flexigroup

ANNUAL REPORT // 2020

ABN 75 122 574 583

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FOR A YEAR WHOSE DATE SUGGESTS PERFECT VISION, WHO COULD HAVE EVER FORESEEN A YEAR LIKE 2020?

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2020 was a year that no-one saw coming. With the bushfire threat finally receding in February, March brought with it COVID-19, a health pandemic that tipped business and society worldwide into a change trajectory not experienced in our lifetimes.

But change, whilst sometimes uncomfortable, can be a powerful catalyst. Change readiness, through innovation, investment and digital transformation, is the story that we want to tell about 2020 and how it put **flexigroup** in a position to see volume sales soar, partnerships blossom and our wonderful team unite.

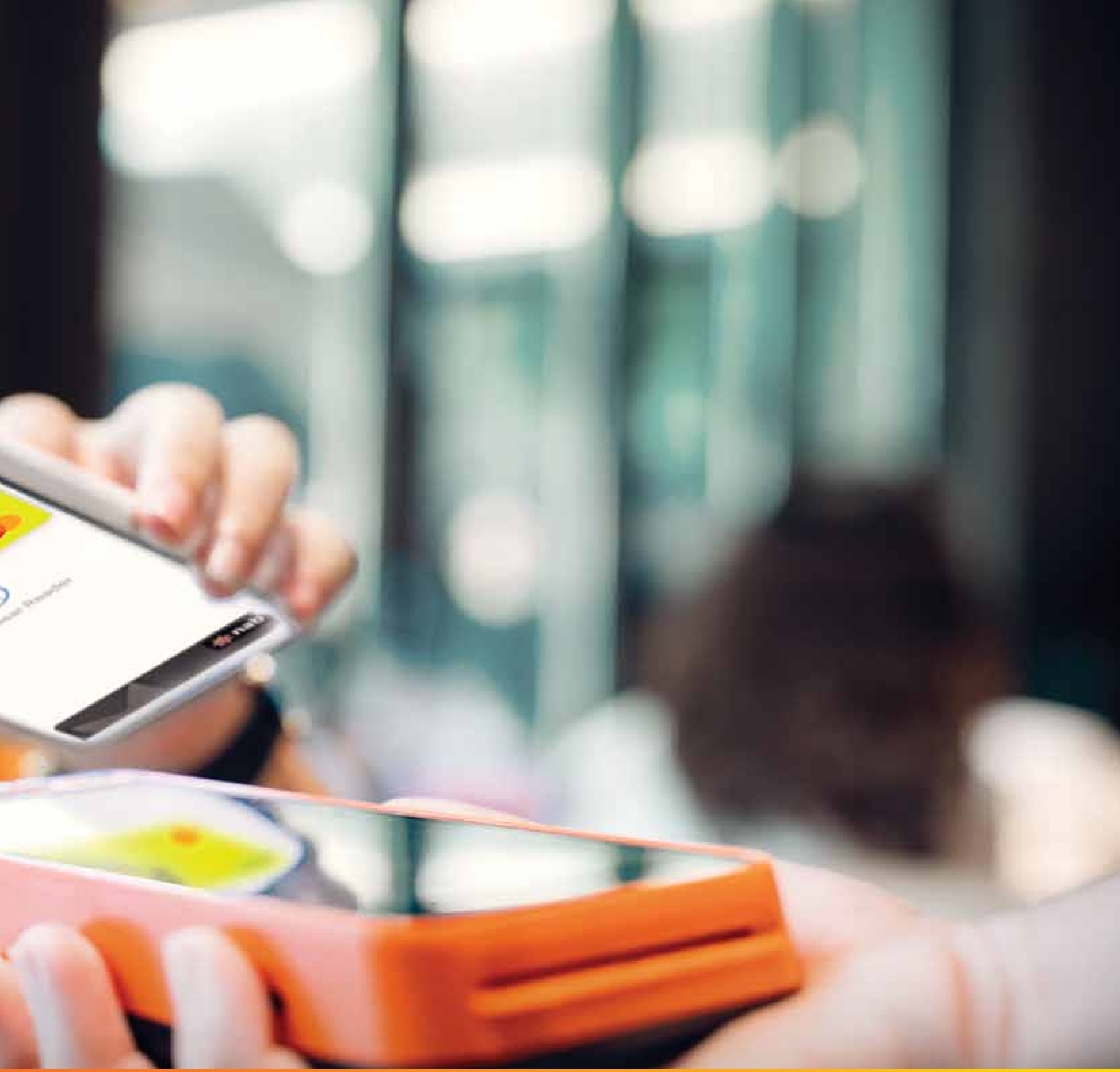
OUR BUSINESS IS DIVERSIFIED BY DESIGN

01

>> **flexigroup** has long held the philosophy that a diversified business is both a resilient one – and a profitable one. In 2020 we leaned into our strategy of targeted diversification, consolidating our product stable into three strategic pillars, with the goal of appealing to everyone.

Via our focus on Buy Now Pay Later (BNPL), revolving credit and SME finance, we attracted all kinds of digital spenders, growing a customer base of which 70% are over the age of 35. And with a diverse range of retail partners from solar panels to IVF treatments, we ensured that the **flexigroup** product offering has appeal for everyone, everywhere.

OUR INVESTMENT IN INNOVATION PROVED ITS WORTH



02

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To stay competitive in digital payments, innovation is non-negotiable. In 2020, we put our paws up with **bundll**, a world-first BNPL digital payments solution, offering no less than two weeks to pay interest-free everywhere Mastercard is accepted – and ushered in a new breed of digital spender: the **bundll**er.

We've also stayed on the front foot with consumer protection, calling proactively for a BNPL Code of Practice in Australia, which is now on the horizon for introduction in January 2021. And for our customers, we were first in Australia in BNPL to oil the cogs of digital registration, through offering photo ID scan.

OUR RAPID RESPONSE KEPT CUSTOMERS ACTIVE

03

>> A brand's ability to deliver on its promises in customer experience (CX) is never under more scrutiny than in a crisis. 2020 hasn't been short of moments to rise to the CX occasion, and **flexigroup** put a focus on delivering and over-delivering for customers, where and when it counted most.

We empowered customers to run their worlds from beautifully functioning – and customer loved – **humm** and **bundll** apps. And when our customers turned to us for hardship assistance through the bushfires and the COVID-19 pandemic, we did our best to minimise hold times, and ensure customer requests were fulfilled digitally, as quickly as possible and stress-free.

OUR DIGITAL PAYMENTS POWERHOUSE POWERED UP

04

>> When COVID-19 turned all humans, from teens to baby-boomers, into overnight digital dependants, we were ready. Thanks to a two-year run-up along a business transformation curve with eCommerce at its core, **flexigroup** was poised to meet an unprecedented explosion of demand, with a switched-on digital payments powerhouse.

Our digital readiness saw us positioned to maximise opportunities springing from the tsunami of societal change brought by COVID-19. As demand soared for everything from home gyms to whitegoods, so did the appetite for digital interest-free finance; **flexigroup** reported a 172% increase in **humm** online transactions in FY20 as a result.

OUR SME SECURE FINANCING WAS A LIFELINE

05

FY20 signalled change unimaginable for small businesses. As the situation mounted, the **flexigroup** Commercial team saw the opportunity to match grit with grit. They knew they could assess the credit facilities small business so desperately needed, at speeds our competitors could not match. So they did.

Through round-the-clock efforts instead of six-week lead times to approval, our Commercial super-heroes had funds in small business bank accounts within three days. And in doing so, we have cemented our reputation for supporting small businesses and the economy.

OUR TEAM WERE INSTANTLY MOBILISED TO #WFH

06

>> When working from home was no longer a choice, but a health necessity, **flexigroup** saw the urgency to act. Within two weeks of the declaration of a pandemic, everyone – from Australia to the Philippines, Ireland to New Zealand – was home, digitally mobilised, and springing into action to meet demand.

Rather than a decline in focus through the change to WFH, we saw a surge. Empowered through digital ways of working, and motivated by genuine societal need, our people showed what they're made of – delivering productivity at levels that kept customers served and sales curves lifting.

C

PERFORMANCE HIGHLIGHTS 2020

172.3%

HUMM
ONLINE GROWTH

17.2%

VOLUME GROWTH
ON CONTINUING PRODUCTS

3.3%

>30

GREATER THAN
30 DAYS ARREARS

73K

SELLERS
(8,000 NEW PARTNERS)

$2.48B

TRANSACTION VOLUME

15.8%

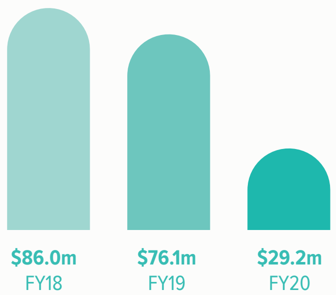
RECEIVABLES GROWTH
ON CONTINUING PRODUCTS

2.3M

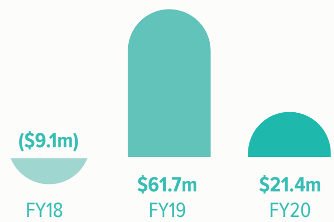
CUSTOMERS (GROWTH OF 30%)

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.

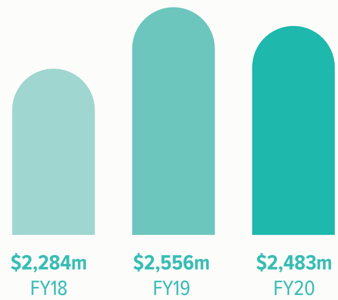
Receivables and loans excludes provision for doubtful debts, unamortised transaction costs and other debtors.



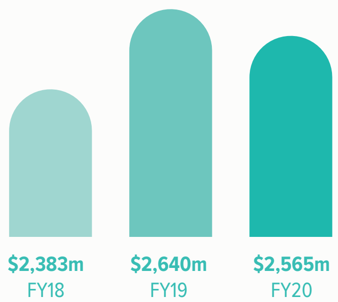
CASH NET PROFIT AFTER TAX



STATUTORY NET PROFIT AFTER TAX

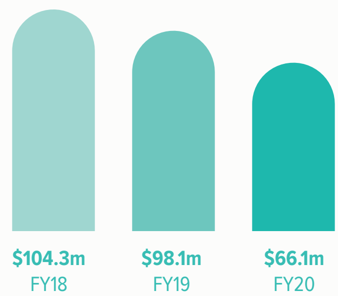


VOLUME



CLOSING RECEIVABLES AND CUSTOMER LOANS

DIVIDENDS PER SHARE
(CENTS PER SHARE)



DRAWN CORPORATE DEBT

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FLEXIGROUP REACHED 73K PARTNER RELATIONSHIPS

CHAIRMAN'S LETTER

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The financial year ended 30 June 2020 (FY20) was economically unprecedented and certainly the most challenging I have experienced during my 30 years of involvement with **flexigroup** (FXL). The COVID-19 pandemic has had far reaching effects in the economy and community.

FXL was profoundly impacted by the pandemic and I am proud to have been the Chairman of a company that responded swiftly and empathetically to the needs of our customers, merchants and employees. We were able to support our stakeholders when it was needed most.

This is testament to FXL's management team led by CEO Rebecca James, and their ability to act decisively. The safety of our people is paramount and we made the decision to transition the whole team to work from home, weeks before most organisations. FXL remains nimble, quickly adapting to an ever-changing environment.

The many challenges experienced in FY20 also highlighted the benefits and resilience of a business diversified by design. In meeting these challenges, FXL never wavered from its core purpose of providing customers and retail partners with seamless payment options that enhance the buying experience.

During FY20, FXL added 524,000 customers and now counts nearly 2.3m customers across its range of products. In addition, we increased our presence with over 73,000 sellers offering interest free instalments and SME finance.

This allowed FXL to deliver Cash Net Profit After Tax of $29.2m. This includes an elevated provision amount booked for the period, driven by the impact of COVID-19. The provision is calculated according to accounting standards and acts as a buffer for our portfolio should losses arise. Adjusting for the macro overlay provision relating to the COVID-19 pandemic, FXL would have reported Cash NPAT of $60.1m.

The underlying business performance across our three solutions of Buy Now Pay Later (BNPL) interest free card (IFC) and SME finance remains healthy. Progress continues to be made in developing these solutions to ensure we always provide leading offerings for our customers.

In February 2020, we successfully launched **bundll** as a world first, allowing customers to 'Buy Now. Pay Later. Everywhere'. In addition, we have seen strong traction with **humm** in Australia which has benefited from the digital transformation undertaken in FY19. A strong foundation has been set for our BNPL offerings as evidenced by growth in volume of 18%.

Total volume increased 45% in our Australian IFC business after excluding for discontinued products, and this represents a tremendous result in a challenging market impacted by the effects of COVID-19 across our travel partners. Including the discontinued products, volume dropped by 25% year-on-year.

In our NZ IFC business, we achieved volume growth of 2%, which is ahead of the market, although the strict restrictions in place during the COVID-19 pandemic dampened performance.

Volumes in our commercial and leasing business increased 15% (excluding Consumer Leasing which is discontinued). Including Consumer Leasing, the segment reported volume of $347.2m, down 1%. Importantly, we have been able to provide essential capital support to SMEs when it was most necessary during these uncertain times – which we like to think will have positive flow-on effects in the economy for years to come.

As part of our commitment to public policy, we continued to engage with a wide range of stakeholders focusing on the importance of responsible lending practices. FXL also took a leading role in the establishment of a self-governing BNPL Code of Practice, working with the Australian Finance Industry Association and some of our peers. The Code was made public for consultation in May and we look forward to its launch in January 2021.

CAPITAL MANAGEMENT

The Board made the prudent decision to defer the payment of the Company's FY20 interim dividend from April to October 2020. In addition, the Board has determined that ongoing uncertainties predicated by the pandemic call for continued prudence, retaining available capital rather than declaring a final dividend for FY20.

flexigroup also launched an equity raise to increase financial flexibility to pursue growth initiatives. This took the form of an accelerated non-renounceable entitlement offer, with both institutional and retail elements.

