flexigroup

About this report.

This Interim Financial Report (half-year report) has been prepared in accordance with Australian Accounting Standards and the *Corporations Act 2001* (Cth) and does not include all the notes of the type normally included in an annual financial report. FlexiGroup Limited's (referred to hereafter as the "Group" or "**flexigroup**") most recent annual financial report is available on the **flexigroup** website. **flexigroup** has also released information to the Australian Securities Exchange operated by ASX Limited ('ASX') in compliance with the continuous disclosure requirements of the ASX Listing Rules. Announcements made by **flexigroup** under such rules are available on ASX's internet site www.asx.com.au (**flexigroup**'s ASX code is 'FXL'). The material in this report has been prepared by FlexiGroup Limited ABN 75 122 574 583 and is current at the date of this report. It is general background information about **flexigroup**'s (FlexiGroup Limited and its subsidiaries) activities, is given in summary form in terms of the requirements of AASB 134 *Interim Financial Reporting* and does not purport to be complete. It is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor. Those should be considered with professional advice when deciding if an investment is appropriate. The half-year report was authorised for issue by **flexigroup**'s Directors on 24 February 2020. The Board of Directors has the power to amend and reissue the half-year report.

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

ABN 75 122 574 583

Contents.

FG1H20

Directors' Report.

The Directors present their Interim Operating and Financial Review 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 2019 ("1H20"), 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.

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
John Wylie AM

Company Secretary

Isobel Rogerson

Principal Activities

flexigroup is a diversified financial services group providing, both directly and through a network of approximately 69,000 retailers and brokers, the ability for customers to fund their lifestyle or grow their business. These products include Buy Now Pay Later, leasing, vendor finance programs, interest free finance, credit cards and other finance solutions. **flexigroup** operates in Australia, New Zealand and Ireland, serving over 1.8 million customers, as we continue to rewrite the playbook for digital spending.

During the year our principal activities continued to be:

- Buy Now Pay Later ("BNPL") category of products.
- Long-term interest free and everyday spend credit cards.
- Commercial Lease and SME financing services.
- Consumer Leasing, which ceased being offered from October 2019.

Review of Operations.

1. Group Performance

For the half-year ended 31 December 2019 the Group reported a Cash NPAT of $34.5m up 8.2% compared with the prior comparative period. This was driven by strong growth in interest income and lower cost of funds, offset by a reduction in fee income as we simplified our product offerings in BNPL and Cards. In addition, we saw expenses increase as a result of higher marketing and advertising spend. The Consumer Lease business, which ceased writing new business during this half has also impacted the overall result. A large loan loss provision for a Commercial equipment finance vendor program was written off in the first half of 2019, resulting in lower impairment expenses in the current period compared to the comparative period.

Cash Earnings Per Share (EPS) of 8.3c represents a 1% increase from prior comparative period of 8.24c, reflecting the increase in Cash NPAT and the placement of 20.1m shares in March 2019.

Summary Financial Results.

A$m	2019 Statutory	2019 Cash NPAT[1]	2018 Cash NPAT[1]	Cash NPAT Change $	Cash NPAT Change %
Net interest income	136.1	136.1	126.3	9.8	7.8%
Fee and other income	45.7	45.7	59.6	(13.9)	(23.3%)
Loan impairment expense	(38.6)	(38.6)	(52.9)	14.3	(27.0%)
Operating expenses	(99.8)	(98.9)	(90.6)	(8.3)	9.2%
Tax expense	(10.1)	(9.8)	(10.5)	0.7	(6.7%)
Profit after tax	33.3	34.5	31.9	2.6	8.2%

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 is based on Cash NPAT to align to the way the Directors view the business and to better understand the Group's performance. The Directors believe that Cash NPAT is the most appropriate measure of maintainable earnings of the Group and therefore best reflects the core drivers and ongoing influences upon those earnings.

Net Interest Income.

Half-year to 31 December

2019	2018	Change %
136.1	126.3	7.8%

Net interest income up 7.8% due to a 8.1% increase in net receivables, with strong growth in BNPL and Cards offset by a reduction in the now ceased Consumer Lease product. Interest expense was lower due to increased securitisation funding in 1H20 as well as lower base rates.

