been disclosed as part of Other Portfolio Income.
- Costs not deemed incremental to obtaining a contract with a customer have been reclassified from Other Portfolio Income to Operating Expenses. There is no amendment to the timing of recognition of these fees.

In considering revenue recognition practices under AASB 15, the Group also identified the following changes required under AASB 9:

- Establishment fees: Certain origination fees directly associated with establishing financing facilities for customers (previously recognised upfront) have been capitalised and deferred over the expected life of the financial instrument.

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

AASB 9: Financial Instruments:

AASB 9 results in changes to accounting policies for financial assets and financial liabilities covering Classification and Measurement, Impairment and Hedge accounting. The Group has applied AASB 9 in the financial year beginning 1 July 2018 with no requirement to restate comparatives. The cumulative effect of initially applying the standard is recognised as an adjustment to the opening balance sheet at 1 July 2018.

Classification and Measurement: Financial assets

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

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

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

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

<u>Business model assessment</u>

The Group will determine the business model at the level that reflects how groups of financial assets are managed. In determining the business model, all relevant evidence that is available at the date of the assessment is used including:

- how the performance of financial assets held within that business model is evaluated and reported to the Group's key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and
- how managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

Based on the assessment performed, no changes in classification and measurement of financial assets will occur as a result of the adoption of AASB 9.

Impairment

AASB 9 replaces the incurred loss model of AASB 139 with an expected loss model, resulting in an acceleration of impairment recognition. The impairment requirements apply to the Group's Net Investment in Finance Lease Receivables and Customer Loans measured at amortised cost. The model applies to on balance sheet financial assets, as well as off-balance sheet items such as undrawn loan commitments and undrawn committed credit facilities for the Group's revolving products.

<u>Three stage approach</u>

Under the expected credit loss model, the Group applies a three stage approach to measuring the expected credit loss (ECL) based on credit migration between the stages. ECL is modelled collectively for portfolios of similar exposures (products or sub-products). It is measured as the product of the probability of default (PD), the loss given default (LGD) and the exposure at default (EAD) and includes forward-looking or macroeconomic information. The calculation of ECL requires judgement and the choice of inputs, estimates and assumptions used involves uncertainty at the time that they are made. Outcomes within the next financial period that are different from management's assumptions and estimates could result in changes to the timing and amount of ECL to be recognised.

- Stage 1: 12 month ECL – No significantly increased credit risk. Financial instruments that have not had a significant increase in credit risk since initial recognition require, at initial recognition, a provision for ECL associated with the probability of default events occurring within the next 12 months (12 month ECL). For those financial assets with a remaining maturity of less than 12 months, a probability of default is used that corresponds to the remaining maturity.

- Stage 2: Lifetime ECL – Significantly increased credit risk. In the event of a significant increase in credit risk since initial recognition, a provision is required for the lifetime ECL representing losses over the life of the financial instrument (lifetime ECL). Lifetime ECL references exposures that are at least 30 days past due. For revolving facilities, the Group exercises judgement based on the behavioural maturity, rather than contractual characteristics of the facility type.
- Stage 3: Lifetime ECL – Defaulted. Financial instruments that move into Stage 3 once credit impaired and purchase of credit impaired assets will require a lifetime provision. This stage references exposures that are at least 90 days past due.

Significant increase in credit risk

A financial asset moves from stage 1 to stage 2 when there is a significant increase in credit risk since initial recognition. The Group has established a framework which incorporates quantitative and qualitative information to identify this on an asset level applying a relative assessment. Each financial asset will be assessed at the reporting date on the triggers for significant deterioration, including:

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

Macroeconomic Scenarios

The assessment of credit risk, and the estimation of ECL, will be unbiased and probability weighted, and incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable information about future events and economic conditions at the report date. The Group has established a process whereby forward-looking macroeconomic scenarios and probability weightings are developed for ECL calculation purposes. The final probability-weighted ECL amount will be calculated from a Central estimate, Best case and a Worst case scenario.