INDUSTRY DYNAMICS SUPPORT OUR STRATEGY

The Board continues to be encouraged by the leadership of **flexigroup** CEO Rebecca James, and the results delivered from the successful execution of a challenging strategy to reinstate FXL to its position of primacy in BNPL.

The industry dynamics support the continued growth of BNPL with penetration among consumers in Australia to reach nearly 40% by mid-2021.[1]

FXL has been at the forefront of multiple shifts in consumer payment models for over 30 years and we remain focused on being a leader in real and virtual point of sale flexible payments, by continuing to respond to evolving consumer spending habits.

We are confident that the business is on the right path, having skillfully executed on transformative change objectives. You can read more about these achievements and our strategic outlook in the CEO's Report.

CONCLUSION

On behalf of the Board, I would like to thank our shareholders for their continued support, and the FXL team for their ongoing hard work and commitment to ensuring a superior experience for our retail partners and customers.

It has been a year of challenge and volatility across the globe. Despite this, we made significant progress throughout FY20 and we are firmly positioned for growth into FY21 and beyond, in a sector which is fast becoming the preferred payment method for generations.

Andrew Abercrombie
Chairman

26 August 2020

1. Source: RFI Group.

CHIEF EXECUTIVE'S REPORT

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The 2020 financial year has been challenging and unprecedented, first with the devastating bushfires in Australia over summer and then the COVID-19 crisis which has had and continues to have health, social and economic consequences across the world. **flexigroup**, with 30 years' experience providing innovative financial solutions to Australian consumers, has a long track record of weathering economic uncertainties and capitalising on the opportunities they present.

In navigating these challenges, our employees swiftly adapted to the changed conditions to make sure our customers were supported without interruptions. Our teams were nimble, responding quickly with relief packages for our customers at a time when they too were most vulnerable.

Despite this difficult backdrop, we continued to make great strides against our new strategy and direction as a company. The external events of FY20 were in fact critical in accelerating many elements of our strategy and also helped define a new operating rhythm which we carry into FY21 and beyond. Our fundamentals remain sound and our momentum remains strong, well positioned for future growth across the business.

FY20 OPERATIONAL PERFORMANCE

flexigroup achieved strong volume growth of 17%[1] in FY20 across our continuing products and as at 30 June 2020 exceeded 2.2 million customers representing an increase of 30% from FY19.

> BNPL volumes were up 18% with the digital transformation of the product driving customer usage.

> Revolving credit volumes were up 17%[2] which is a solid result considering the exposure to travel in the Australian business and the impact of the Alert Level 4 restrictions in New Zealand in 2H20.

> Commercial and Leasing volumes increased 15%[3] which predominantly reflects the strong performance in Australia Commercial.

> The Group's Cash NPAT of $29.2m was impacted by a provision charge relating to COVID-19 of $30.9m. Excluding this provision, Group Cash NPAT was $60.1m.

Before the impacts of COVID-19 were felt by the Company and the economy as a whole, **flexigroup**'s 1H20 results were showing strong signs of growth, reflecting the benefits of a product portfolio diversified by design. While Full Year Cash NPAT was lower than FY19, this is largely attributable to the forward looking provision relating to the projected impact of economic conditions due to COVID-19.

Despite the significant macro headwinds experienced during the year, FY20 has been a transitional year for the Company, with a number of key milestones achieved to position the business for the future. Importantly, we are confident that the work undertaken in consolidating and expanding **flexigroup**'s leadership position in the $1,000+ payments space, as well as the continued market share gains in SME finance, will position us for future growth.

STRATEGY AND OUTLOOK

flexigroup has leveraged 30 years in consumer finance and transformed to build an unmatched product and brand portfolio. Now with leading offerings in BNPL, revolving credit and SME finance, the Company serves a broad footprint, spanning millennial spenders through to young families and SMEs.

Our proprietary insights and credit engine, linked to a wide breadth of retailers, allows **flexigroup** to meet the needs of financially savvy consumers who expect more than what a legacy bank or monoline company can provide. Our objective is clear – be flexible to the unique mindsets that drive consumer behaviour, with tailored solutions revolutionising the way people buy.

This has been achieved by simplifying the business model and the way we operate. The work undertaken has been significant and has translated to tangible costs savings and customer service improvements. In FY20, **flexigroup** achieved cost savings of over $10m (on an annualised basis) and we have confidence in our plans to continue reducing operating expenses in FY21. Customer service improvements have been driven by centralised systems, automation and self-service functionality.

We continue to identify ways of improving our customer service as efficiently as possible. However, we are pleased that the majority of the work has been completed well in advance of our initial timeline.

As we continue to lead in BNPL transactions greater than $1,000, the most significant change made to our product offering in the last 12 months has been the digital transformation of **humm**.

humm online sales are up 172% during the year as consumers are becoming increasingly comfortable in making larger purchases online. This trend has only been amplified by the structural changes seen as COVID-19 accelerates the shift to online shopping. As the only BNPL product that can process eCommerce transactions up to $10,000, **humm** is well placed to capture this growing customer base of online shoppers.

To scale effectively, we have significantly streamlined the originations process with instant credit decisions. While work on our credit platform continues, **flexigroup** has already experienced the benefits of our investment. Importantly, the single credit platform provides flexibility to quickly make changes depending on the economic environment.

This scalable platform is crucial in allowing **flexigroup** to expand our reach, our target market, our audience and our relevance.

In February, **bundll** was launched as a world first BNPL product that can truly be used everywhere. Using the Mastercard network, **bundll** customers can shop wherever they like, online and in store, interest free, with no minimum spend and use a number of features to 'snooze' payments or convert them to interest free instalments.

In FY20, the Commercial business has been rebuilt to focus on expansion into the growing market of equipment finance for SMEs. We also see a great opportunity through our soon to be released BNPL solution, made for businesses. This product expands our reach, targeting SMEs by offering a more compelling solution than business credit cards or overdrafts.

It has been a busy year for the Company and we remain well on track to deliver against our three-year strategic goals. While there is hard work ahead in an ever increasingly competitive landscape, **flexigroup** now has fewer, stronger products – each with a clear customer value proposition – and a direct relationship with the consumer.

With a strong foundation built, the next phase will be to leverage our unmatched product and brand portfolio to deliver growth.

COVID-19 RESPONSE

The events of COVID-19 have delivered unprecedented challenges globally and uncertainty surrounding the broader economic impacts remains. While it is still too early to predict the full impact of COVID-19, **flexigroup** remains disciplined in its approach to managing this uncertainty.

In March 2020, we made the prudent decision to withdraw volume guidance and the Return on Equity target for FY20. In addition, key pre-emptive adjustments were made to credit risk.

We continue to monitor our portfolio and the economy to adjust how we view credit risk accordingly.

OUR PEOPLE

A key focus for **flexigroup** has been supporting the health and wellbeing of our people during a tough and challenging year.

I am so proud of every member of the team for not only adapting but thriving after the decision was made in mid-March to work remotely, well before many organisations mandated a company-wide approach.

Despite this change, our teams didn't miss a beat and were fully equipped to support our customers and sellers without any interruption.

Importantly, our employees have told us there are many benefits from working remotely and we are continually adapting the way we work.

I would like to thank our outgoing CFO Ross Aucutt for his contribution to **flexigroup** over the last three-and-a-half years. His support was invaluable in streamlining and transforming the business.

I am also delighted that Jason Murray commenced as CFO of **flexigroup** in July 2020. His passion for fintech disruptors and track record in simplifying systems, uplifting customer experience and building digital engagement are a perfect fit with **flexigroup**.

I am unbelievably excited about the prospects for **flexigroup**'s future and believe we have the strongest team in place to execute on the strategy into FY21 and beyond.

Rebecca James
Chief Executive Officer
26 August 2020

1. Excluding Consumer Leasing, Once and Lombard.
2. Excluding Once and Lombard.
3. Excluding Consumer Leasing.

THE BOARD OF DIRECTORS

>> ANDREW ABERCROMBIE

LLB, BEc, MBA

Chairman, Founding Director, Non-Executive

Appointed November 2006

Andrew became a founding director of the original FlexiRent business in 1991 and was the CEO until 2003.

He is an experienced commercial and tax lawyer and was a founding partner in a legal firm operating in both Sydney and Melbourne. Andrew left the partnership to complete an MBA at IMD in Switzerland. Following time abroad he returned to Australia and became involved in property investment and tax consulting.

Andrew is currently involved in several philanthropic and think-tank ventures, together with private interests.

>> CHRISTINE CHRISTIAN AO

BA, GAICD

Independent, Non-Executive

Appointed December 2016

Christine Christian is a leading Australian business executive with more than 30 years' experience in financial services, investment, private equity, credit risk and digital media including executive and advisory roles in Australia, China, India and the United States.

Prior to her Board career, Christine was CEO of Dun & Bradstreet Australia and New Zealand from 1997 to 2012, Chairman of Dun & Bradstreet Consumer Credit Services and Executive Director of Dun & Bradstreet India.

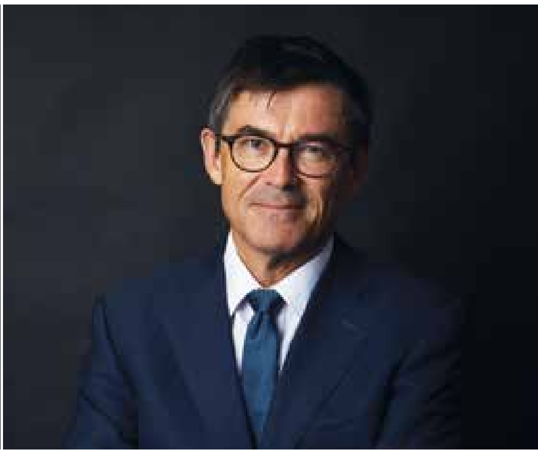
>> RAJEEV DHAWAN

BComm, MBA

Independent, Non-Executive

Appointed November 2006

Currently a partner of Equity Partners, Rajeev has over 23 years' venture capital and private equity experience (through Hambro-Grantham, Colonial First State Private Equity and Equity Partners) with a focus on the mid-market segment. He has been a director of a number of listed and unlisted portfolio companies.



>> JODIE LEONARD

BBus, FAICD, FAMI, CPM

Independent, Non-Executive

Appointed December 2016

Jodie has over 25 years of global experience in corporate strategy, marketing and digital disruption, including senior positions in strategic marketing and corporate strategy in ASX, NYSE and FTSE listed companies.

Her experience, in management or director roles, spans many industries including media, financial services, consumer goods, telecommunications, travel, tourism and professional services. Jodie sits on the Board of the RACV, and since December 2018, BWX Ltd (ASX: BWX).

>> CAROLE CAMPBELL

BEc, GAICD, FCA

Independent, Non-Executive

Appointed May 2018

Carole Campbell has over 30 years' experience in a range of industries including professional services, financial services, media, mining and industrial services.

Carole commenced her career with KPMG and has held executive finance roles with Macquarie Group, Westpac Institutional Bank, Seven West Media, Bis Industries and Merivale.

Carole is a Non-Executive Director of IVE Group Ltd (ASX: IGL), since November 2018, and Deputy Chair of Council of the Australian Film, Television and Radio School.

>> JOHN WYLIE AM

BComm, MPhil

Non-Executive

Appointed March 2019

John Wylie is the founder of investment firm Tanarra Group – which invests in venture capital, private equity, private credit and selected public companies.

John was previously CEO of the Australian business of global financial services firm Lazard. He co-founded advisory and investment firm Carnegie Wylie & Company in 2000 which was acquired by Lazard in 2007, and before that was Chair of investment bank Credit Suisse First Boston in Australia.

EXECUTIVE LEADERSHIP TEAM

>> REBECCA JAMES

Group Chief Executive Officer

Rebecca joined **flexigroup** in October 2018 as CEO, from her role as Chief Marketing and Enterprise Officer for Prospa. Prior to that Rebecca was Chief Marketing Officer for ME where she led the product and customer experience teams and was voted #12 in the top 50 CMOs in Australia.

Prior to joining ME, Rebecca had a successful career at customer experience agency Lavender, including seven years as managing director.

>> CHRIS LAMERS

Deputy Group CEO and New Zealand CEO

Chris joined **flexigroup** in April 2017 as CEO of the NZ business, and was appointed Deputy Group CEO in July 2019.

Prior to this he was the Chief Marketing Officer at Sovereign where he established the online sales channel, customer engagement programs, and data analytics functions.

Chris also held several roles with Loyalty New Zealand (Fly Buys), first as Head of Marketing, then as Head of Customer Engagement (incorporating marketing and sales) and lastly as Interim CEO.

>> JASON MURRAY

Chief Financial Officer

Jason has more than 25 years' experience as a senior executive in banking and global financial markets. Previous roles include Customer Executive – nab Private; Head of Capital Markets – Bank of America Merrill Lynch; and similar senior executive roles at Citi and JP Morgan in Sydney, London and New York. Jason was formerly the Chief Financial Officer and Finance Director of UK listed Sirius Minerals Plc. He is a qualified Chartered Accountant and member of the ICAEW, CAANZ and AICD.

Jason is a Board member of Bell Shakespeare, Australia's leading National Theatre Company, and Luminesce Alliance, which is pioneering translational paediatric research in New South Wales.

>> MATT BEAMAN

Group General Counsel and Group Head of Operational Risk and Compliance

Matt joined **flexigroup** in September 2013, bringing more than 20 years' private practice and in-house legal experience in banking and finance, and structured and asset finance. Prior to joining **flexigroup**, Matt held roles in private practice environments with leading domestic and international law firms.

Matt also previously held the role of Chief Legal Counsel for CIT Group Asia-Pacific from 2005 to 2009 and General Counsel of Lloyds Banking Group Australia.