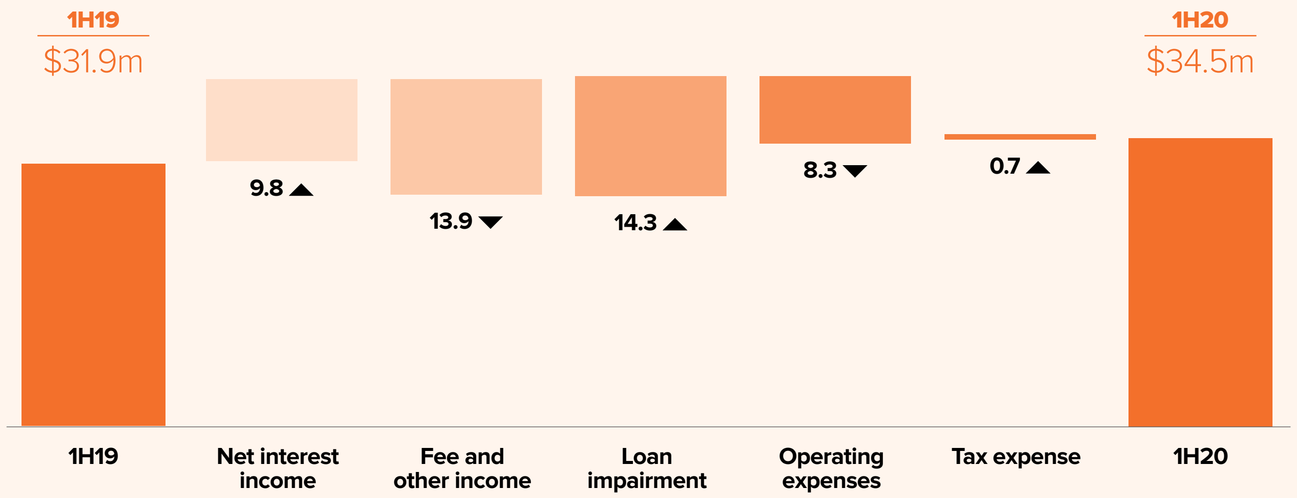
Fee and Other Income.

Half-year to 31 December

2019	2018	Change %
45.7	59.6	(23.3%)

Fee and other income down 23.3%, due to simpler fee structures in BNPL and lower fees from legacy Australia Cards products as revolving facilities were not continued. Also, during FY19 the Commercial business exited a number of vendor programs.

Below is a Cash NPAT reconciliation from 1H19 to 1H20, highlighting changes by key profit and loss line items:



Loan Impairment.

Half-year to 31 December

2019	2018	Change %
38.6	52.9	27.0%

Loan impairment down 27.0% as a lower provision was recognised due to Commercial exiting equipment vendor finance programs, lower Australia Cards provision on legacy products and model refinements from Commercial and Australia Cards Skye product. This was offset by higher provision from customer loan growth.

Operating Expenses.

Half-year to 31 December

2019	2018	Change %
98.9	90.6	9.2%

Other expenses up 9.2% due to $5.5m increase in advertising and marketing expenses associated with the launch of **humm**, increase in infrastructure licence expenses, $2.2m higher employment related expenses due to redundancy and higher depreciation and amortisation costs, offset by lower outsourcing and consulting costs.

2. Key Performance Metrics

flexigroup is in the first year of a three-year comprehensive business transformation, the objectives of which are to accelerate growth, reduce costs and deliver best in class digital platforms.

Active Customers.

Half-year to 31 December

2019	2018	Change %
1.87m	1.67m	12%

Customer numbers were up 12% on 1H19 with growth in BNPL and new Cards customers in Australia.

Retail Partners.

Half-year to 31 December

2019	2018	Change %
69K	60K	15%

Retail partners increased from 60K to 69K, largely attributable to strong growth in **humm** after the brand was re-launched in April 2019. The investment in brands and accelerating growth is an objective of the business as part of its three-year comprehensive business transformation plan.

Receivables and Customer Loans ($m).[1]

Half-year to 31 December

2019	2018	Change %
2,643.2	2,449.2	7.9%

Receivables up 7.9%, due to growth in BNPL and New Zealand Cards, offset by a reduction in Consumer Lease receivables of $40.5m due to the product no longer being sold to customers. Commercial saw a net increase in receivables of $38.7m due to strong new business in managed services and broker channels.

1. Excludes other debtors.

Volume.

Half-year to 31 December

2019	2018	Change %
1.35bn	1.31bn	3.1%

Transaction volume increased 3.1% with BNPL volume up 23.3% and New Zealand Cards up 15.2% compared to prior comparative period. Excluding Consumer Leasing in Australia which ceased being originated in October 2019, transaction volume was up 5.1%.

Cost to Income Ratio.[1]

Half-year to 31 December

2019	2018	Change %
53.6%	48.3%	12.6%

Cost to income ratio is higher in 1H20 due to increased marketing spend of $5.5m to build the BNPL brand presence as well as $2.2m of redundancy costs and other restructuring costs. Good progress has been made in simplifying the organisational structure and delivering improved customer self-service and automation in operations.

1. Cash NPAT used to calculate cost to income ratio.

Wholesale Debt and Corporate Borrowings ($m).

Half-year to 31 December

	2019	2018	Change %
Wholesale debt facilities	2,448.0	2,182.5	12.2%
Corporate debt facilities	96.1	161.8	(40.6%)

Wholesale debt facilities increased 12.2%, above the rate of growth in Receivables and Customer Loans, as more assets were funded in warehouses and **flexigroup**'s contributed equity declined. Corporate debt has reduced by 40.6% against prior period due to prudent management of liquidity and use of asset backed debt facilities.

flexigroup maintains a dynamic funding strategy through a combination of committed funding facilities for all scale businesses and an active debt capital markets presence. The Group currently has revolving wholesale debt facilities in place with Authorised Deposit-taking Institutions and large international banks and has numerous institutional investors through its Asset Backed Securities (ABS) programs in both Australia and New Zealand.

At balance sheet date, the Group had $3,019.7m of wholesale debt facilities, with $571.7m undrawn and no indications that facilities will not be extended. The majority of the wholesale debt facilities ($2,551.4m) 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.