Measurement

To measure ECL, the Group applies a PD X EAD X LGD approach incorporating the time value of money. For stage 1 assets a forward looking approach on a 12-month horizon will be applied. For stage 2 assets a lifetime view on the credit is applied. The Lifetime Expected Credit Loss is the discounted sum of the portions of lifetime losses related to default events within each time window of 12 months till maturity. For stage 3 assets the PD equals 100% and the LGD and EAD represent a lifetime view of the losses based on characteristics of defaulted facilities.

Changes in measurement since adoption

In the current period the Group has updated EAD for fixed instalment products to include the expected level of net repayment up to the time of default depending on the contract arrears bucket.

Hedge Accounting

The Group decided to continue applying the principles of AASB 139 for hedge accounting. The revised hedge accounting disclosures as required by AASB 7 Financial Instruments Disclosure will be implemented for the year ending 30 June 2019.

The impacts of adopting new accounting standards AASB 9 and AASB 15 in the Consolidated Statement of Financial Position as at 1 July 2018 are summarised in the tables below:

Consolidated statement of financial position						
				Total Group		**Total Group**
		30-Jun-18	**AASB 15 Revenue**	**30/06/2018 Restated**	**AASB 9 Impairment**	**1/07/2018 Restated**
Assets	**Reference**	**$m**		**$m**		**$m**
Cash and cash equivalents		125.3		125.3		125.3
Inventories		2.6		2.6		2.6
Receivables	3	599.9		599.9	(14.7)	585.2
Customer loans	1, 3	1768.2	(15.9)	1,752.3	(48.0)	1,704.3
Current tax receivable		0.5		0.5		0.5
Plant and equipment		8.3		8.3		8.3
Deferred tax asset		-		-		-
Goodwill		236.5		236.5		236.5
Other intangible assets		100.4		100.4		100.4
Assets of disposal group held for sale		12.5		12.5		12.5
Total assets		**2,854.2**	**(15.9)**	**2,838.3**	**(62.7)**	**2,775.7**
Liabilities						
Payables	1	51.7		51.7	21.3	73.0
Borrowings		2124.7		2,124.7		2,124.7
Current tax liabilities		12.7		12.7		12.7
Provisions		14.6		14.6		14.6
Derivative financial instruments		6.4		6.4		6.4
Deferred and contingent consideration		1.0		1.0		1.0
Deferred tax liabilities		13.1	(4.8)	8.3	(24.7)	(16.4)
Liabilities of disposal group held for sale		2.4		2.4		2.4
Total liabilities		**2,226.6**	**(4.8)**	**2,221.8**	**(3.4)**	**2,218.5**
Net Assets		**627.6**	**(11.1)**	**616.5**	**(59.3)**	**557.2**
Equity						
Contributed equity		362.8		362.8		362.8
Reserves		2.1		2.1		2.1
Retained earnings	1, 3	262.7	(11.1)	251.6	(59.3)	192.3
Total equity		**627.6**	**(11.1)**	**616.5**	**(59.3)**	**557.2**

The impacts of adopting AASB15 on the comparative Income Statement for the half-year ended 31 December 2017 are shown in the table below:

Consolidated income statement					
			AASB 15 Revenue		**Restated**
	Reference	**31-Dec-17**	**Annual fees, application and establishment fees**	**Amendments impacting Disclosure of Total portfolio income**	**31-Dec-17**
		$m			**$m**
Total portfolio income	1, 2	229.3	(0.9)	0.7	229.1
Interest expense		(46.5)			(46.5)
Net portfolio income		182.8	(0.9)	0.7	182.6
Employment expenses		(47.4)			(47.4)
Receivables and customer loan impairment expenses		(32.0)			(32.0)
Impairment of goodwill and intangible assets		(94.7)			(94.7)
Depreciation and amortisation expenses		(9.9)			(9.9)
Operating expenses	2	(36.9)		(0.7)	(37.6)
(Loss) / profit before income tax		(38.0)	(0.9)	-	(38.9)
Income tax expense		(10.3)	0.3	-	(10.0)
(Loss) / profit for the year attributable to shareholders of FlexiGroup Limited		(48.3)	(0.6)	-	(48.9)
Earnings per share for profit attributable to the ordinary equity holders of the Company:		Cents			Cents
Basic earnings per share		(12.9)			(13.1)
Diluted earnings per share		(12.9)			(13.1)