>> BENOIT GARNAUD

Chief Product Officer

Prior to joining **flexigroup** in 2019, Benoit spent seven years at Citibank in Australia where he held several senior leadership positions across the cards, loans and wealth management businesses including SVP, Cards and Rewards. Benoit also spent 11 years at American Express in France, the UK and Australia where he drove the growth of the insurance business and launched market-leading products centred around travel and rewards.

Benoit holds a Master's degree in Marketing and Business from L'Institut d'Etudes Politiques de Paris and a Bachelor's degree in Business Law.

>> TIM LORD

Chief Credit Officer

Tim has an extensive background in credit and collections having spent 20 years with Dun & Bradstreet (D&B) where he held a number of leadership roles, including President Australia/New Zealand.

After finishing with D&B in 2014, Tim formed Anteris Consulting, a specialist agency with a primary focus on credit risk. During his time consulting, Tim undertook numerous assignments for publicly listed companies and Government agencies. He joined **flexigroup** in July 2018.

EXECUTIVE LEADERSHIP TEAM



>> LIBBY MINOGUE

Chief Revenue Officer

Elizabeth (Libby) is an experienced executive with expertise in driving strategy and digital transformation across sales, technology, product and consumer marketing.

Libby joined **flexigroup** in April 2019, following three years at the REA Group where she was the Executive General Manager of Media, Content and Marketing.

In addition to her role with **flexigroup**, Libby sits on the Board of Tennis Australia and was Deputy Chair of the Interactive Advertising Bureau until December 2018.

>> ANDREW MURRELL

Chief Operations and Information Officer

Andrew has more than 20 years' experience in financial services and Government sectors in Australia and New Zealand including digital, brand and communications roles at Bank of Queensland, Commonwealth Bank and within the New Zealand Government.

With significant experience in leading strategic projects – particularly those focused on customer experience and digital innovation – Andrew joined **flexigroup** in 2019 and is responsible for customer contact centre operations, including IT environments and application systems across the business.

>> NATALIE NICHOLSON

Chief People and Culture Officer

Natalie joined **flexigroup** in May 2019 in the role of Chief People and Culture Officer. With 20+ years of national and international, regional and local expertise in HR and strategic commercial roles, Natalie was previously on the Executive teams at Challenger, CBA and ING.

In 2017, she joined the Department of Prime Minister and Cabinet on a six-month secondment through Chief Executive Women and CBA. Natalie was on the Sydney council for United Way.

>> ISOBEL ROGERSON

Company Secretary

Isobel joined **flexigroup** in November 2018, following her time at ME Bank, where she was Company Secretary and General Counsel.

Prior to ME, Isobel had worked in various roles at UBS Australia, and in the National Australia Bank Wealth Management division.

Isobel worked in a private legal practice for several years before moving into financial services, obtaining her GAICD and FGIA.

>> ROB WRIGHT

Group Executive Ireland and Commercial Australia and New Zealand

Robert has led **flexigroup**'s Irish business since 2016 during which time he has rebuilt, stabilised and grown the existing business while launching a fully digital point-of-sale business.

With a career that spans the international banking sector, Robert held senior management roles at St.George Banking Group, National Australia Bank, Commonwealth Bank of Australia and Westpac prior to joining **flexigroup**. He is a fellow of the Australian Institute of Banking and Finance, Australian Institute of Management and Institute of Public Accountants.

"I BELIEVE WE HAVE THE STRONGEST TEAM IN PLACE TO EXECUTE ON THE STRATEGY INTO FY21 AND BEYOND."

REBECCA JAMES
FLEXIGROUP CHIEF EXECUTIVE OFFICER

REVIEW OF OPERATIONS

Results and key performance indicators of the current and prior year are set out below on a Cash NPAT basis, adjusting statutory NPAT for the amortisation of acquired intangibles and material infrequent items including impairment of intangible assets, redundancy and other restructure costs, customer remediation costs, historical tax matters; and in the prior year, gain on sale of subsidiary.

REVIEW OF OPERATIONS – GROUP PERFORMANCE

GROUP INCOME STATEMENT

A$m	June 2020	June 2019	Change %
Interest income	360.2	352.8	2%
Interest expense	(89.3)	(100.6)	(11%)
Other portfolio income	90.2	119.9	(25%)
Net income	**361.1**	**372.1**	**(3%)**
Receivables and customer loan impairment expenses	(145.2)	(87.5)	66%
Impairment of intangible assets	(1.5)	(10.5)	(86%)
Depreciation and amortisation expenses	(21.4)	(17.1)	25%
Operating and other expenses	(168.3)	(166.1)	1%
Profit before income tax	**24.7**	**90.9**	**(73%)**
Income tax expense	(3.3)	(29.2)	(89%)
Statutory profit/(loss) after income tax	**21.4**	**61.7**	**(65%)**
Non-cash items:			
Redundancy and other restructuring costs	3.5	–	100%
Amortisation of acquired intangible assets	3.3	2.9	14%
Impairment of intangible assets	1.1	7.5	(85%)
Sale of Think Office Technology	–	(2.2)	(100%)
Other[2]	(0.1)	6.2	(102%)
Total non-cash items	**7.8**	**14.4**	**(46%)**
Group Cash NPAT[1]	**29.2**	**76.1**	**(62%)**
Basic earnings per share (cents)	5.0	15.9	(69%)
Cash earnings per share (cents)	6.9	19.7	(65%)
Volume	2,483	2,556	(3%)
Receivables and customer loans[3]	2,567	2,640	(3%)

1. Cash NPAT reflects the reported net profit after tax adjusted for material infrequent items and the amortisation of acquired intangibles. The analysis of these results is based on Cash NPAT to align the information 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. Cash NPAT is calculated on a consistent basis each year.
2. Other includes Customer remediation expenses and historical tax and accounting matters.
3. Receivables and customer loans excludes provision for doubtful debts, unamortised transaction costs and other debtors.

Commentary on financial performance has been prepared on an adjusted basis to align with Cash NPAT. All information outlined below is pre-tax, unless otherwise stated.

INTEREST INCOME

Interest income increased 2% to $360.2m. This was attributed to increases in BNPL, AU Cards and NZ Cards, with growth in average receivables over the year, despite the impact of COVID-19 in the last quarter. This was partially offset by the run-off of the Consumer Leasing business. AU Cards and NZ Cards also experienced improvements in yield as the cards portfolios matured.

INTEREST EXPENSE

Interest expense decreased by 11% on the prior year with lower funding costs, offsetting the increase in average borrowings as a result of portfolio growth.

OTHER PORTFOLIO INCOME

Other Portfolio Income declined 25% from a simpler fee structure per customer in **humm** versus the old Certegy product, lower income in Commercial and Leasing and reduced annual fees from legacy products in AU Cards. Cost of sales, included in Other portfolio income, increased from higher transaction volume and credit bureau costs, reflecting the growth in customer applications.

IMPAIRMENT LOSSES ON LOANS AND RECEIVABLES

The increase in impairment expenses of $57.7m has been driven by:

> higher macro overlay provision of $45.4m for projected higher Net losses[1] predominately due to COVID-19;

> lower benefit from baseline provision movement of $8.8m; and

> higher Net losses of $3.5m.

Net losses to average net receivables (ANR) has decreased by 10bps to 4.1%.

The COVID-19 macro overlay provision has been recognised in anticipation of deteriorating economic conditions as unemployment is expected to rise and government support reduce. Arrears have improved in the last quarter of FY20 despite COVID-19 causing severe business disruption and rising unemployment. In this period the loan book saw benefits from government stimulus and other support measures as customers looked to reduce debt levels.

IMPAIRMENT OF INTANGIBLE ASSETS

$1.5m of impairment of intangible assets occurred in the financial year ended 30 June 2020 ($10.5m in 2019).

DEPRECIATION AND AMORTISATION

Depreciation and amortisation increased 25% largely due to changes in accounting policies in the current year as right-of-use lease asset depreciation was recognised, as well as increased depreciation on software platforms and applications.

OPERATING EXPENSES

Operating expenses reduced year-on-year with:

> increased advertising, marketing, information technology, communication costs; offset by

> lower employment expenses from reduced staff numbers, and government relief payments of $2.8m, as part of the Australian JobKeeper package; and

> lower operating lease expenses as a result of AASB 16: Leases (AASB 16).

TAX EXPENSE

The effective tax rate for the year was 13.4% mainly due to prior year tax return reconciliations and current year tax permanent benefits, primarily made up of deductible interest expense on the perpetual notes.

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 three 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 year $3.3m (post tax) has been amortised to the income statement (June 2019: $2.9m).

Impairment of intangible assets

The impairment of intangible assets is a non-cash adjustment as it is non-recurring and has no effect on the Group's ability to pay dividends. Impairment of intangible assets of $1.5m was recognised in the current year. ($1.1m after tax, 2019: $7.5m).

Redundancy and other restructuring costs

The redundancy and other restructuring costs are considered as material infrequent items that the Board believes do not reflect the ongoing operations of the Group.

Other adjustments

Other adjustments include costs associated with historical customer remediation matters and tax adjustments/settlements in relation to historical tax matters. The Board believes these do not reflect the ongoing operations of the Group.

1. Net losses is defined as gross bad debt write-offs less recoveries post write-off.

GROUP BALANCE SHEET

A$m	June 2020	June 2019	Change %
Cash and cash equivalents	157.5	143.1	10%
Receivables and customer loans[1]	2,452.6	2,577.4	(5%)
Investment in associate	14.3	13.7	4%
Other assets	21.8	10.5	108%
Current tax receivable	1.7	14.0	(88%)
Deferred tax assets	44.9	12.3	265%
Goodwill	239.9	244.3	(2%)
Other intangible assets	113.7	102.0	11%
Total assets	**3,046.4**	3,117.3	(2%)
Payables	67.3	58.0	16%
Borrowings	2,295.1	2,387.7	(4%)
Provisions	20.5	22.9	(10%)
Other liabilities	62.2	28.5	118%
Current and deferred tax liabilities	14.8	4.1	261%
Total liabilities	**2,459.9**	2,501.2	(2%)
Equity	586.5	616.1	(5%)
Gearing[2]	**28.7%**	36.3%	760bps
ROE[3]	**4.9%**	12.3%	740bps

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

New business volume was impacted by the COVID-19 related slowdown in economic activity in the final quarter of the year, which had a material impact on outstanding consumer receivables at June 2020. Overall, receivables and customer loans decreased by 5% to $2,452.6m compared to June 2019, from:

> a reduction in AU Cards customer loans of $160.4m (23%) which comprises Lombard and Once legacy products in run-off, offset by an increase in SKYE where the book grew by 10%;
> a reduction in NZ Cards by $47.3m (7%) due to the economic lock-down in the last quarter;
> growth in BNPL customer loans of $56.1m;
> growth in AU Commercial receivables of $81.5m (14%); and
> the reduction in Consumer Leasing product of $55.9m (53%).

GOODWILL

The decrease in goodwill was due to the depreciation of NZD exchange rate applied to NZD denominated goodwill balances from the New Zealand Cards and New Zealand Leasing segments.

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 three to 27 years. The balance has increased through investments in capitalised projects offset by movements in AUD/NZD exchange rates. During the year there has been significant investment in new products **bundll** and SME lending, as well as product enhancements in **humm** and Cards. Investment has also occurred in foundational infrastructure and digitisation of manual operational activities.

PAYABLES

Payables include lease liabilities, trade creditors, interest accruals, Goods and Services Tax (GST) payable and sales incentive accruals. The increase in payables has been due to changes from AASB 16 of $16.5m and the accrual for ordinary dividends of $15.2m.

BORROWINGS

Borrowings have decreased by 4% to $2,295.1m, driven by the reduction in receivables and customer loans.

PROVISIONS

Provisions include employee entitlements, customer remediation and undrawn credit commitments. The decrease is due to lower provision for undrawn credit commitments related to revolving credit card portfolios.

OTHER LIABILITIES

Other liabilities include derivative financial instruments. This is mainly due to an increase in fair value of derivative instruments due to changes in the interest rates.

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 in both Australia and New Zealand. The Group currently has revolving wholesale debt facilities in place with large domestic and 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 $2,902.7m of wholesale debt facilities, with $647.7m undrawn and no indication that the revolving facilities will not be extended. The wholesale debt facilities are secured against underlying pools of receivables and customer loans. The majority of these facilities ($2,248.1m) provide for the repayment of outstanding loans in line with the relevant receivables and customer loans held in these facilities. The remaining facilities have a soft bullet with sufficient lead-time for refinance ahead of maturity.

The Group's $197.1m (June 2019: $198.4m) of corporate debt facilities were drawn to $66.7m (June 2019: $98.1m) at balance sheet date. These facilities are secured by the assets of the Group and with maturity dates ranging from December 2021 to March 2022.

GEARING

The corporate debt gearing ratio of 29% (June 2019: 36%) has decreased 760 basis points compared to the prior year. Despite lower average equity, the gearing ratio is lower as the Group has repaid $31.4m in corporate debt. The Group continues to optimise its capital structure to maximise shareholder value by working to securitise a higher portion of its assets and to increase capacity in the warehouse funding facilities.

RETURN ON EQUITY (ROE)

ROE of 4.9% decreased 740 basis points compared to 30 June 2019 predominately driven by the decrease in Cash NPAT during FY20. Most of this decline was attributable to the COVID-19 macro overlay provision increase.