Corporate Debt Facility

The Group's $198.6m (June 2019: $198.4m) of corporate debt facilities were drawn to $96.1m (June 2019: $98.1m) at balance sheet date. These facilities are secured by the assets of the Group and with maturity dates ranging from March 2021 to March 2022.

Gearing.[1]

Half-year to 31 December

2019	2018	Change
34%	70%	large

The decrease in corporate debt gearing to 34% (1H19: 70%) was driven by a combination of lower corporate borrowings and higher total equity, including the establishment of a new wholesale debt facility to support the Irish business. The Group continues to optimise its capital structure to maximise shareholder value and prudently manage liquidity and use of secured debt facilities.

1. Gearing is corporate debt as a percentage of equity excluding intangible assets.

Return on Equity Ratio.[2]

Half-year to 31 December

2019	2018	Change bps
11.0%	10.5%	50bps

ROE of 11% increased 50bps compared to prior comparative period due mainly to increases in Cash NPAT.

2. Calculated based on Cash NPAT as a percentage of average equity.

3. Segment Performance

The Directors determined that it was appropriate to modify segment reporting in the current period for the following reasons.

- Australia and New Zealand Commercial segments are reported on a combined basis due to amalgamated executive leadership structures and similar product characteristics. Further to this, as a result of the discontinuation of the Consumer Leasing business in October 2019, this segment is no longer sufficiently material to warrant separate disclosure and is now included as part of the Commercial and Leasing segment due to similar product characteristics.
- New Zealand Oxipay and Ireland (FlexiFi Ireland and FlexiRent leasing) have been incorporated in the BNPL segment due to similar product characteristics. The restated segments are not individually material.

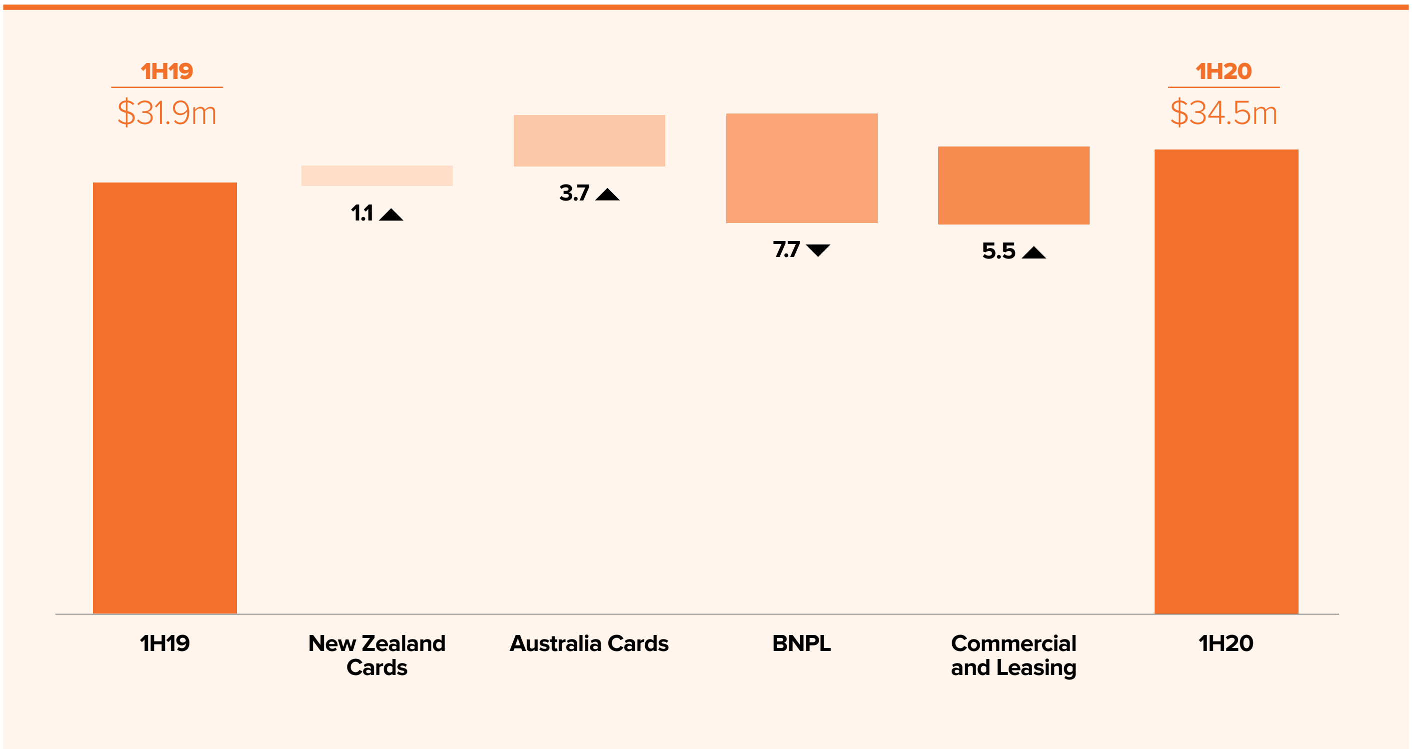
flexigroup's Cash NPAT performance for its four operating segments is summarised in the table below.