The above mentioned references are explained below:

(1) AASB 15: Revenue Annual fees, application and establishment fees
Credit card annual fees are no longer recognised upfront but deferred and recognised on a straight line basis over the period to which the fee income relates. These will be deferred on the Group's balance sheet as part of Other Debtors. The impact at 1 July 2018 to the Group's Balance Sheet includes a decrease in Other Debtors by $7.6m, net deferred tax assets by $2.3m and to Retained Earnings by $5.3m. The impact to the income statement for the six months ended 31 December 2017 is a decrease in Total Portfolio Income by $0.9m, income tax expense by $0.3m and increase loss for the period by $0.6m.

Application and establishment fees are no longer recognised upfront, but deferred and recognised as part of Interest Income on the financing facility in accordance with AASB 9. The impact to the Group's balance sheet at 1 July 2018 includes an increase in Other Debtors by $8.2m, deferred tax liabilities by $2.5m and Retained Earnings by $5.8m. The impact to the income statement for the six months ended 31 December 2018 was insignificant.

(2) AASB 15: Revenue Disclosure of Interest Income and Other Portfolio Income
The Group now discloses Interest Income on the face of the Consolidated Income Statement. This resulted in Total Portfolio Income being separated into Interest Income and Other Portfolio Income. Refer to note 4 of the financial statements for a breakdown of Other Portfolio Income where comparative disclosures have been restated accordingly. Certain costs which are not deemed incremental and directly related to obtaining a contract with a customer have been reclassified from Other Portfolio Income to Operating Expenses. For the half year ended 31 December 2017 this gave rise to an increase in Other Portfolio Income by $0.7m and an increase in Operating Expenses by $0.7m.

(3) AASB 9: Financial Instruments: Impairment
The adoption of AASB 9 Impairment has resulted in $84.0m increase in collective provisions compared to that derived under AASB 139. This includes $14.7m increase for Finance Lease Receivables, $48m increase for Customer loans and $21.3m increase for off- balance sheet instruments (recognised in Provisions). The transition adjustment resulted in $24.7m increase in net deferred tax assets and a corresponding $59.3 million decrease in retained earnings as at 1 July 2018.

The increase in impairment provisions has predominately arisen from the following factors:

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

(ii) New Accounting Standards and amendments to Accounting Standards and Interpretations that are not yet effective for the reporting period

AASB 16 – Leases (AASB 16) replaces the current AASB 117 – Leases standard and is applicable for the Group's financial reporting period commencing on 1 July 2019. AASB 16 sets out a comprehensive model for identifying and the subsequent measurement of lease arrangements. A contract contains a lease if it conveys the right to control the use of an identified asset for a period of time. Contracts that are determined to be a lease within the scope of AASB 16 from the lessee's perspective will require the recognition of a 'right-of-use' (ROU) asset and a related lease liability, being the present value of future lease payments. This will result in an increase in the recognised assets and liabilities in the Group's Statement of Financial Position as well as a change in the recognition of interest expense on the lease liability and depreciation on the ROU asset. The pattern of expense recognition will also change with higher costs in the earlier stages of the lease as a result of the interest expense being determined on a lease liability that amortises over the lease term. Classification of leases from the Group's perspective as lessor is expected to remain unchanged under AASB 16. An initial assessment has been performed based on operating leases that existed in the current reporting period. Based on this assessment it is not anticipated that there will be a material impact to the Group's retained earnings, although the adoption of AASB 16 will result in the recognition of additional liabilities and related ROU assets. A schedule of current operating lease commitments is disclosed in Note 26 of the Annual Financial Report for the year ended 30 June 2018.