GROUP STATEMENT OF CASH FLOW

A$m	June 2020	June 2019	Change %
Statutory profit/(loss) after tax	21.4	61.7	(65%)
Impairment loss on receivables and customer loans	145.2	87.5	66%
Impairment of other intangible assets	1.5	10.5	(86%)
Depreciation and amortisation expenses	21.4	17.1	25%
Changes in other operating assets and liabilities	4.3	(9.9)	143%
Other non-cash movements	1.6	(1.5)	207%
Operating cash flow	**195.4**	**165.4**	**18%**
Purchase of intangibles and property, plant and equipment	(31.7)	(26.7)	19%
Changes in customer loans and receivables	(56.9)	(350.3)	(84%)
Investing cash flow	**(88.6)**	**(377.0)**	**(76%)**
Dividends paid	(15.2)	(28.8)	(47%)
Proceeds from share issuance, net of transaction costs	–	25.1	(100%)
Cash payments relating to finance lease liability	(3.1)	–	100%
Treasury shares purchased on-market	–	(0.1)	(100%)
Net movement in non-recourse borrowings	(43.3)	236.1	(118%)
Repayment of corporate borrowings	(371.5)	(234.0)	59%
Drawdown of corporate borrowings	341.6	226.7	51%
Financing cash flow	**(91.5)**	**225.0**	**(141%)**
Effects of exchange rate changes on cash and cash equivalents	(0.9)	1.5	(160%)
Net increase/(decrease) in cash	**14.4**	**14.9**	**3%**

Cash inflows from operating activities increased by 18% to $195.4m (June 2019: $165.4m) mainly due to lower income taxes and borrowing costs paid, partially offset by lower income from customers.

Cash outflows from investing activities decreased by 76% to $88.6m (June 2019: $377.0m). The decrease was due to repayment of loans by customers and lower growth due to COVID-19 in the last quarter of the year.

Cash outflows from financing activities increased 141% to $91.5m (June 2018: $225.0m inflow), due to repayment of corporate and non-recourse borrowings. Dividend payments were lower due to deferral of 1H20 interim dividend.

SHAREHOLDER RETURNS

	Year ended 30 June				
	2020	2019	2018	2017	2016
TSR[1]	(30.35%)	(13.88%)	17.14%	(8.30%)	(30.37%)
Dividends per share (cents)	3.85	7.70	7.70	7.70	14.50
Cash EPS (cents)	6.86	19.68	23.00	24.60	25.00
Share price (high)	$2.47	$2.34	$2.33	$2.58	$3.12
Share price (low)	$0.46	$0.98	$1.44	$1.55	$1.71
Share price (close)	$1.13	$1.63	$2.22	$1.83	$1.74

1. Total Shareholder Returns (TSR) is calculated based on volume weighted average price (VWAP) in the 90-day period up to and including 30 June.

EARNINGS PER SHARE

	Year ended 30 June 2020 Cents	Year ended 30 June 2019 Cents
Basic earnings per share	5.0	15.9
Diluted earnings per share	5.0	15.9
Cash earnings per share	6.9	19.7

DIVIDENDS ON ORDINARY SHARES

	2020		2019	
	Cents	$m	Cents	$m
Interim dividend for the year – to be paid in October 2020	3.85	15.2		
Interim dividend paid during the year	–	–	3.85	14.4
Final dividend (2019: paid in October 2019)	–	–	3.85	15.2
Total dividends paid during the year	**3.85**	**15.2**	**7.70**	**28.8**
Total dividends declared for the financial year	**3.85**	**15.2**	**7.70**	**29.6**

SEGMENT PERFORMANCE

SEGMENT SUMMARY

flexigroup's business consists of four operating segments, with each segment's Cash NPAT summarised in the table below:

A$m	June 2020	June 2019	Change %
BNPL	5.7	28.1	(80%)
AU Cards	1.5	7.5	(80%)
NZ Cards	19.8	28.1	(29%)
Commercial and Leasing	2.2	12.4	(82%)
Total Cash NPAT	**29.2**	**76.1**	**(62%)**

SEGMENT ANALYSIS

BNPL

A$m	June 2020	June 2019	Change %
Net income	98.0	103.9	(6%)
Operating expenses	(43.9)	(35.8)	23%
Impairment losses on customer loans	(48.9)	(29.8)	64%
Cash NPAT	5.7	28.1	(80%)
Volume	775.3	658.7	18%
Closing customer loans	633.9	572.4	11%

Cash NPAT was $5.7m. The decrease on prior year resulted from the following factors:

>> Net income decreased 6%, with growth offset by some margin compression from changing portfolio mix and competitive landscape. This was offset by a reduction in fee income mainly as a result of simplifying fees for consumers to improve competitiveness.

>> Customer loan volume increased by 18% compared to prior year from an expanding number of retail partners, increased customer numbers and repeat spend.

>> Operating expenses increased 23%, largely driven by investment in marketing and product in order to support growth. FY20 has been an investment year, establishing brand presence, expanding into different channels and verticals and enhancing product features.

>> Impairment losses have increased predominately from the COVID-19 macro overlay provision as well as volume and receivables growth. Higher Net losses occurred in line with portfolio growth. Despite COVID-19, 30-day arrears rate for **humm** increased slightly to 2.8% at 30 June 2020.

AU CARDS

A$m	June 2020	June 2019	Change %
Net income	83.4	78.4	6%
Operating expenses	(48.3)	(40.1)	20%
Impairment losses on customer loans	(35.5)	(26.9)	32%
Cash NPAT	1.5	7.5	(80%)
Volume	609.6	811.3	(25%)
Closing customer loans	581.9	738.9	(21%)

Cash NPAT was $1.5m.
The decrease on prior year resulted from the following factors:

- Net income increased 6%, as the portfolio matures and a higher component of the book becomes interest bearing. This was partially offset by lower volume in the last quarter of the year from COVID-19 and runoff of the Once and Lombard portfolios. Fee income was lower by $5m predominately from lower annual fees on legacy products.
- Operating expenses increased by 20% to $48.3m reflecting increased investment in marketing product development and credit capability.
- Impairment losses increased by 32% to $35.5m primarily as a result of the COVID-19 macro overlay provision. Net losses reduced by 10% with investment in collections systems and processes delivering benefits. Net losses to ANR improved by 50bps to 4.5% compared to prior year and >30 days arrears improved 50bps to 3.9%.
- Volumes decreased by 25% compared to prior year due to the discontinuance of Once and Lombard, and the last quarter of the year was highly impacted by the economic lockdown due to COVID-19.

NZ CARDS

A$m	June 2020	June 2019	Change %
Net income	108.4	96.5	12%
Operating expenses	(50.2)	(47.0)	7%
Impairment losses on customer loans	(33.8)	(10.9)	210%
Cash NPAT	19.8	28.1	(29%)
Volume	750.6	736.3	2%
Closing customer loans	701.7	744.4	(6%)

Cash NPAT was $19.8m.
The decrease resulted from the following factors:

- Net income was up 12% due to higher average net receivables and improved margins. Volumes increased 2% compared to prior year, with the last quarter performing better than anticipated, despite COVID-19.
- Operating expenses increased 7% to $50.2m from higher amortisation of capitalised software, otherwise operating costs were well contained.
- Impairment losses increased to $33.8m predominately from the COVID-19 macro overlay provision and higher Net losses as a result of the maturing of the Mastercard portfolios.

COMMERCIAL AND LEASING

A$m	June 2020	June 2019	Change %
Net income	71.3	93.2	(23%)
Operating expenses	(44.0)	(56.2)	(22%)
Impairment losses on customer loans	(27.0)	(19.9)	36%
Cash NPAT	2.2	12.4	(82%)
Volume	347.2	349.8	(1%)
Closing customer loans	649.4	584.5	11%

Cash NPAT was $2.2m. The decrease resulted from the following factors:

- Net income was 23% lower driven by both the run-off of the Australian Consumer Leasing portfolio and lower fee income due to changing business mix.
- Customer loan growth was 11% compared to prior year with 54% reduction in Consumer Leasing offset by 24% growth in Commercial lending. Volume growth of 46% occurred in the second half of the year compared to the first half with positive momentum as we continued to support SME businesses in Australia and New Zealand. Growth sector highlights included business equipment, engineering and transport sectors.
- Operating expenses decreased by 22% to $44.0m, due to simplification of the Commercial business and reduced cost as a result of the run-down of the Australian Consumer Leasing portfolio.
- Impairment losses increased by 36% to $27.0m, predominately due to the COVID-19 macro overlay provision and book growth. Net write-offs were 40% lower than prior year due to change in business mix. We continue to work through the pool of remaining COVID-19 hardship customers to determine strategies for individual names. 30+ days arrears for Commercial was stable at 2.2%.

4 STEPS TO TRANSFORMATION

In February 2019, we outlined the four pillars of our transformation journey and took significant steps this year to execute against this strategy. At the halfway point, we are well on track in executing our strategy.

1/ SIMPLIFY

Simplify our offering to build profitability and brand strength.

Our simplification process is largely complete with the rationalisation of products setting the foundation to amplify our portfolio and further entrench our loved brands with customers.

In FY20 we achieved:

> In excess of $10m in cost savings in operating expenses (on an annualised basis), including salaries through the removal of 202 roles, process optimisation and renegotiation of supplier arrangements.

> Introduced web chat for **humm** which now accounts for 20% of all customer contacts.

> Increased productivity of frontline customer service employees by 20%.

> 33% of New Zealand customer requests were processed through robotics process automation leading to faster response times for customers.

2/ LEAD

Lead in BNPL transactions greater than $1,000.

flexigroup is a market leader in financing transactions over $1,000. **humm** is the only BNPL product that can service up to $30k, catering for the purchase of 'Big things' and 'Little things'.

In FY20, **flexigroup** surpassed 2 million interest free instalment customers and 56,000 interest free retail partners across Australia and New Zealand.

We continue to drive momentum and lead the market across high value verticals including health, home improvement and luxury goods.

3/ STREAMLINE

Streamline originations with instant credit decisions.

flexigroup's objective is to develop a single insights and credit engine across the business that is continually learning and adding quality data on applications, repayments, and purchase behaviour.

In FY20 the Company continued to experience the benefits of this investment including:

> Australia Cards benefiting from the use of additional customer data to reduce net losses/average net receivables from 5.0% in FY19 to 4.5% in FY20.

> Enhanced credit controls, leading to improved arrears and loss performance for more recent **humm** 'Little things' vintages.

4/ EXPAND

Expand our reach, our target market, our audience, our relevance.

bundll was launched in February 2020, a world first BNPL product that can truly be used everywhere.

In 4Q20, we also launched our BPAY feature with **humm** which allows customers to pay for bills in manageable interest free instalments at a range of service providers.

In addition, we have consolidated our Commercial business by focusing on equipment finance for SMEs originated via the broker channel, amplifying the benefits from government stimulus.

RISKS AND CHALLENGES

flexigroup operates in highly competitive and rapidly changing sectors, which provide both opportunities and challenges. While some of these challenges and risks may be out of the Company's control, **flexigroup** has made, and continues to make, significant investments in its risk management and control frameworks to ensure we can quickly respond to and mitigate the impact of these risks as they arise, whether they result from regulatory changes, shifts in the competitive environment, or other circumstances over which the Company has no control. In the last case, for example, we have detailed elsewhere in this report our response to the COVID-19 pandemic.

The material business risks for the Group are summarised below.

CAPITAL AND FUNDING

Not maintaining access to the capital and funding required to support growth

WHAT WE ARE DOING TO MANAGE THE RISK:

> Board undertakes close oversight, receiving regular reporting on capital and funding.

> Follow a structured program of regular market issuances.

> Maintain diversified funding sources.

> Manage debt levels within acceptable limits.

> Perform stress testing and scenario analysis.

CREDIT, FRAUD AND AML

Failing to establish and embed processes and tools to support customer identification and credit assessment

WHAT WE ARE DOING TO MANAGE THE RISK:

> Continual investment in credit and fraud tools and platforms.

> Undertaking deep data analysis to better understand customer behaviour and performance.

REGULATORY

Being unprepared to respond to changes in the regulatory environment and maintain compliance

WHAT WE ARE DOING TO MANAGE THE RISK:

> Constant monitoring of the regulatory and legislative landscape for material changes.

> Develop responses in line with regulatory change timetables, to efficiently and effectively manage the impact of changes.

STRATEGIC

Not identifying or responding to the changes in our competitive environment

WHAT WE ARE DOING TO MANAGE THE RISK:

> Support our teams to look broadly across the payments industry.

> Regularly discuss strategy and strategic initiatives with the Board.

> Remain nimble and adaptive in our core businesses.

TECHNOLOGY AND INVESTMENT

Underinvesting in the development and maintenance of systems which support innovation and growth

WHAT WE ARE DOING TO MANAGE THE RISK:

> Defined a technology roadmap across the Group.

> Follow an annual program of capital expenditure across core systems, product innovation, and compliance projects.

PEOPLE

Failing to attract and retain culturally aligned employees who can deliver innovative, sustainable and customer focused payment products and solutions

WHAT WE ARE DOING TO MANAGE THE RISK:

> Promote our employee value proposition.

> Clear and consistent on our culture and values.

> Structure remuneration to attract and retain talent.

MACROECONOMIC

Not identifying larger shifts in the economy or retail environment which threaten our strategy or growth

WHAT WE ARE DOING TO MANAGE THE RISK:

> Actively analyse and monitor economic and retail conditions, at a minimum, to identify shifts and take steps to manage potential impacts.

> Regularly run scenario and stress testing to assess our ability to successfully navigate unforeseen circumstances.

R

REMUNERATION REPORT

INTRODUCTION FROM THE CHAIR OF THE

BOARD REMUNERATION COMMITTEE

THIS YEAR HAS BEEN ONE OF SIGNIFICANT ENVIRONMENTAL CHALLENGES AND CONTINUING TRANSFORMATION.

Dear Shareholder,

On behalf of the **flexigroup** Board, I am pleased to share with you the report of our Financial Year 2020 (FY20) **flexigroup** CEO and Executive Key Management Personnel remuneration outcomes, and Directors' remuneration.

This year has been one of both significant transformation and environmental challenges and continuing transformation. The management team has risen to the task of meeting the dual external challenges of the COVID-19 pandemic and the bushfires that ravaged Australia, and the results don't truly reflect the transformation momentum and growth achieved in an extremely challenging period. By far the highs included the acceleration of the transformation agenda, the launch of **bundll** and significantly improving employee engagement.

While COVID-19 has had a significant impact across the economy, it has also seen more people embracing BNPL as a mode of purchasing. **flexigroup** is not only one of the few profitable BNPL players, it is also one of the largest instalment players in the trans-Tasman market by volume and customer numbers. The management team has worked hard to continue its focus of leading in the area of purchases over $1,000, and building a brand driven by highly engaged customers and sellers.