Prior comparative disclosures have been restated in line with these segment changes.

Segment Summary.

A$m	Dec-19	Dec-18	Change %
New Zealand Cards	**12.6**	11.5	9.6%
Australia Cards	**4.1**	0.4	large
BNPL	**8.4**	16.1	(47.8%)
Commercial & Leasing	**9.4**	3.9	141.0%
Total Cash NPAT	**34.5**	31.9	8.2%

Cash NPAT Movement by Reportable Segment.



Segment Analysis

New Zealand Cards.

A$m	Dec-19	Dec-18	Change %
Net income	**53.1**	45.9	15.7%
Operating expenses	**(27.5)**	(22.8)	20.6%
Loan impairment	**(8.4)**	(7.4)	13.5%
Cash NPAT	**12.6**	11.5	9.6%
Volume	**434.2**	377.0	15.2%
Closing customer loans	**799.8**	727.6	9.9%

Cash NPAT in New Zealand Cards of $12.6m in 1H20 represents a 10% increase on the prior comparative period. The increase is largely attributable to:

- net income increased 16% with higher customer loans as customer spend continues to trend above market, as well as lower funding costs.
- operating expenses increased by 21% from the acquisition of new customers to accelerate growth.
- loan impairment growth of 14% reflecting the increase in volumes.

Australia Cards.

A$m	Dec-19	Dec-18	Change %
Net income	**41.6**	36.9	12.7%
Operating expenses	**(24.0)**	(16.6)	44.6%
Loan impairment	**(12.4)**	(19.7)	(37.1%)
Cash NPAT	**4.1**	0.4	large
Volume	**353.6**	395.5	(10.6%)
Closing customer loans	**707.5**	679.3	4.1%

Cash NPAT of $4.1m in 1H20 grew significantly on the prior comparative period. The increase is attributable to:

- net income increase of 13%, as a result of growth in card usage and interest-bearing customer loans.
- operating expenses increase of 45% driven by investment in improved systems and processes, sales and marketing to support customer growth.
- loan impairment decrease of 37% from significant improvements made in collections and recovery processes.
- volume decrease of 11% due to the closure of legacy portfolios with on-going new origination from Skye card only.

BNPL.

A$m	Dec-19	Dec-18	Change %
Net income	**49.1**	51.2	(4.1%)
Operating expenses	**(24.4)**	(17.8)	37.1%
Loan impairment	**(14.4)**	(10.7)	34.6%
Cash NPAT	**8.4**	16.1	(47.8%)
Volume	**415.8**	337.3	23.3%
Closing customer loans	**642.0**	552.0	16.3%

Cash NPAT in BNPL of $8.4m in 1H20 represents a 48% decline on the prior comparative period. The key movements are:

- net income down 4% with volume and customer loans growth offset by margin compression from simplifying the fee structure to enhance competitiveness, and in line with strategy.
- operating expenses up 37% due to increased investment in driving volume growth, particularly in sales, marketing and implementation of technology stack to allow for triggered lifecycle marketing.
- loan impairment up 35% and reflects underlying portfolio growth of 23%, combined with an increase in shorter finance terms and a change in merchant mix.
- volume and receivables up 23% and 16% respectively from the strong growth in customer spend.

Commercial and Leasing.

A$m	Dec-19	Dec-18	Change %
Net income	**38.0**	51.9	(26.8%)
Operating expenses	**(22.2)**	(31.5)	(29.5%)
Loan impairment	**(3.4)**	(15.1)	(77.5%)
Cash NPAT	**9.4**	3.9	141.0%
Volume	**146.8**	196.1	(25.1%)
Closing receivables	**586.4**	588.2	(0.3%)

Cash NPAT of $9.4m in 1H20, increased 141% on the prior comparative period. The increase is largely attributable to:

- net income decrease of 27% with a changing portfolio mix resulting in lower margins coupled with Consumer Leasing being ceased and in run-off.
- operating expenses decrease of 30% as originations in Consumer Leasing ceased being offered and the Australia Commercial operations were simplified.
- loan impairment decrease of 78% reflecting high credit quality and lower provision requirements in New Zealand Commercial, losses recognised in prior comparative period in Australia Commercial relating to equipment finance vendor program. Lastly, Consumer Leasing impairment provision reducing due to book run-off and active management of arrears.
- volume decrease of 25% as certain equipment finance programs were terminated and Consumer Leasing ceasing new business which was all partially offset by Australia Commercial volumes increasing.

Dividends on Ordinary Shares.

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

Matters Subsequent to End of the Financial Year

As at the date of this report the directors are not aware of any matter or circumstance that has arisen since 31 December 2019 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 12.

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

24 February 2020

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Auditor's Independence Declaration

As lead auditor for the review of Flexigroup Limited for the half-year ended 31 December 2019, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the 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
24 February 2020

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Group financial statements.

Condensed Consolidated Statement of Comprehensive Income for the half-year ended 31 December 2019.