(iii) Use of judgement, estimates and assumptions

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

In preparing these condensed interim consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements for the year ended 30 June 2018.

Note 2 Segment information

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, SmartWay,FlexiWay and FlexiFi), Commercial Leasing, New Zealand Leasing and New Zealand Cards (including Oxipay NZ). The unallocated segment refers to net corporate debt interest.

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 half year ended 31 December 2018 is as below:

Note 2 Segment information (continued)

Half year 31 December 2018

A$m	Certegy	Australia Cards	Consumer Leasing	Commercial Leasing	NZ Leasing	NZ Cards	Total
Net income	45.9	37.7	23.1	19.9	13.2	46.1	185.9
Operating expenses	(13.0)	(17.4)	(17.4)	(13.7)	(3.5)	(23.7)	(88.7)
Impairment losses on receivables and customer loans	(8.6)	(19.7)	(1.1)	(15.1)	(0.6)	(7.8)	(52.9)
Amortisation of acquired intangible assets	(0.6)	(0.2)	0.0	0.0	(0.3)	(1.2)	(2.3)
Profit before income tax	23.7	0.4	4.6	(8.9)	8.8	13.4	42.0
Income tax expense	(6.7)	(0.1)	(1.7)	3.6	(2.3)	(3.5)	(10.7)
Statutory profit for the year	17.0	0.3	2.9	(5.3)	6.5	9.9	31.3
Recurring non-cash adjustments:							
Amortisation of acquired intangible assets	0.4	0.1	-	-	0.2	0.9	1.6
Sale of Think Office Technology	-	-	-	(2.3)	-	-	(2.3)
Other	-	-	1.0	-	0.3	-	1.3
Cash net profit after tax	17.4	0.4	3.9	(7.6)	7.0	10.8	31.9
Total segment assets at 31 December 2018	581.0	687.6	212.0	353.4	184.1	976.5	2,994.6

The below table represents disaggregation of Other portfolio income by operating segments:

A$m	Certegy	Australia Cards	Consumer Leasing	Commercial Leasing	NZ Leasing	NZ Cards	Total
Account servicing fees[1]	2.6	7.9	0.2	0.2	0.1	5.5	16.5
Transaction processing fees[2]	11.9	7.2	1.6	1.6	0.5	2.9	25.7
Other fees	0.2	-	-	-	-	-	0.2
Other operating income	14.7	15.1	1.8	1.8	0.6	8.4	42.4

1 Account servicing fees relate to services that are transferred over time including monthly and annual account keeping fees and product protection income
2 Transaction processing fees relate to services transferred at a point in time including payment processing fee, late payment and dishonour fees.

Note 2 Segment information (continued)

Half year 31 December 2017

A$m	Certegy	Australia Cards	Consumer Leasing	Commercial Leasing	NZ Leasing	NZ Cards	Total
Net income	46.5	25.5	27.2	20.8	15.9	46.6	182.6
Operating expenses	(15.7)	(12.6)	(22.5)	(12.1)	(8.9)	(19.8)	(91.5)
Impairment of goodwill and intangible assets	-	-	(94.7)	-	-	-	(94.7)
Impairment losses on receivables and customer loans	(8.2)	(7.9)	(4.9)	(2.2)	(0.7)	(8.1)	(32.0)
Amortisation of acquired intangible assets	(0.5)	(0.2)	(0.3)	(0.5)	(0.6)	(1.2)	(3.3)
Profit before income tax	22.2	4.7	(95.2)	6.0	5.7	17.5	(38.9)
Income tax expense	(6.7)	(1.5)	6.0	(1.9)	(1.6)	(4.3)	(10.0)
Statutory profit for the year	15.5	3.2	(89.2)	4.1	4.1	13.2	(48.9)
Recurring non-cash adjustments:							
Amortisation of acquired intangible assets	0.4	0.2	0.1	0.3	0.5	0.9	2.4
Impairment of goodwill and intangible assets	-	-	89.1	-	-	-	89.1
Other	-	-	-	-	-	(1.7)	(1.7)
Cash net profit after tax	15.9	3.4	0.1	4.5	4.6	12.4	40.9
Total segment assets at 31 December 2017	550.8	617.8	238.4	252.5	172.8	898.0	2,730.3