The Board thanks shareholders for their support of the remuneration report at the 2019 Annual General Meeting, where it received a 99.3% vote in favour.

KEY MANAGEMENT PERSONNEL (KMP) CHANGES IN FY20

During the year **flexigroup** reviewed its Executive KMP to more closely reflect its organisational structure. As a result, the Executive KMP were redefined in FY20 to now only include the Group CEO, the Deputy Group CEO and CEO New Zealand, and the Chief Financial Officer.

The Company announced the appointment of Jason Murray as Chief Financial Officer effective 9 July 2020 with Ross Aucutt stepping down as Chief Financial Officer (ceasing his employment with **flexigroup** on 6 October 2020). We would like to thank Ross for his valuable contribution to the business, particularly throughout the period of business transformation.

EXECUTIVE KMP REMUNERATION FRAMEWORK

The Company considers the executive remuneration structure of base salary, short-term incentive and long-term incentive to be appropriate.

FY20-22 Transformation Incentive Plan (TIP)

During the Reporting Period the Board approved a new long-term TIP to support the Company's three-year transformation program. The TIP is designed to measure and reward delivery of financial results flowing from the success of the transformation strategy. It was introduced in FY20 to attract, motivate and retain key Executives to actively and responsibly drive sustainable shareholder value by driving the transformation and growth of **flexigroup**.

Options were granted in three Tranches and vest to the extent the performance hurdles for each Tranche are satisfied over the performance period. The performance hurdles for each Tranche are earnings per share (EPS), actual share price performance (ASP) and return on equity (ROE).

Due to the financial impact of COVID-19 on the Group, the Board are undertaking a review of the TIP to ensure Executives continue to be appropriately incentivised and rewarded for their contribution to the transformation journey. At the time of this report, no decisions have been made in respect of modifying the TIP. As a general principle the Board is satisfied that the current remuneration framework remains aligned to our business strategy.

Short-Term Incentive (STI)

The STI intends to reward the executives' contribution to the achievement of the Group's financial and strategic targets while also upholding and role modelling our values. NPAT and risk hurdles must be met in order for payment of the STI to occur. The STI program consists of six measures that we believe reflect the important financial and strategic drivers of business performance and the creation of shareholder value. The STI measures for FY20 were Cash NPAT, Net losses/average net receivables, Customer engagement, Customer numbers (sellers/buyers), BNPL volume growth, and Cost to income ratio.

Although considerable momentum has been built in delivering the transformation and financial goals, the impact of COVID-19 in the last quarter resulted in the Cash NPAT hurdle for FY20 not being met.

As a result of not meeting the Cash NPAT hurdle, there will be a zero payout of the short-term incentive for the Executive KMP and the Group in FY20.

The Board believes that the existing STI framework and measures continue to be appropriate for FY21 with no substantial changes anticipated.

EXECUTIVE KMP AND BOARD REMUNERATION

In response to COVID-19, the Board and the Executive KMP took a temporary reduction in base fees and base salaries. The Board took the full impact of the 20% fee reduction in FY20, whilst management reductions (of 15% or 20%) were phased across Q4 FY20 and Q1 FY21.

We believe the Executive KMP continue to be remunerated appropriately and in line with their accountabilities and the size and complexity of their roles.

CONCLUSION

The Board and management remain committed to **flexigroup**'s transformation and growth agenda. We are confident that the remuneration framework will continue to drive positive outcomes in both FY21 and the longer term, whilst supporting the generation of shareholder value.

On behalf of the Board I would like to thank our shareholders for their ongoing support.

Jodie Leonard

Jodie Leonard
Independent Non-Executive Director,
Chair of Remuneration Committee

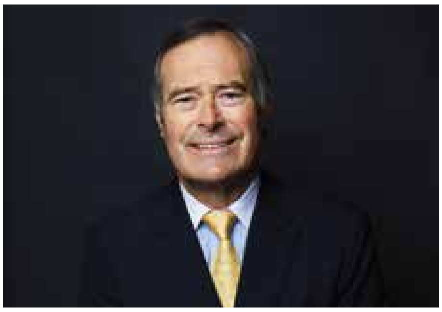
26 August 2020

DURING THE YEAR FLEXIGROUP'S EMPLOYEE ENGAGEMENT REACHED A SIX YEAR HIGH.

1/ KEY MANAGEMENT PERSONNEL

In the 2020 financial year, KMP comprised Non-Executive Directors, the CEO and certain Executives who reported to the CEO and led significant parts of the business. Following the transformation event last year and organisation restructure in FY20, it has been determined that the Chief Revenue Officer, GM Commercial and Chief Operating Officer roles no longer exist or are no longer considered KMP. Details of the KMP are set out below.

NON-EXECUTIVE DIRECTORS



>> ANDREW ABERCROMBIE

LLB, BEc, MBA

Chair, Non-Executive

Term as KMP: **Full year**

Chair Nomination Committee

90,776,593 ordinary shares in FlexiGroup Limited

>> CHRISTINE CHRISTIAN AO

BA, GAICD

Deputy Chair, Independent, Non-Executive

Term as KMP: **Full year**

Chair Risk and Compliance Committee,
Member Audit Committee,
Member Nomination Committee

150,000 ordinary shares in FlexiGroup Limited

>> RAJEEV DHAWAN

BComm, MBA

Independent, Non-Executive

Term as KMP: **Full year**

Member Remuneration Committee,
Member Risk and Compliance Committee,
Member Nomination Committee

305,371 ordinary shares in FlexiGroup Limited

>> JODIE LEONARD

BBus, FAICD, FAMI, CPM

Independent, Non-Executive

Term as KMP: **Full year**

Chair Remuneration Committee,
Member Audit Committee

63,560 ordinary shares in FlexiGroup Limited

>> CAROLE CAMPBELL

BEc, GAICD, FCA

Independent, Non-Executive

Term as KMP: **Full year**

Chair Audit Committee,
Member Remuneration Committee

80,000 ordinary shares in FlexiGroup Limited

>> JOHN WYLIE AM

BComm, MPhil

Non-Executive

Term as KMP: **Full year**

20,439,256 ordinary shares in FlexiGroup Limited

EXECUTIVE KMP

>> REBECCA JAMES

Chief Executive Officer

Term as KMP: **Full year**

>> CHRIS LAMERS

Deputy Group CEO and New Zealand CEO[1]

Term as KMP: **Full year**

>> ROSS AUCUTT

Chief Financial Officer[2]

Term as KMP: **Full year**

1. Formerly titled Chief Executive Officer – NZ. Commenced current role 1 July 2019.
2. Ross Aucutt stepped down as CFO effective 9 July 2020. Jason Murray commenced as CFO with effect from 9 July 2020 (as announced to the ASX on 7 July 2020).

2/ REMUNERATION PRINCIPLES AND POLICY

The objectives of our employee remuneration policies are to focus our employees on achieving **flexigroup**'s strategy – while also attracting, motivating and retaining talented employees. Ultimately, we want **flexigroup** to become an employer of choice and we want to be known as an employer that rewards ethical conduct.

It is important to us that our market rates and benefits are competitive with similar sized organisations, while also ensuring that we retain our focus on managing our operational expenditures and the long-term interests of **flexigroup**, in order to drive the best possible outcomes for our customers and shareholders. We have five key principles that underpin our Remuneration Policy.

>> STRATEGIC ALIGNMENT

Remuneration structures are linked to our business strategy and aligned with our risk appetite and long-term interests.

Clear alignment of remuneration with strategic objectives – this principle ensures that our people are focusing on driving the short- and long-term goals of **flexigroup** – goals that are aligned with the interests of our shareholders. It means that our framework enables the payment of incentives only when they are directly linked to specific, measurable, strategic business objectives and when those objectives have been achieved.

>> ATTRACTIVE REMUNERATION

Remuneration programs are competitive, and must continue to remain competitive, so that we can attract, retain and engage the best people to work in our business.

Provide market competitive remuneration to attract the right talent – **flexigroup** aims to balance commercial considerations and the offer of competitive remuneration packages to enable **flexigroup** to attract high calibre candidates who will make a positive impact on the performance of the Group.

>> REWARD FAIRLY

Our people are rewarded fairly for their direct contributions and performance.

Implement remuneration structures that are well understood – it is important that our policies relating to remuneration are clear, well communicated and readily accessible. This includes explicit reference to conduct and behavioural expectations of team members and how these impact on any payments made.

>> MERIT BASED

Our people are rewarded consistently for like work, within the market range, with individual performance being the key differentiator in pay.

Support merit-based remuneration achievement across a diverse workforce – this principle ensures that we have adequate checks and balances in place whereby employees are rewarded consistently for like work against market relativities, irrespective of gender, age or other demographic factors, with the key differentiator in pay for individuals being performance.

>> COMMERCIALLY RESPONSIBLE

Decisions we make regarding remuneration variations are commercially responsible, and considerate of budget and business requirements, including the Boards discretion to reduce payments to zero in appropriate circumstances.

Ensure that remuneration outcomes reflect sustainable, ethical performance practices – this principle ensures there are sufficient risk structures in place to safeguard that results are sustainable and adhere to ethical business practices. It also requires performance to be assessed in conjunction with the demonstration of positive behavioural standards in line with organisational values.

3/ EXECUTIVE REMUNERATION STRUCTURE

3.1 REMUNERATION STRUCTURE FY20

Our remuneration framework, outlined below, is designed to deliver on our remuneration principles.

FIXED REMUNERATION (FR)		
FR consists of base salary, superannuation and allowances (where applicable).	FR is set in relation to the external market and takes into account size, criticality and complexity of the role, individual responsibilities, experience and skills.	The objective of FR is to attract and retain the best talent.
SHORT-TERM INCENTIVE (STI) PLAN		
STI is delivered in a combination of cash and restricted shares.	STI is a percentage of fixed remuneration which is set against individual and Group risk-adjusted financial and strategic targets that support the Groups strategy.	The objective of STI is to reward short-term performance.
TRANSFORMATION INCENTIVE PLAN (TIP)		
TIP is delivered in options, which vest over a three-year performance period if hurdles are achieved.	TIP is aligned to long-term Group performance and shareholder return by rewarding achievement of transformation strategy objectives.	The objective of TIP is to reward long-term performance.

All Executive KMP have their performance measured against agreed targets.

3.1.1 Fixed Remuneration

The Executive team members are offered competitive fixed remuneration amounts that reflect the key performance requirements of their roles. Fixed remuneration is reviewed annually in line with the financial year (1 July to 30 June), although a review may not necessarily result in any increases to remuneration. Any increases to Executive remuneration require Remuneration Committee and Board approval and come into effect from 1 July. During FY20 **flexigroup** engaged remuneration consultants to provide benchmark data for companies which are similar to the Group in terms of industry, size and complexity, against which the Executive remuneration was compared.

The fixed remuneration for Executive KMP is set out in section 5 of this remuneration report.

3.1.2 Short-Term Incentive

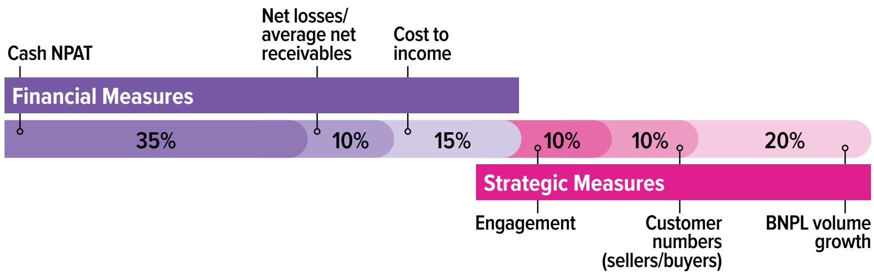
The structure of the STI plan is designed to achieve alignment of organisational performance with our strategic goals. The STI plan considers both Group and individual performance. Group performance goals are determined by the Board at the beginning of the financial year, with clear linkage to key financial metrics, and a combination of transformation and strategic initiatives. Results are approved by the Board and result in a **flexigroup** score being applied.

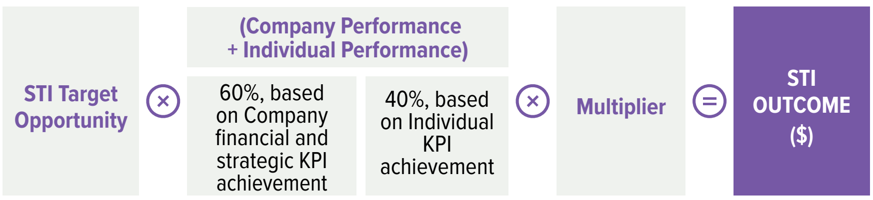
In order to ensure greater transparency of key metrics within the scheme and better align pay with performance, the STI underwent structural changes in FY20. Payments are now subject to financial and behavioural gateways, and Executive KMP have the ability to earn a personal multiplier on the **flexigroup** score aligned to delivery of the strategy and leadership of their functional area.

CEO STI goals

Consistent with the strategy to transform the business, the CEO's personal KPIs for FY20 were focussed on execution of the growth strategy. For FY20 these were the execution of product strategy by growing the customer base, simplifying and streamlining the business, driving technology improvements, building executive leadership capability.