A$m	Notes	31 Dec 19	31 Dec 18
Interest income		181.8	176.5
Interest expense		(45.7)	(50.2)
Fee and other income	3	45.7	59.6
Net income		181.8	185.9
Employment expenses		(48.2)	(45.8)
Receivables and customer loan impairment expenses		(38.6)	(52.9)
Depreciation and amortisation expenses	4	(9.6)	(7.1)
Other operating expenses	4	(42.0)	(38.1)
Profit/(loss) before income tax		43.4	42.0
Income tax expense		(10.1)	(10.7)
Profit/(Loss) for the year attributable to shareholders of FlexiGroup Limited		33.3	31.3

Other comprehensive income			
Items that may be reclassified to profit and loss			
Exchange differences on translation of foreign operations		1.4	8.3
Changes in the fair value of cash flow hedges, net of tax		1.7	(0.9)
Other comprehensive income for the year, net of tax		3.1	7.4
Total comprehensive income for the year attributable to shareholders of FlexiGroup Limited		36.4	38.7

Earnings per share for profit attributable to the ordinary equity holders of the Company:	Cents	Cents
Basic earnings per share	8.0	8.1
Diluted earnings per share	8.0	8.1

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

Condensed Consolidated Statement of Financial Position as at 31 December 2019.

A$m	Notes	31 Dec 19	30 Jun 19
Assets			
Cash and cash equivalents	5	**168.2**	143.1
Inventories		**1.9**	1.8
Customer loans and receivables	6	**2,670.8**	2,567.8
Investment in associate		**14.3**	13.7
Current tax receivable		**21.2**	15.2
Plant and equipment		**8.0**	8.7
Right-of-use asset	14	**14.1**	–
Deferred tax assets		**55.8**	54.4
Goodwill		**245.2**	244.3
Other intangible assets		**105.8**	102.0
Total assets		**3,305.3**	3,151.0
Liabilities			
Trade and other payables		**46.4**	59.7
Lease liability	14	**18.2**	–
Borrowings		**2,515.6**	2,387.7
Current tax liabilities		**12.0**	5.3
Provisions		**21.9**	22.5
Derivative financial instruments		**14.8**	17.6
Deferred tax liabilities		**39.1**	42.1
Total liabilities		**2,668.0**	2,534.9
Net assets		**637.3**	616.1
Equity			
Contributed equity	8	**392.6**	390.1
Reserves		**5.8**	2.8
Retained earnings		**238.9**	223.2
Total equity		**637.3**	616.1

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

Condensed Consolidated Statement of Changes in Equity for the half-year ended 31 December 2019.

A$m	Notes	Contributed equity	Reserves	Retained earnings	Total
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 1 July 2018		362.8	2.1	251.6	616.5
Change from initial application of AASB 9		–	–	(59.3)	(59.3)
Re-stated balance as at 1 July 2018		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
2019					
Balance at the beginning of the half-year		**390.1**	**2.8**	**223.2**	**616.1**
Profit for the half-year		–	–	33.3	33.3
Other comprehensive income		–	3.1	–	3.1
Total comprehensive income for the half-year		**0.0**	**3.1**	**33.3**	**36.4**
Share based payment expense		–	0.2	–	0.2
Transfer to share capital from share based payment reserve		0.3	(0.3)	–	–
Dividends provided for or paid	7	**2.2**	**–**	**(17.6)**	**(15.4)**
Balance at the end of the half-year		**392.6**	**5.8**	**238.9**	**637.3**

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

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

Condensed Consolidated Statement of Cash Flows for the half-year ended 31 December 2019.

A$m	31 Dec 19	31 Dec 18
Cash flows from operating activities		
Interest and fee income received from customers	230.9	244.5
Payment to suppliers and employees	(104.4)	(99.3)
Borrowing costs	(45.8)	(53.4)
Income taxes paid	(14.8)	(24.0)
Net cash inflow from operating activities	65.9	67.8
Cash flows from investing activities		
Payment for purchase of plant and equipment and software	(11.1)	(11.6)
Net movement in:		
Customer loans	(135.8)	(174.6)
Receivables due from customers	(1.6)	(31.0)
Net cash outflow from investing activities	(148.5)	(217.2)
Cash flows from financing activities		
Dividends paid	(15.2)	(14.4)
Treasury shares purchased on market	–	(0.1)
Cash payments relating to Lease liability	(2.0)	–
Drawdown of corporate borrowings	142.6	141.2
Repayment of corporate borrowings	(144.1)	(85.0)
Net movement in:		
Secured debt facilities	120.1	95.2
Loss reserve on secured debt facilities	6.2	3.5
Net cash inflow from financing activities	107.6	140.4
Net increase/(decrease) in cash and cash equivalents	25.0	(9.0)
Cash and cash equivalents at the beginning of the year	143.1	125.3
Effects of exchange rate changes on cash and cash equivalents	0.1	1.2
Cash and cash equivalents at the end of the year	168.2	117.5

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

Notes to the **consolidated financial statements.**

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

Basis of preparation

The condensed interim consolidated financial statements for the half-year ended 31 December 2019 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 2019 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.

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

The Group had to change its accounting policies as a result of adopting AASB 16 *Leases*.

The impact of the adoption of the leasing standard and the new accounting policies are disclosed in note 14. No other amended standards had any impact on the Group's accounting policies and did not require retrospective adjustments.

The Group has adopted AASB 16 retrospectively from 1 July 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassification and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019.

ii. 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 2019.

Note 2
Segment information.

Description of segments.