The below table represents disaggregation of Other portfolio income by operating segments:

A$m	Certegy	Australia Cards	Consumer Leasing	Commercial Leasing	NZ Leasing	NZ Cards	Total
Account servicing fees[1]	2.2	7.4	0.0	0.0	0.0	6.6	16.1
Transaction processing fees[2]	13.9	6.2	1.3	1.2	0.8	1.9	25.4
Other fees	0.3	-	-	-	-	-	0.3
Other operating income	16.4	13.6	1.3	1.2	0.8	8.5	41.8

1 Account servicing fees relate to services that are transferred over time including monthly and annual account keeping fees and product protection income
2 Transaction processing fees relate to services transferred at a point in time including payment processing fee, late payment and dishonour fees.

Note 3 Disposal group held for sale

On 17 July 2018 (with an effective accounting date of 1 July 2018), FlexiGroup Australia Holdings Pty Ltd, a fully owned subsidiary of FlexiGroup, sold its investment in Australian Print Holdings Pty Limited (trading as Think Office Technology 'TOT'), a fully owned subsidiary entity. Refer to Note 14 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:

	Dec 2018 $m	June 2018 $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.

Note 4 Other portfolio income

A$m	**Half-year ended 31 Dec 18**	Half-year ended 31 Dec 17
Other operating income (refer to note 2)	**42.4**	41.8
Leasing related income	**20.0**	21.0
Cost of sales	**(19.9)**	(19.0)
Share of profit after tax from investment in associate	**0.7**	-
Gain on sale of Think Office Technology	**2.5**	-
Sundry income	**4.2**	7.2
Total other portfolio income	**49.9**	51.0

Note 5 Expenses

A$m	**Half-year ended 31 Dec 18**	Half-year ended 31 Dec 17
Depreciation and amortisation expenses		
Depreciation of plant and equipment	**1.2**	1.4
Amortisation of other intangible assets	**5.9**	8.5
Total depreciation and amortisation expenses	**7.1**	9.9
Other operating expenses		
Advertising and marketing	**8.1**	4.9
Cost of goods sold	**-**	2.2
Information technology and communication	**9.6**	7.7
Operating lease rental expenses	**2.0**	3.0
Other occupancy, equipment and related costs	**1.4**	2.0
Outsourced operation costs	**4.1**	5.3
Professional, consulting and other service provider costs	**8.5**	10.4
Other	**4.4**	2.0
Total Other operating expenses	**38.1**	37.5

Note 6 Cash and cash equivalents

A$m	**31 Dec 18**	30 Jun 18
Restricted(1)	94.2	100.1
Unrestricted	23.3	25.2
Cash at bank and on hand	**117.5**	125.3

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

Note 7 Receivables and Customer loans

The table below presents the gross exposure and related Expected Credit Loss (ECL) allowance for each class of asset and off-balance sheet item subject to impairment requirements of AASB 9:

	As at 31 Dec 2018[1]			As at 1 July 2018[1]		
	Gross[2]	ECL allowance	Net	Gross[2]	ECL allowance	Net
	$m	$m	$m	$m	$m	$m
Receivables	645.3	38.1	607.2	616.5	31.2	585.2
Customer loans	1,952.0	85.0	1,867.0	1,788.1	83.8	1,704.3
Undrawn credit commitments		24.2	(24.2)		21.3	(21.3)
Total	**2,597.3**	**147.3**	**2,450.0**	**2,404.6**	**136.3**	**2,268.2**

[1] The current period results reflect the adoption of AASB 9 with comparable position provided upon transition, 1 July 2018. The Group has not restated its comparative information on adoption of AASB 9. Accordingly, amounts prior to 1 July 2018 are not comparable and will not reconcile to the comparative Statement of Financial Position.
[2] Gross exposure represents the carrying value of assets subject to AASB 9's impairment requirements.