FEATURE	DESCRIPTION
How is it paid?	Delivered in a mix of cash and deferred equity. 67% | 33% **CEO:** 67% cash, with 33% deferred into restricted shares. 75% | 25% **Other Executive KMP:** 75% cash, with 25% deferred into restricted shares. Key: Cash, Restricted shares
How much can Executives earn?	The table below illustrates the payout level (as a percentage of Fixed Remuneration, or Base Salary for the Deputy Group CEO and CEO New Zealand) for achievement at defined levels of performance. That is 'Threshold' 'Target' and 'Stretch' **CEO** 53% | 75% | 94% **Deputy Group CEO and CEO New Zealand** 35% | 50% | 63% **CFO** 35% | 50% | 63% Threshold and stretch figures are reflective of the individual multiplier, which allows for a threshold of 70% and a stretch of 125% of the target level performance to be achieved.
What are the deferral terms?	50% | 50% **CEO:** 50% of restricted shares are deferred for one year and 50% are deferred for two years. Vesting is subject to continued employment. 100% **Other Executive KMP:** 100% of restricted shares are deferred for two years. Vesting is subject to continued employment. Key: Restricted shares deferred for one year, Restricted shares deferred for two years

<table>
<tr><th>FEATURE</th><th>DESCRIPTION</th></tr>
<tr><td>How is performance measured?</td><td>
Performance is measured over a 12-month performance period from 1 July to 30 June.
Minimum performance levels (or hurdles) are set by the Board which trigger payment of the STI plan. If the minimum performance levels of all hurdles are not achieved, payments will not be made unless the Board, in its discretion, determines it is appropriate. The hurdles are as follows:
1. Budgeted Group Cash NPAT.
2. Risk (no material regulatory breaches, no material breaches of Delegation of Authority, completion of mandatory personal and department compliance training).
3. Culture (no material breaches of policies).
If all hurdles are achieved, performance will be reviewed against the following Group performance measures:


</td></tr>
<tr><td>How is performance measured – weighting and multiplier</td><td>
Changes were made to STI performance measures for FY20 to ensure greater transparency of key metrics within the scheme and better align pay with performance. The FY20 STI program consists of six measures that we believe reflect the important financial and strategic drivers of business performance and the creation of shareholder value.
Each performance measure has at least a 10% weighting to ensure it remains meaningful.
In addition, three to five key personal objectives are set for each Executive, related to major initiatives. Each Executives performance is scored out of five, which determines what, if any, STI is paid. The following table outlines the performance rating multiplier.
<table>
<tr><th>Performance Rating</th><th>1</th><th>2</th><th>3</th><th>4</th><th>5</th></tr>
<tr><td>Multiplier</td><td>0</td><td>0.7</td><td>1</td><td>1.15</td><td>1.25</td></tr>
</table>
</td></tr>
<tr><td>How is the award calculated?</td><td>
The calculation of the award is set out in the figure below:


Further, the Board will consider whether to reduce any STI payment, including to zero, based on any ‘minor’ or ‘material’ breaches of organisational policy in line with the STI plan rules.
</td></tr>
<tr><td>What are the governance aspects of the plan?</td><td>
Relevant governance aspects include change of control, cessation of employment, eligibility for dividend and voting rights and clawback/malus.
The Board can exercise discretion to apply malus/clawback to make a downwards adjustment to incentive awards which are unvested (malus) or have been paid or vested (clawback).
Further details regarding these aspects of the plan can be found in section 9 of this remuneration report.
</td></tr>
</table>

3.1.3 Long-Term Incentive Plan and Transformation Incentive Plan

On 20 November 2006, the Group's founding shareholders approved the terms, the implementation and the operation of a long-term incentive plan (LTIP). The plan was developed as part of **flexigroup**'s remuneration strategy and is designed to align the interests of **flexigroup** management with shareholders, and to assist **flexigroup** in the attraction, motivation and retention of Executives. In particular, the LTIP was designed to provide Executive participants with an incentive for future performance, with conditions for the vesting and exercise of performance rights in order to encourage Executives to remain with **flexigroup** and contribute to the future performance of the Group.

Under the LTIP, eligible persons participating in the LTIP may be granted options and/or performance rights on terms and conditions determined by the Board from time to time. An option and a performance right are both rights to acquire a share, subject to the satisfaction of applicable vesting and/or exercise conditions. Options and performance rights granted under the plan carry no dividend or voting rights.

The Board is responsible for administering the LTIP in accordance with the LTIP Rules and the terms and conditions of specific grants of options and/or performance rights to participants in the LTIP. The Board may determine which persons will be eligible to participate in the LTIP from time to time, with those eligible persons invited to apply to participate in the LTIP. The Board may, in its discretion, accept such applications.

The options and/or performance rights allocated in each Tranche under the LTIP will vest on, and become exercisable on or after, the applicable Vesting Date to the extent that certain performance-based conditions are achieved in the relevant Performance Period, and a tenure condition is satisfied.

In FY19/FY20, the Company undertook a three-year transformation program considered critical to the Company's future success. Accordingly, the Board resolved to issue a single 'mega grant' of options in FY20, the TIP, rather than provide annual grants as issued in prior years. The TIP is aimed at measuring and rewarding delivery of financial results flowing from the success of the transformation strategy. It was introduced to attract, motivate and retain key Executives to actively and responsibly drive sustainable shareholder value by driving the transformation and growth of **flexigroup**.

The Board does not intend to supplement the initial mega grant in FY21 or FY22.

<table>
<tr><th>FEATURE</th><th>DESCRIPTION</th></tr>
<tr><td>How is it paid?</td><td>The TIP is a one-off mega grant of Options.</td></tr>
<tr><td>How is performance measured?</td><td>Performance is measured over a three-year performance period from 1 July 2019 to 30 June 2022, paid out over years three to five (end of FY22, FY23 and FY24).
The award is subject to three performance measures:
30% EPS Growth
40% Share price hurdle
30% ROE performance
The measures were selected as they will reward the creation of financial returns generated over the three-year transformation period, directly measuring whether flexigroup has achieved the transformation strategy.</td></tr>
<tr><td>What is the vesting schedule?</td><td>The proportion of options that vest is outlined in the following vesting schedule.
Hurdle 1: Compound Annual EPS Growth Rate hurdle
<table>
<tr><th>Growth in Cash EPS (from base year EPS)</th><th>Options from Tranche 1 that remain eligible to vest</th></tr>
<tr><td><10% compound annual growth</td><td>Nil</td></tr>
<tr><td>10% to 20% compound annual growth</td><td>30%</td></tr>
<tr><td>>20% to 25% compound annual growth</td><td>Straight line pro-rata vesting between 30% and 100%</td></tr>
<tr><td>>25% compound annual growth</td><td>100%</td></tr>
</table>
Hurdle 2: Actual Share Price hurdle
<table>
<tr><th>Share Price Performance</th><th>Options from Tranche 2 that remain eligible to vest</th></tr>
<tr><td><$2.50</td><td>Nil</td></tr>
<tr><td>$2.50 to $3.50</td><td>33%</td></tr>
<tr><td>>$3.50 to $4.25</td><td>Straight line pro-rata vesting between 33% and 100%</td></tr>
<tr><td>>$4.25</td><td>100%</td></tr>
</table>
</td></tr>
</table>

FEATURE	DESCRIPTION
What is the vesting schedule? (continued)	**Hurdle 3: Actual ROE hurdle**

ROE Performance	Options from Tranche 3 that remain eligible to vest
<15%	Nil
15% to 18%	30%
>18% to 22%	Straight line pro-rata vesting between 30% and 100%
>22%	100%

The Board retains discretion to adjust the hurdles to ensure that Executives are neither advantaged nor disadvantaged by matters outside management's influence that materially affect achievement of the hurdles.

How is performance assessed?

Hurdle 1: Compound Annual EPS Growth Rate hurdle
The Compound Annual Cash EPS Growth Rate hurdle measures the growth rate between the EPS in the base year (financial year 2019) to the EPS in the final year (financial year 2022). Cash EPS is calculated by dividing the Group's Cash NPAT for the period attributed to ordinary equity holders by the weighted average number of ordinary shares outstanding during the period.

Hurdle 2: Actual Share Price hurdle
The Actual Share Price hurdle is tested by measuring the share price at the end of the Performance Period (based on the 30-calendar-day VWAP following the FY22 annual results announcement) against pre-determined share price targets set by the Board.

Hurdle 3: Actual ROE hurdle
ROE will be calculated as Cash NPAT divided by Average Total Equity in the final year of the performance period being 2022 (Average Total Equity is derived as the simple average of current and prior years' Total Equity per the Group's annual published statutory financial statements).

When will options vest?

Options will vest following performance testing as follows:

33%	33%	33%
will vest two months after the **FY22** annual results announcement	will vest two months after the **FY23** annual results announcement	will vest two months after the **FY24** annual results announcement

The terms and conditions of each grant of options affecting remuneration in future reporting periods are as below for on-foot awards.

FEATURE	DESCRIPTION
Value per option at grant date	The TIP is a one-off mega grant of Options. The table below illustrates the value per option at grant date.

($)	Tranche hurdle	Date vested and exercisable	Expiry date	Exercise price	Value per option at grant date ($)
Performance Options (TIP)					
18-Nov-19	EPS	31-Oct-22	18-Nov-25	$2	0.60
	EPS	31-Oct-23	18-Nov-25	$2	0.60
	EPS	31-Oct-24	18-Nov-25	$2	0.59
	ASP	31-Oct-22	18-Nov-25	$2	0.37
	ASP	31-Oct-23	18-Nov-25	$2	0.35
	ASP	31-Oct-24	18-Nov-25	$2	0.34
	ROE	31-Oct-22	18-Nov-25	$2	0.60
	ROE	31-Oct-23	18-Nov-25	$2	0.60
	ROE	31-Oct-24	18-Nov-25	$2	0.59

FEATURE	DESCRIPTION
What are the governance aspects of the plan?	Relevant governance aspects include change of control, cessation of employment, eligibility for dividend and voting rights and clawback/malus. Further details regarding these aspects of the plan can be found in section 9 of this remuneration report.

The table below provides details of TIP options issued in FY20 over ordinary shares in the Company provided as remuneration to **flexigroup** Executive KMP.

When exercisable and the exercise price is paid, a performance option is convertible into one ordinary share of FlexiGroup Limited. Further information on the performance options is set out in note 22 to the financial statements.

NAME	POSITION	NUMBER OF INCENTIVE RIGHTS GRANTED[1,2]	MAXIMUM VALUE OF INCENTIVE RIGHTS GRANTED DURING THE YEAR ($)[2]
Rebecca James	Chief Executive Officer	4,454,104	2,209,236
Chris Lamers	Deputy Group CEO and CEO NZ	2,672,462	1,390,571
Ross Aucutt	Chief Financial Officer	1,781,641	883,694

1. Three year allocation.
2. This is based on the fair value of the shares on the date of issue.

The assessed fair value at grant date of performance options granted in 18 November 2019 is allocated equally over the period from grant date to vesting date, and the amount allocated to FY20 is included in the remuneration table in section 10.2 of this remuneration report in accordance with AASB accounting standards.

For performance options issued on 18 November 2019, the fair values at grant date were independently determined using a binomial tree option pricing methodology for non-market-based and Monte Carlo simulation for market-based that takes into account the strike price, the term of the performance options, the impact of dilution, the share price at grant date and the expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the performance options. Further information on the incentive options is set out in note 22 to the financial statements.

3.1.4 Sign-On Incentive Rights

No sign-on rights were granted in FY20.

3.1.5 Remuneration Mix

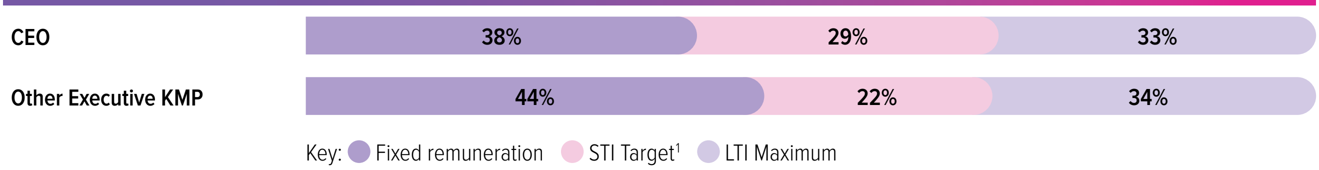
The chart below illustrates the relative proportion of remuneration for Executive KMP that is fixed and that which is linked to performance in the event that target performance for STI components is met, and stretch performance for LTI components is met.

The remuneration mix for Executive KMP is weighted towards variable remuneration to ensure there is a significant focus on achieving transformation objectives.

CEO: 38% of the CEO's remuneration is fixed remuneration, 62% is performance-based pay and 43% is delivered as deferred rights/performance options.

Other Executive KMP: 44% of their remuneration is fixed remuneration, 56% is performance-based and 40% is delivered as deferred rights/performance options.

PAY MIX



1. Three year allocation.
2. Of the STI Target, 33% for the CEO and 25% for Other Executive KMP is deferred into restricted shares.

4/ LINKING EXECUTIVE REMUNERATION TO COMPANY PERFORMANCE

4.1 WHAT WE PAID EXECUTIVE KMP IN FY20

The table below represents actual remuneration received in FY20 by Executive KMP. (Please refer to section 5 for terms of Executive KMP Service Agreements for their contractual fixed remuneration.)

In response to COVID-19, the Executive KMP took a temporary reduction of up to 20% of fixed remuneration from 1 May 2020 to 31 July 2020 income.

	Fixed Remuneration	STI Deferred FY18
REBECCA JAMES[1]		
Actual Remuneration	827,821	
CHRIS LAMERS[2,3]		
Actual Remuneration	525,445	40,276[4]
ROSS AUCUTT		
Actual Remuneration	419,888	43,427[4]

Key: Fixed Remuneration STI Deferred FY18[2]

1. Rebecca James received a $129,469 increase in recognition of her significant contribution in her first year, and ongoing.
2. Chris Lamers received a $110,000 increase to reflect his appointment to a Group role and additional responsibilities.
3. NZD translated at the average exchange rate of 1.0565.
4. STI Deferred 2018 relates to the portion of the 2018 STI award that was deferred and paid out in 2020.