Management has determined the operating segments based on the reports reviewed by the Directors that are used to make strategic decisions. In addition to statutory profit after tax, the Directors 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 Directors believe do not reflect ongoing operations of the Group, and amortisation of acquired intangible assets.

The Directors consider the business from a product perspective and have identified four reportable segments: BNPL (a consolidation of **humm**, Oxipay New Zealand, Ireland FlexiFi business and legacy FlexiRent Ireland), New Zealand Cards (including Farmers, Q Card, Flight Centre Mastercard), Australia Cards (Skye, Lombard, Once), Commercial and Leasing (consisting of Australia Commercial Leasing, New Zealand Leasing and Consumer Leasing).

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 Cards disclosed separately (based on its product offering) and Ireland included within BNPL.

The Directors determined that it was appropriate to modify some segments in the current period following the simplification of executive leadership structures grouping segments with similar product and economic characteristics, which are managed together.

- Australia and New Zealand Commercial segments are reported on a combined basis due to amalgamated executive leadership structures and similar product characteristics. Further to this, as a

Note 2
Segment information. (continued)

result of the discontinuation of the Consumer Leasing business in October 2019, this segment is no longer sufficiently material to warrant separate disclosure and is now included as part of the Commercial and Leasing segment due to similar product characteristics.

- New Zealand Oxipay and Ireland (FlexiFi Ireland and FlexiRent leasing) have been incorporated in BNPL segment due to similar product characteristics. The restated segments are not individually material. Prior comparative disclosures have been restated.

The segment information provided to the Directors for the reportable segments for the half-year ended 31 December 2019 is as below:

Half-year 31 December 2019

A$m	New Zealand Cards	Australia Cards	BNPL	Commercial and Leasing	Total
Interest income	59.5	44.1	46.9	31.3	181.8
Fee and other income	7.8	7.2	12.7	18.0	45.7
Interest expense	(14.2)	(9.7)	(10.5)	(11.3)	(45.7)
Net income	53.1	41.6	49.1	38.0	181.8
Operating expenses	(27.5)	(24.0)	(24.4)	(22.2)	(98.1)
Impairment losses on receivables and customer loans	(8.4)	(12.4)	(14.4)	(3.4)	(38.6)
Amortisation of acquired intangible assets	(1.5)	–	(0.2)	–	(1.7)
Profit before income tax	15.7	5.2	10.1	12.4	43.4
Income tax expense	(4.2)	(1.1)	(1.8)	(3.0)	(10.1)
Statutory profit for the year	11.5	4.1	8.3	9.4	33.3
Recurring non-cash adjustments:					
Amortisation of acquired intangible assets (net of tax)	1.1	–	0.1	–	1.2
Cash net profit after tax	12.6	4.1	8.4	9.4	34.5
Total segment assets at 31 December 2019	1,087.5	747.2	770.0	681.5	3,286.2

Fee and other income:

Account servicing fees	6.0	5.2	7.9	0.3	19.4
Transaction processing fees	3.7	7.7	5.3	2.2	18.9
Leasing related income	–	–	–	15.1	15.1
Cost of sales	(5.6)	(6.3)	(1.3)	–	(13.2)
Share of profit after tax from investment in associate	–	–	–	0.2	0.2
Other income	3.7	0.6	0.8	0.2	5.3
Total fee and other income	7.8	7.2	12.7	18.0	45.7

Note 2
Segment information. (continued)

Half-year 31 December 2018

A$m	New Zealand Cards	Australia Cards	BNPL	Commercial and Leasing	Total
Interest income	53.5	39.0	45.3	38.7	176.5
Fee and other income	8.6	9.5	15.7	25.8	59.6
Interest expense	(16.2)	(11.6)	(9.8)	(12.6)	(50.2)
Net income	45.9	36.9	51.2	51.9	185.9
Operating expenses	(22.8)	(16.6)	(17.8)	(31.5)	(88.7)
Impairment losses on receivables and customer loans	(7.4)	(19.7)	(10.7)	(15.1)	(52.9)
Amortisation of acquired intangible assets	(1.2)	(0.2)	(0.6)	(0.3)	(2.3)
Profit before income tax	14.5	0.4	22.1	5.0	42.0
Income tax expense	(3.9)	(0.1)	(6.4)	(0.3)	(10.7)
Statutory profit for the year	10.6	0.3	15.7	4.7	31.3
Recurring non-cash adjustments:					
Amortisation of acquired intangible assets (net of tax)	0.9	0.1	0.4	0.2	1.6
Sale of Think Office Technology	–	–	–	(2.3)	(2.3)
Other	–	–	–	1.3	1.3
Cash net profit after tax	11.5	0.4	16.1	3.9	31.9
Total segment assets at 31 December 2018	976.5	687.6	581.0	749.5	2,994.6

Fee and other income					
Account servicing fees	5.5	8.0	6.3	–	19.8
Transaction processing fees	2.8	7.2	8.7	3.5	22.2
Leasing related income	–	–	–	19.1	19.1
Cost of sales	(3.6)	(5.7)	(1.3)	–	(10.6)
Share of profit after tax from investment in associate	–	–	–	0.7	0.7
Gain on sale of Think Office Technology	–	–	–	2.5	2.5
Other income	3.9	–	2.0	–	5.9
Total fee and other income	8.6	9.5	15.7	25.8	59.6

Note 3
Fee and other income.