Transition impact

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

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

Model inputs

The Group has developed Credit portfolios at a product or sub-product level based on shared risk characteristics using a collectively assessed approach. Overlays are considered for larger single name exposures.
The key model inputs used in measuring the ECL include:

- EAD: represents the estimated exposure in the event of a default. The EAD is estimated taking into consideration drawn position at reporting date, expected repayments and future drawdowns of unutilised commitments up to when the exposure is expected to default.
- PD: The development of PDs for retail and wholesale exposures is developed at a product or sub-product level considering shared credit risk characteristics. In calculating the PD, 3 to 5 years of historical delinquency transition matrices are used to develop a point in time PD estimate.
- LGD: The LGD is the magnitude of the expected credit loss in a default event. The LGD is estimated using 3 years of historical recovery and 3 to 5 years of cure rate experience.

Method of determining Significant Increase in Credit Risk (SICR)

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

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

Definition of default

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

Forward Looking information (FLI)

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

There has been no material change in the scenarios or the probabilities assigned thereto from the date of transition to AASB 9 to 31 December 2018.

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

Scenario	Weighting	Expectation
Central estimate	Probable	**Australia & New Zealand** – on balance economic conditions are expected to remain relatively unchanged over the 24 month forecast period, supported by continued strong unemployment levels and GDP growth since June 18, offset by further caution around slowing global growth, household consumption, housing prices and contraction in lending growth.
Best case	Remote	**Australia & New Zealand** – marginally higher GDP growth over forecast period. The Central Bank is forecasting slight improvements in unemployment. This scenario assumes house prices recover during 2020 leading to improved consumer sentiment and household consumption.
Worst case	Possible/Remote	**Australia & New Zealand –** a severe recession in 2019/2020 considered low, but possible following a retraction in GDP forecasts, a slight uptick in NZ unemployment rates, slowing global growth, and house prices registering some decline. This is mitigated by continued low interest rates. The worst case scenario assumes unemployment returns to peak levels experienced during Global Financial Crisis.

The table below presents the Group's total impairment provisions on Receivables and Customer loans by ECL stage as at 1 July 2018 and 31 December 2018:

	Stage 1	Stage 2 & 3	Collectively assessed	
	12m ECL	Lifetime ECL	Provision	Total
	$m	$m		$m
Balance as at 30 June 2018			**52.5**	**52.5**
Change on initial application of AASB 9	89.5	46.9	(52.5)	84.0
Balance at 1 July 2018	**89.5**	**46.9**	**0.0**	**136.4**
Impairment reversal/charge	5.8	42.3	0.0	48.1
Amounts written off, previously provided for	0.0	(38.4)	0.0	(38.4)
FX movements	0.8	0.4	0.0	1.2
Balance at end of the period	**96.1**	**51.2**	**0.0**	**147.3**

Note 8 Dividends

A$m	Half-year ended 31 Dec 18	Half-year ended 31 Dec 17
Ordinary shares		
Dividends provided for or paid during the half-year	**14.4**	14.4
Preference shares		
Dividends provided for or paid during the half-year	**1.5**	-

On 26 February 2019 the Directors have recommended the payment of an interim dividend of 3.85 cents per fully paid ordinary share, fully franked based on tax paid at 30%. The interim dividend totalling $14.4m is expected to be paid on 12 April 2019 out of retained profits at 31 December 2018 and has not been recognised as a liability at the end of the half-year.

A preference dividend of $1.5m was provided for during the period in respect of the unsecured subordinated perpetual notes. In the event that interest is not paid by the Restriction date, which is five years after the issuance date of 18 March 2018, the Group may not make or pay any dividend distribution.