4.2 COMPANY PERFORMANCE AGAINST FY20 STI MEASURES

KPI HURDLE	HURDLE OUTCOME
Group Cash NPAT	Not met
Risk (no material regulatory breaches, no material breaches of Delegation of Authority, completion of mandatory personal and department compliance training)	Met
Culture (no material breaches of policies)	Met

KPI MEASURE	ACTUAL KPI RESULT	STI OUTCOME	COMMENTARY
Cash NPAT	$29.2m	🔴	The Cash NPAT result was significantly reduced by the impact of the COVID-19 related bad debt provision overlay. New business volumes on continuing products increased by 17%, although this was lower than target, with a material impact from subdued economic activity in Q420. Whilst there was a benefit from reduced funding costs, lower than expected volumes meant that total income finished behind target.
Net losses/average net receivables	4.1%	🟢	Most segments experienced an improvement in net losses compared with prior year. **humm** did experience an increase in net losses with the growing volume mix from 'Little things' and higher risk industry segments. Lower volumes in Q420 also reduced the level of average net receivables.
Employee engagement	68%	🟢	The engagement score is above target and the highest result in six years. This was achieved during a period of significant organisational change and the uncertainty related to the COVID-19 pandemic.
Customer numbers (buyers/sellers)	2.3m/78,982	🟢	The growth has been driven by the continued success of our BNPL products in Australia and New Zealand, as well as our Mastercard enabled card and **bundll** products.
BNPL volume growth	17.7%	🔴	The Company experienced a significant growth in customer numbers and online sales transactions, with **humm** 'Little things' volumes 181% higher than prior year. However, the reduction in discretionary retail spend in Q420 meant that the growth target was not achieved.
Cost to income	49%	🟠	Total operating expenses were lower than target due to an acceleration of cost reduction initiatives. However, the lower level of income meant that the cost to income objective was not achieved.

Key: 🔴 Not met by more than 5% 🟠 Not met by 5% or less 🟢 Met

4.2.1 STI FY20 Outcomes

Given the significantly reduced Cash NPAT due to the impact of COVID-19 in particular and the Board's intention to align remuneration to performance, no short-term incentive payments will be made to the Executive KMP for FY20.

4.2.2 Deferred STI FY18 Outcomes

The table below presents the equity that was granted under the FY18 deferred STI scheme. With the service condition being met, these awards vested and were exercised on 13 September 2019.

EXECUTIVE KMP	DEFERRED STI VALUE ($)	# SHARES ISSUED[1]	VESTING DATE
Chris Lamers	40,276	19,199	13 September 2019
Ross Aucutt	43,427	20,701	13 September 2019

1. The number of shares issued was calculated by dividing the Deferred STI Value by the VWAP for the Company's shares for the five trading days following the day of the Company's FY18 year-end results announcement.

4.3 COMPANY PERFORMANCE AGAINST LTI PERFORMANCE CONDITIONS

The vesting conditions attached to LTI awards at the respective grant dates are chosen to align rewards to the CEO and Executives with the generation of shareholder value.

The following table provides the Group's TSR, dividend, share price and Cash EPS over the last five years.

YEAR ENDED 30 JUNE	2020	2019	2018	2017	2016
TSR[1]	(30.35%)	(13.88%)	17.14%	(8.30%)	(30.37%)
Dividends per share (cents)	3.85	7.70	7.70	7.70	14.50
Cash EPS (cents)	6.86	19.68	23.00	24.60	25.00
Return on Equity	4.9%	12.3%	13.6%	14.5%	19.0%
Share price (high)	$2.47	$2.34	$2.33	$2.58	$3.12
Share price (low)	$0.46	$1.44	$1.55	$1.71	$2.70
Share price (close)	$1.13	$2.22	$1.83	$1.74	$2.91

1. TSR is calculated based on VWAP in the 90-day period up to and including 30 June.

4.3.1 LTI Outcomes in FY20

No LTI granted in the current or historical periods will vest during FY20.

4.3.2 Shares Provided on Exercise of Remuneration Performance and Sign-On Rights

In the current year nil ordinary shares in the Company were issued because of the exercise of remuneration performance and sign-on incentive rights. The 39,900 vested deferred STI rights were settled through on-market share purchases.

5/ TERMS OF EXECUTIVE KMP SERVICE AGREEMENTS

Remuneration and other terms of employment for the Chief Executive Officer and the other Executive KMP are formalised in service agreements. Each of these agreements can provide for the provision of short-term performance incentives, eligibility for the **flexigroup** LTIP (including TIP) and may include other competitive benefits.

All employment agreements are unlimited in term but capable of termination at agreed notice by either the Company or the Executive. The Company can make a payment in lieu of notice. The notice period for each Executive is listed in the table below.

In the event of retrenchment, the Executives listed in the table below are entitled to the payment provided for in the service agreement. The employment of the Executives may be terminated by the Company without notice by payment in lieu of notice. Upon termination of employment, the Board exercises its discretion on payment of a pro-rata STI entitlement and early vesting of any unvested LTIs held by the Executive KMP.

The service agreements also contain confidentiality and restraint of trade clauses.

The provisions of the agreements relating to notice period and remuneration are listed in the table below.

	TERM OF AGREEMENT AND NOTICE PERIOD[1]	TOTAL FIXED REMUNERATION ($)[2]	TERMINATION PAYMENTS[3]
Rebecca James	6 months	850,000	6 months
Chris Lamers[4]	6 months	550,000	6 months
Ross Aucutt	6 months	450,000	6 months

1. Notice applies to either party.
2. Base salaries and superannuation are for financial year ended 30 June 2020. Annual reviews are performed by the Remuneration Committee.
3. Base salary payable if the Company terminates employee with notice, and without cause.
4. Remuneration is in NZ$.

Jason Murray joined **flexigroup** as Chief Financial Officer effective 9 July 2020 following the departure of Ross Aucutt from the role of Chief Financial Officer. As with other Executive KMP, Jason will have a six-month notice period (on completion of his first six months of service), with a fixed remuneration of $600,000 and a Target STI opportunity at 50% of Fixed Remuneration. Jason will also be eligible for awards under the TIP. Further information will be provided within the FY21 Remuneration Report.

6/ FY21 REMUNERATION CHANGES

As **flexigroup** moves through this transformation period the Board will continue to review the incentive plan structures and performance measures to ensure continued alignment with strategic objectives.

7/ NON-EXECUTIVE DIRECTORS

7.1 NON-EXECUTIVE DIRECTORS' REMUNERATION POLICY AND STRUCTURE

Fees and payments to Non-Executive Directors reflect the demands that are made on, and the responsibilities of, the Non-Executive Directors. Non-Executive Directors' fees and payments are reviewed as required and benchmarked where appropriate by the Board. Non-Executive Directors do not receive performance rights.

Non-Executive Directors' fees are determined within an aggregate Directors' fee pool limit of $1.2m. The following fee structure was applicable for the 2020 financial year:

BASE FEES (PER ANNUM) $	FY20 COVID-19 ADJUSTED[1]	FY20 FEES	FY19 FEES
Chair	237,500	250,000	250,000
Deputy Chair	171,000	180,000	180,000
Other Non-Executive Directors	114,000	120,000	120,000
ADDITIONAL FEES (PER ANNUM) $		**FY20 FEES**	**FY19 FEES**
Audit Committee – Chair		25,000	25,000
Remuneration Committee – Chair		25,000	25,000
Risk and Compliance Committee – Chair		25,000	25,000
Committee Fees – Members		10,000	10,000
Fees for serving on NZ Board		66,257[2]	65,512

1. In FY20, all Board members elected to receive a reduction in base fees of 20% for three months in response to significant business disruption caused by COVID-19. This reduction was taken in FY20.
2. From February 2020 fees were no longer paid to Group Board members as they no longer served on the NZ Board. NZD translated at the average exchange rate of 1.0565.

In addition to the above fees, Directors also receive compulsory superannuation contributions. As Mr Wylie is Tanarra Capital's nominated Director, payments are made to Tanarra Capital (including GST and excluding superannuation). A Director is entitled to reimbursement for reasonable travel, accommodation and other expenses in attending meetings and carrying out their duties.

Under clause 10.10 of the Company's constitution, subject to the ASX Listing Rules and the *Corporations Act 2001*, a Director at the request of the other Directors may be remunerated for performing additional or special duties for the Company.

7.2 NON-EXECUTIVE DIRECTORS' MINIMUM SHAREHOLDING REQUIREMENTS

There is no minimum shareholding requirement for Non-Executive Directors; however, all Non-Executive Directors are shareholders.

7.3 NON-EXECUTIVE DIRECTORS' EQUITY PLAN

Under clause 10.11 of the Company's constitution, subject to the Listing Rules and the *Corporations Act 2001*, the Company may pay a former Director, or the personal representatives of a Director who dies in office, a retirement benefit in recognition of past services of an amount determined by the Directors. The Company may also enter into a contract with a Director providing for payment of the retiring benefit. No such contracts have been entered into to date. Despite having this clause in the Company's constitution, the Company does not intend to pay such benefits to Directors.

8/ DETAILS OF PERFORMANCE RIGHTS

8.1 UNVESTED PERFORMANCE RIGHTS (TRANCHE DETAILS GRANTED PRIOR TO TIP INTRODUCTION)

flexigroup has issued options and/or performance rights in prior periods as disclosed in previous annual reports.

The terms and conditions of each grant of performance rights affecting remuneration in the previous, in this or in future reporting periods are as below for on-foot awards.

GRANT DATE	TRANCHE NUMBER	DATE VESTED AND EXERCISABLE	EXPIRY DATE	EXERCISE PRICE	VALUE PER PERFORMANCE RIGHT AT GRANT DATE ($)
Performance rights					
27-Nov-17	5	1-Sep-21	15-Mar-22	Nil	1.36
	5	1-Sep-21	15-Mar-22	Nil	0.71
27-Nov-17	5	1-Sep-21	15-Mar-22	Nil	1.36
	5	1-Sep-21	15-Mar-22	Nil	0.71
15-Nov-18	6	1-Sep-22	15-Mar-23	Nil	1.29
	6	1-Sep-22	15-Mar-23	Nil	0.63
16-May-19	6	1-Sep-22	15-Mar-23	Nil	1.29
	6	1-Sep-22	15-Mar-23	Nil	0.65

Details of the TIP are referred to in section 3.1.3 of the report.

The Performance Rights issued in Tranches 1, 2, 3 and 4 have lapsed, whilst the Performance Rights in Tranches 5 and 6 remain on issue and will be tested based on FY21 and FY22 results respectively. No LTI granted in historical periods lapsed during FY20.

The Performance Periods applicable to each of the outstanding performance-based vesting conditions are as follows:

TRANCHE	PERFORMANCE PERIOD	TESTING DATE
5	2021 (1 July 2017 to 30 June 2021)	Results announcement date in 2021
6	2022 (1 July 2018 to 30 June 2022)	Results announcement date in 2022

Tranche 5 and 6 Performance Rights will be performance-tested against the following performance-based vesting conditions:

PERCENTAGE OF RIGHTS	PERFORMANCE CONDITIONS
50% of each Tranche of Performance Rights	Cash EPS growth targets for the relevant performance period are met
50% of each Tranche of Performance Rights	Relative TSR for the relevant Performance Period compared to the S&P/ASX 200 Index (excluding materials and energy companies)

Cash EPS growth performance condition

The first performance-based vesting condition is based on growth on an adjusted Cash NPAT earnings per share measure used by the Group to track earnings per share on an underlying performance basis. The Group calculates this adjusted Cash NPAT earnings per share measure (Cash EPS) for a financial year as:

> the reported 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 the amortisation of acquired intangible assets;

> divided by the weighted average number of ordinary shares on issue during the year.

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

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

The Cash EPS Growth condition for Tranche 5 and 6 will be satisfied for a Performance Period in accordance with the following table:

CASH EPS GROWTH TARGET	PERCENTAGE OF PERFORMANCE RIGHTS AVAILABLE IN GIVEN YEAR SATISFYING CONDITION
Compound annual growth rate in Cash EPS less than 4.0%	Nil
Compound annual growth rate in Cash EPS of 4.0%	30%
Compound annual growth rate in Cash EPS greater than 4.0% but less than 10.0%	Pro-rata between 30% and 100%
Compound annual growth rate in Cash EPS equal to or greater than 10.0%	100%

Relative TSR performance condition

The second performance-based vesting condition for each Tranche of Performance Rights relates to the Group's TSR for the relevant performance period when compared to the peer group of companies in the S&P/ASX 200 Index (excluding materials and energy companies).

For each performance period, the TSR for the Group will be determined by calculating the amount by which the sum of:

> the 90-day VWAP for **flexigroup** shares in the period up to and including 30 June at the end of the relevant performance period; and

> the dividends paid on a share during the relevant performance period,

exceeds the 90-day VWAP for the Group's shares in the period up to and including 1 July at the beginning of the relevant performance period, expressed as a percentage.

Tranche 5 and 6 performance targets are as per the table below:

RELATIVE TSR TARGET	PERCENTAGE OF PERFORMANCE RIGHTS AVAILABLE IN GIVEN YEAR SATISFYING CONDITION
Less than 51st percentile of companies in S&P/ASX 200 Index (excluding materials and energy companies)	Nil
51st percentile of companies in S&P/ASX 200 Index (excluding materials and energy companies)	50%
Greater than 51st percentile but less than the 75th percentile of companies in S&P/ASX 200 Index (excluding materials and energy companies)	Pro-rata between 51% and 100%
Greater than or equal to 75th percentile of companies in S&P/ASX 200 Index (excluding materials and energy companies)	100%

The Board has the discretion to amend either the Cash EPS growth performance condition or the relative TSR performance condition at any time during the relevant performance period applicable to those Performance Rights if the Board believes it is appropriate to do so to reflect the Group's circumstances.

Vesting date and expiry date

TRANCHE	VESTING DATE	EXPIRY DATE
5	1 September 2021	15 March 2022
6	1 September 2022	15 March 2023

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

Recipients of Vested Performance Rights are not permitted to enter into transactions which limit the economic risk of participating in the performance rights scheme.

Disposal restriction

The CEO and Executives may not dispose of, deal in, or grant a security interest over any interest in, a Performance Right without the prior written consent of the Board, which may be given subject to such conditions as the Board sees fit in relation to the proposed dealing.