A$m	Half-year ended 31 Dec 19	Half-year ended 31 Dec 18
Account servicing fees	**19.4**	19.8
Transaction processing fees	**18.9**	22.2
Leasing related income	**15.1**	19.1
Cost of sales	**(13.2)**	(10.6)
Share of profit after tax from investment in associate	**0.2**	0.7
Gain on sale of Think Office Technology	**–**	2.5
Other income	**5.3**	5.9
Total fee and other income	**45.7**	59.6

Note 4
Expenses.

A$m	Half-year ended 31 Dec 19	Half-year ended 31 Dec 18
Depreciation and amortisation expenses		
Depreciation of plant and equipment	**2.6**	1.2
Amortisation of other intangible assets	**7.0**	5.9
Total depreciation and amortisation expenses	**9.6**	7.1
Other operating expenses		
Advertising and marketing	**13.6**	8.1
Information technology and communication	**10.5**	9.6
Operating lease rental expenses	**–**	2.0
Other occupancy, equipment and related costs	**2.5**	1.4
Outsourced operation costs	**3.3**	4.1
Professional, consulting and other service provider costs	**7.8**	8.5
Other	**4.3**	4.4
Total other operating expenses	**42.0**	38.1

Note 5
Cash and cash equivalents.

A$m	As at 31 Dec 19	As at 30 Jun 19
Restricted[1]	**143.7**	112.9
Unrestricted	**24.5**	30.2
Cash at bank and on hand	**168.2**	143.1

1. Represents amounts held as part of the Group's secured 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 6
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 *Financial Instruments*:

	As at 31 Dec 2019			As at 30 Jun 2019		
A$m	Gross[1]	ECL Allowance	Net	Gross[1]	ECL Allowance	Net
Receivables	599.2	(28.2)	571.0	604.0	(29.5)	574.5
Customer loans	2,150.1	(77.9)	2,072.2	2,053.1	(80.4)	1,972.7
Undrawn credit commitments	–	(11.7)	(11.7)	–	(13.1)	(13.1)
Total	**2,749.3**	**(117.8)**	**2,631.5**	**2,657.1**	**(123.0)**	**2,534.1**

1 Gross exposure represents the carrying value of assets subject to AASB 9's impairment requirements.

The table below presents the Group's total impairment provisions on Receivables and Customer loans as at 30 June 2019 and 31 December 2019:

A$m	31 Dec 19	30 Jun 19
Opening balance	123.0	136.3
Net change in provision	30.4	48.1
Amounts written off, previously provided for	(35.7)	(62.6)
FX movements	0.1	1.2
Balance at end of the period	117.8	123.0
Total provision on:		
Finance receivables	28.2	29.5
Customer loans	89.6	93.5
Total	**117.8**	**123.0**

Note 7
Dividends.

A$m	Half-year ended 31 Dec 19	Half-year ended 31 Dec 18
Ordinary shares		
Dividends provided for or paid during the half-year	15.2	14.4
Preference shares		
Dividends provided for or paid during the half-year (net of withholding tax)	2.2	1.5

On 24 February 2020 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 $15.2m is expected to be paid on 14 April 2020 out of retained profits at 31 December 2019 and has not been recognised as a liability at the end of the half-year.

A preference dividend of $2.4m was provided for during the period in respect of the unsecured subordinated perpetual note. Following the restriction date, which is five years after the issuance date of 18 March 2016, the Group may not make or pay any dividend distribution unless it has paid interest accrued on such perpetual notes from the restriction date to the date of such dividend distribution.

Note 8
Contributed equity.

a. Movement in ordinary share capital

	Number of shares (m)	$m
1 July 2019	394.3	339.2
Transfer to share capital from share based payment reserve	–	0.3
31 December 2019	394.3	339.5

b. Movement in subordinated perpetual note

	Number of shares (m)	$m
1 July 2019	49.1	50.9
Preference share dividend accrued	–	2.2
31 December 2019	49.1	53.1

	Number of shares (m)	$m
Total contributed equity	443.4	392.6

Note 9
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 Andrew Abercrombie. The rental arrangements for the Melbourne premises are based on market terms.

A$	Half-year ended 31 Dec 19	Half-year ended 31 Dec 18
Rental of Melbourne premises	94,077	92,166

Note 10
Contingencies.

flexigroup and its wholly owned consumer leasing subsidiary, FlexiRent Capital Pty Ltd (FlexiRent), have been proactively engaging with the Australian Financial Complaints Authority (AFCA) (formerly the Credit and Investments Ombudsman) regarding historic responsible lending practices in relation to the FlexiRent product, which ceased being sold in February 2018. A provision of $7m was recognised in the 2018 financial year with respect to the refund of fees charged to impacted customers. At 31 December 2019, $1.5m provision remains. Discussions with the Australian Securities and Investments Commission (ASIC) and AFCA are ongoing with respect to other matters and it is possible that future remediation may be undertaken. There is still uncertainty as to the timing and amount of these matters.