Note 9 Contributed equity

(a) Movement in ordinary share capital

	Number of shares (m)	$m
1 July 2018	**374.1**	**313.7**
Treasury shares purchased on market	**(0.1)**	**(0.1)**
Transfer to share capital from share based payment reserve	**0.2**	**0.2**
31 December 2018	**374.2**	**313.8**

(b) Movement in preference share capital

	Number of shares (m)	$m
1 July 2018	**49.1**	**49.1**
31 December 2018	**49.1**	**49.1**

	Number of shares (m)	$m
Total contributed equity	**423.3**	**362.9**

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 18	Half-year ended 31 Dec 17
Rental of Melbourne premises	92,166	87,790

Note 11 Contingencies

FlexiGroup and its wholly-owned consumer leasing subsidiary, Flexirent Capital Pty Limited (Flexirent), have been proactively engaging with the Australian Financial Complaints Authority "AFCA" (formerly 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 AFCA to compensate affected customers.

Based on information available to date, a provision of $7m was recognised in the 2018 financial year 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 AFCA 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 AFCA, to ensure its responsible lending practices are appropriate.

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

Note 12 Fair value of financial assets and financial liabilities

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

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.

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

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 2018 and 30 June 2018:

A$m	**Carrying amount 31 Dec 18**	**Fair value 31 Dec 18**	Carrying amount 30 Jun 18	Fair value 30 Jun 18
Financial assets				
Cash and cash equivalents	**117.5**	**117.5**	125.3	125.3
Receivables	**607.2**	**607.2**	599.9	599.9
Customer loans	**1,867.0**	**1,867.0**	1,752.3	1,752.3
Financial liabilities				
Payables	**44.8**	**44.8**	51.7	51.7
Borrowings				
- Floating interest rate	**2,049.5**	**2,049.5**	2,003.0	2,003.0
- Fixed interest rate	**133.0**	**133.1**	160.0	160.4
Total borrowings before loss reserves	**2,182.5**	**2,182.6**	2,163.0	2,163.4
Derivative financial instruments	**5.5**	**5.5**	6.4	6.4

Fair value hierarchy

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

Receivables and customer loans

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

Borrowings and derivative financial instruments

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

Other financial assets and financial liabilities are classified as Level 2.

Note 13 Securitisation and special purpose vehicles

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

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

A$m	31 Dec 18	30 Jun 18
Receivables	**524.4**	483.8
Customer loans	**1,876.8**	1,747.6
Cash held by securitisation vehicles	**94.2**	100.1
	2,495.4	2,331.5
Borrowings related to receivables and customer loans	**2,147.6**	2,020.4

Note 14 Disposal of subsidiary

Flexigroup Australia Holdings Pty Ltd, a fully owned subsidiary of FlexiGroup, sold its investment in Australian Print Holdings Pty Limited (trading as Think Office Technology 'TOT'), a fully owned subsidiary entity within the Commercial Leasing segment effective from 1 July 2018. The Group has retained a 35% interest in the new joint venture ("Thinkex Holdings Pty Ltd"). The investment has been equity accounted for as an investment in an associate in accordance with AASB 128.

TOT, with a book value of $10.1m, was sold for $13.8m, being the fair value of assets contributed to the joint venture, resulting in a profit on sale of $2.5m ($2.3m after selling costs).

Note 15 Events occurring after balance sheet date

Tanarra Capital has committed to invest $25.1m in FlexiGroup Limited by way of placement of 20,113,947 shares at $1.25 per share. This represents a 10.5% premium to the Volume Weighted Average Price from and including Wednesday 6 February 2019 until the market close on Monday 25 February 2019. Shares are due to be allotted on Thursday 21 March 2019.

After the allotment Tanarra Capital will hold approximately 5.1% of FlexiGroup Limited's total shares on issue and Tanarra founder Mr John Wylie will be invited to join the FlexiGroup Board.

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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 2018 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
25 February 2019

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 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and consolidated income statement for the half-year ended on that date, other explanatory notes and the directors' declaration for FlexiGroup Limited. The Group comprises the Company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2018 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*.

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:

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1. giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

Rob Spring
Partner

Sydney
25 February 2019