FlexiRent continues to work proactively with both ASIC and AFCA, to demonstrate its responsible lending practices are appropriate. FlexiRent is also currently engaging with AFCA in relation to the liquidation of an equipment finance vendor and associated customer complaints. This matter related to the provision of a commercial rental program and related equipment and services to small business customers. A preliminary determination was made by AFCA on 3 May 2019 and a final panel determination is expected in Q3 FY20.

Note 10
Contingencies. (continued)

Flexicards Australia Pty Limited (Flexicards) has received correspondence from AFCA dated 7 August 2019 which raises concerns in relation to responsible lending practices undertaken by Flexicards for its Once, Lombard and Skye cards products. Flexicards is committed to engaging proactively with AFCA to resolve AFCA's concerns. It is possible that future customer remediation may be undertaken, however the nature, scope and timing of any remediation program is not known at this stage.

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

Note 11
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 on the next page summarises the carrying amount and fair value of financial assets and financial liabilities held at amortised cost. The methodology and assumptions used in determining fair values are as follows:

Cash and cash equivalents.

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

Receivables and Customer loans.

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

Payables.

The carrying amount of payables is an approximation of fair value 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 on the next page is a comparison of the carrying amounts and fair values of financial assets and liabilities as at 31 December 2019 and 30 June 2019:

Note 11
Fair value of financial assets and financial liabilities. (continued)

A$m	Carrying amount 31 Dec 19	Fair value 31 Dec 19	Carrying amount 30 Jun 19	Fair value 30 Jun 19
Financial assets				
Cash and cash equivalents	**168.2**	**168.2**	143.1	143.1
Customer loans	**2,670.8**	**2,670.8**	2,567.8	2,567.8
Financial liabilities				
Trade and other payables	**46.4**	**46.4**	59.7	59.7
Lease liability	**18.2**	**18.2**	–	–
Borrowings				
Floating interest rate	**2,453.6**	**2,453.6**	2,302.8	2,302.8
Fixed interest rate	**90.6**	**92.0**	116.1	117.7
Total borrowings before loss reserves	**2,544.2**	**2,545.6**	2,418.9	2,420.5
Derivative financial instruments	**14.8**	**14.8**	17.6	17.6

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 12
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	As at 31 Dec 19	As at 30 Jun 19
Receivables	**517.5**	510.7
Customer loans	**2,053.5**	1,723.5
Cash held by securitisation vehicles	**143.7**	112.9
	2,714.7	2,347.1
Borrowings related to receivables and customer loans	**2,419.4**	2,289.6

Note 13
Events occurring after balance sheet date.

As at the date of this report the Directors are not aware of any matter or circumstance that has arisen since 31 December 2019 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.

Note 14
Changes in accounting policy.

Until financial year 2020, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 July 2019, leases are recognised as a right-of-use asset and corresponding liability at the date at which the leased asset is available for use by the Group in applying the requirements of AASB 16 *Leases*. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable,
- variable lease payments that are based on an index or a rate,
- amounts expected to be payable by the lessee under residual value guarantees,
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial cost, and
- restoration costs.

The Group leases properties and motor vehicles. Rental contracts are typically made for fixed periods of 3 to 8 years but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. These lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases have a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

On adoption of AASB 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB 117. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 5.3%.

Note 14
Changes in accounting policy. (continued)

A$m	
Operating lease commitments disclosed as at 30 June 2019	24.8
Discounted using the lessee's incremental borrowing rate at the date of initial application	19.5
Lease Liability recognised as at 1 July 2019	19.5
Of which are:	
Current lease liabilities	2.9
Non-current lease liabilities	16.6
	19.5
Lease Liability recognised as at 31 December 2019	
Of which are:	
Current lease liabilities	3.6
Non-current lease liabilities	14.6
	18.2

The recognised right-of-use assets related to the following types of assets:

A$m	31 Dec 19	1 Jul 19
Properties	**13.7**	15.1
Motor vehicles	**0.4**	0.4
Total right-of-use assets	**14.1**	15.5

The change in accounting policy affected the following items in the balance sheet on 1 July 2019:

- right-of-use assets – increase by $15.5m
- lease liability – increased by $19.5m
- operating lease accrual – decreased by $4.0m.

The net impact on retained earnings on 1 July 2019 was zero.

Lease segment assets and segment liabilities at 31 December 2019 increased as a result of the change in accounting policy and are now included in segment assets.

A$m	Segment assets	Segment liabilities
Commercial leasing	0.5	(1.7)
Australia Cards	1.4	(2.6)
New Zealand Cards	7.7	(9.6)
BNPL	4.5	(4.3)
	14.1	(18.2)

Note 14
Changes in accounting policy. (continued)

Earnings per share remained unchanged for the six months to 31 December 2019 as a result of the adoption of AASB 16.
In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying AASB 117 and Interpretation 4 *Determining whether an Arrangement contains a Lease*.

Directors' Declaration.

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 (Cth)*, 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 2019 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

24 February 2020

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) and the entities it controlled during the half-year (together the Group), which comprises the condensed consolidated statement of financial position as at 31 December 2019, the condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, selected other explanatory notes and the directors' declaration.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards 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 gives a true and fair view and 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 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Flexigroup Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

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Conclusion

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

1. giving a true and fair view of the Group's financial position as at 31 December 2019 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
24 February 2020

flexigroup