The CEO and Executives may not dispose of, deal in, or grant a security interest over any interest in, a share allocated on exercise of a Vested Performance Right for any relevant period determined by the Board.

The Board has imposed a disposal restriction on the Shares that are the subject of this approval, which will be granted on the exercise of any Vested Performance Rights. The disposal restriction will be enforced by placing a sale restriction over the Shares that are allocated on the exercise of the Vested Performance Rights.

The disposal restrictions on those Shares will be lifted at the relevant Restriction Period End Date as set out below:

TRANCHES OF SHARES ALLOCATED ON EXERCISE OF VESTED PERFORMANCE RIGHTS TRANCHES	% OF SHARES ALLOCATED ON VESTING AND EXERCISE OF PERFORMANCE RIGHTS	RESTRICTION PERIOD END DATE
Tranche 5	100%	15 October 2022
Tranche 6	100%	15 October 2023

The Board may also implement any such other arrangements (including a holding lock) as it determines are necessary to enforce this restriction.

The Board has the discretion to amend or waive any disposal restrictions on the shares, the subject of this approval, which will be granted on the exercise of any Vested Performance Rights at any time until the disposal restriction ends, if the Board believes it is appropriate to do so to reflect the Group's or the employee's circumstances.

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

9/ GOVERNANCE

9.1 GOVERNANCE FRAMEWORK

Governance of our remuneration framework has been a key focus during the last year. We have further enhanced the conduct hurdles underpinning our review process, introducing additional key measures to assess Executive conduct during the year. We are confident that our remuneration framework:

> rewards our team for achieving high performance that is aligned to shareholder value;

> ensures that we meet strict governance standards and the requirements of our risk management framework; and

> drives ethical behaviour in our executive team ensuring performance is achieved in the right way, and sustainably.

9.2 ROLE OF THE BOARD

flexigroup has defined approval processes in place for all remuneration decisions. For our Executive KMP and direct reports to the CEO, any amendments to remuneration must be approved by the Board.

Remuneration for Executive KMP is reviewed annually in line with the financial year. In setting an individual's remuneration, the Board considers:

> external and internal relativities;

> individual and Group performance and incentivising transformational growth;

> recommendations from the Group CEO on the remuneration arrangements for the Executive team; and

> market data from comparable roles listed on the ASX against a peer group that is relevant and large enough to provide meaningful data.

9.3 ROLE OF THE REMUNERATION COMMITTEE

The Remuneration Committee is responsible for ensuring that our remuneration framework meets the required governance standards. The Committee has regular meetings where the remuneration framework is discussed, ensuring that any risks or potential risks associated with the framework are identified and addressed in a timely manner. The Committee also regularly reviews the market to understand trends on how executive teams are rewarded, while also ensuring that any remuneration arrangements remain in line with accepted market practices.

As part of its remit, the Remuneration Committee undertakes a number of activities for **flexigroup**, including developing, reviewing and making recommendations to the Board on:

> the Key Performance Indicators (KPIs) for the Group and for the CEO;

> remuneration policies for the Group, including Directors, Executives and the broader organisation (Non-Executives), ensuring the policies comply with the Group's objectives and risk management framework;

> the individual remuneration arrangements for the CEO, Executive team and any other Executive KMP;

> overall Group remuneration budgets and STI Program for Non-Executive Group employees; and

> remuneration for Non-Executive Directors.

The Remuneration Committee consists entirely of independent Non-Executive Directors as follows: Jodie Leonard (Chair), Carole Campbell and Rajeev Dhawan.

9.4 TREATMENT OF UNVESTED EQUITY AWARDS UPON EXIT

The table below outlines the treatment of unvested equity awards (Deferred STI and TIP) upon employee exit.

REASON FOR LEAVING	DEFERRED STI	UNVESTED LTI (TIP)
Genuine retirement/redundancy	If employment ceases before the end of the performance period, award is forfeited. If employment ceases after the end of the performance period but before the payment date, unvested awards may be eligible to vest.	If employment ceases within two years of the performance period, unvested awards will lapse. If employment ceases after two years of the performance period but before the end of the performance period, a pro-rata number of options stays 'on-foot' and will be tested against the performance hurdles at the end of the performance period. If employment ceases after the end of the performance period, the options that are available for vesting stay 'on-foot' post-cessation and vest at the original vesting dates.
Death, illness or incapacity	If employment ceases after the end of the performance period but before the payment date, unvested awards may be eligible to vest.	As determined by the Board. In the case of death, a pro-rata number of options stays 'on-foot' and will be tested against the performance hurdles at the end of the performance period.
Termination for cause/gross misconduct	Award forfeited.	Unvested awards lapse.
Termination for poor performance	Award forfeited.	Unvested awards lapse.
Resignation	Award forfeited.	Unvested awards lapse.

The Board in its discretion may determine that a different treatment should apply.

9.5 OTHER GOVERNANCE REQUIREMENTS

The table below outlines additional governance provisions applicable to the TIP. Further, **flexigroup** also has malus/clawback provisions in place for the short-term incentive plan. Under these provisions, the Board is able to adjust any unpaid or unvested award (including reducing to zero) where it is appropriate to do so, due to fraud, misconduct or material misstatement.

GOVERNANCE ASPECT	TRANSFORMATION INCENTIVE PLAN
Change of control	In the case of a change of control, where the Board does not exercise discretion to do anything at the time of a change of control event, a pro-rata number of options will vest and become exercisable based on the extent to which the performance conditions have been achieved or are likely to be achieved.
Eligibility for dividends	Options do not carry voting or dividend rights.
Hedging	Participants must not sell, transfer, encumber, hedge or otherwise deal with their options granted under the TIP. A participant must not enter into any scheme, arrangement or agreement (including options and derivative products) under which the Participant may alter the economic benefit to be derived from any options that remain subject to the TIP Rules, irrespective of future changes in the market price of Shares.
Malus/clawback	The Board has discretion to determine to lapse a number of options in the case of fraud, gross misconduct, gross incompetence, breach of obligations, bringing the Company into disrepute, failure to perform acts reasonably asked of the participant, or undertaking an act which has the effect of delivering strong Company performance in a manner which is unsustainable or involves unacceptably high risk, and results or is likely to result in a detrimental impact on the Company.

9.6 USE OF REMUNERATION CONSULTANTS

The Group aims to provide an Executive remuneration framework that is market competitive and complementary to the reward strategy at **flexigroup**. During the year, **flexigroup**'s Remuneration Committee engaged the services of remuneration consultants to provide advice regarding our Remuneration Framework and also received remuneration benchmarking advice.

The Board is satisfied that the recommendations were made with the required level of independence from Executive KMP and the recommendations were made free from undue influence by members of the Group's Executive KMP, as the remuneration consultants were engaged by, and reported directly to, the Chair of the Remuneration Committee in relation to these services.

10/ OTHER STATUTORY DISCLOSURES

10.1 SHARES UNDER RIGHTS

As at the date of this report, there were 22,108,585 unissued ordinary shares of FlexiGroup Limited subject to performance, sign-on and deferred STI rights. These unissued ordinary shares are the subject of options, performance and deferred STI rights with expiry dates between 15 March 2022 and 18 November 2025. No performance and sign-on incentive shareholder has any right under the performance shares to participate in any other share issues of the Company or any other entity.

10.2 AMOUNTS OF REMUNERATION

Details of the remuneration of the Directors and the Executive KMP as defined in AASB 124 *Related Party Disclosures* of FlexiGroup Limited and its subsidiaries are set out in the following tables. The cash bonuses are dependent on the satisfaction of performance conditions as set out in section 3.1.2 Short-Term Incentive.

In response to COVID-19, the Board and the Executive KMP took a temporary reduction in base fees and base salaries equivalent to 20% (Mr Aucutt 15%) for three months of income. The Board took the full impact of the fee reduction in FY20, whilst management reductions were phased across Q4 FY20 and Q1 FY21.

2020	SHORT-TERM EMPLOYEE BENEFITS			POST-EMPLOYMENT BENEFITS	LONG-TERM BENEFITS		
NAME	Cash salary and fees $	STI cash payment $	Other benefits $	Superannuation $	Long service leave $	Share-based payments expense[1] $	Total earnings $
Non-Executive Directors							
Andrew Abercrombie (Chairman)	228,250	–	–	20,033	–	–	**248,283**
Christine Christian (Deputy Chairman)	195,939	–	–	18,614	–	–	**214,553**
Rajeev Dhawan[2]	152,624	–	–	12,107	–	–	**164,731**
Jodie Leonard	141,752	–	–	13,466	–	–	**155,218**
Carole Campbell	141,754	–	–	13,467	–	–	**155,221**
John Wylie[3]	125,400	–	–	–	–	–	**125,400**
Subtotal Non-Executive Directors	985,719	–	–	77,687	–	–	**1,063,406**
Executive KMP							
Rebecca James[4]	806,818	–	–	21,003	–	106,704	**934,525**
Chris Lamers[5,6]	510,760	–	–	14,685	–	66,789	**592,234**
Ross Aucutt	401,526	–	–	18,362	–	98,224	**518,112**
Subtotal Executive Key Management Personnel	1,719,104	–	–	54,050	–	271,717	**2,044,871**
Total Key Management Personnel Compensation (Group)	**2,704,823**	**–**	**–**	**131,737**	**–**	**271,717**	3,108,277

1. Remuneration for share-based payments represents amounts expensed during the year for accounting purposes.
2. Mr Dhawan received additional fees for serving on the FXL NZ Board. From February 2020, NZ Board fees no longer apply.
3. As Mr Wylie is Tanarra Capital's nominated Director, payments are made to Tanarra Capital (plus GST and excluding superannuation).
4. Effective 1 July 2019 Rebecca James' fixed remuneration increased by $129,469 in recognition of her significant contribution in her first year, and ongoing.
5. Effective 1 July 2019 Chris Lamers' fixed remuneration increased by $110,000 to reflect his appointment to a Group role and additional responsibilities.
6. NZD translated at the average exchange rate of 1.0565. Fixed remuneration increased commensurate with the change in role effective 1 July 2019.

2019 NAME	SHORT-TERM EMPLOYEE BENEFITS Cash salary and fees $	STI cash payment $	Other benefits $	POST-EMPLOYMENT BENEFITS Superannuation $	LONG-TERM BENEFITS Long service leave $	Share-based payments expense[1] $	Total earnings $
Non-Executive Directors							
Andrew Abercrombie (Chairman)	253,258	–	–	20,531	–	–	**273,789**
Christine Christian (Deputy Chairman)	225,000	–	–	21,375	–	–	**246,375**
Rajeev Dhawan[2]	215,512	–	–	14,250	–	–	**229,762**
Jodie Leonard	154,996	–	–	14,725	–	–	**169,721**
Carole Campbell	151,295	–	–	14,373	–	–	**165,668**
John Wylie[3]	33,548	–	–	–	–	–	**33,548**
Subtotal Non-Executive Directors	1,033,609	–	–	85,254	–	–	**1,118,863**
Executive KMP							
Rebecca James[4]	495,385	–	50,000	15,004	–	71,977	**632,366**
Chris Lamers[5]	405,792	–	–	15,910	–	57,487	**479,189**
Ross Aucutt	429,509	–	17,308	20,532	–	56,205	**523,554**
Subtotal other Key Management Personnel[6]	1,330,686	–	67,308	51,446	–	185,669	**1,635,109**
Total Key Management Personnel compensation (Group)	**2,364,295**	**–**	**67,308**	**136,700**	**–**	**185,669**	**2,753,972**

1. Remuneration for share-based payments represents amounts expensed during the year for accounting purposes.
2. Mr Dhawan received additional fees for serving on the FXL NZ Board.
3. As Mr Wylie is Tanarra Capital's nominated Director, payments are made to Tanarra Capital (plus GST and excluding superannuation).
4. Rebecca James was appointed to the role of CEO on 2 October 2018, accordingly the Cash Salary and Fees represent part year only.
5. NZD translated at the average exchange rate of 1.069.
6. Comparative financial information has been restated to only include those deemed Executive KMP in the current year.

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

NAME	FIXED REMUNERATION 2020 %	FIXED REMUNERATION 2019 %	AT-RISK STI 2020 %	AT-RISK STI 2019 %	RIGHTS 2020 %	RIGHTS 2019 %
Executives of flexigroup						
Rebecca James	89	88	–	–	11	12
Chris Lamers	84	89	–	–	16	11
Ross Aucutt	86	88	–	–	14	12

10.3 OTHER SERVICES OBTAINED FROM RELATED PARTIES – RENTAL OF MELBOURNE PREMISES

A controlled entity in the Group has rented a property in Melbourne owned by entities associated with Mr Andrew Abercrombie. The rental arrangements for these premises are based on market terms. The rent paid for these premises amounted to $185,866 (2019: $187,284). Refer to note 30(C) of the financial statements for further details.

10.4 EQUITY INSTRUMENT DISCLOSURES RELATING TO DIRECTORS AND KEY MANAGEMENT PERSONNEL

Performance, deferred STI shares and sign-on incentive rights holdings.

2020 NAME	BALANCE AT START OF YEAR	GRANTED AS COMPENSATION[1]	EXERCISED[2]	LAPSED	BALANCE AT END OF YEAR	VESTED AND EXERCISABLE	UNVESTED
Executive Key Management Personnel							
Rebecca James	528,846	4,454,104	–	–	4,982,950	–	4,982,950
Chris Lamers	393,066	2,672,462	(19,199)	–	3,046,329	–	3,046,329
Ross Aucutt	410,224	1,781,641	(20,701)	–	2,171,164	–	2,171,164

1. Relates to options granted under TIP during FY20.
2. Relates to FY18 deferred STI awards.

10.5 SHAREHOLDING DISCLOSURES RELATING TO KEY MANAGEMENT PERSONNEL

The numbers of shares in the Company held (or controlled) during the financial year by each Director and Executive KMP of the Company, including their personally related parties, are set out below.

2020 NAME	BALANCE AT START OF YEAR	RECEIVED DURING THE YEAR ON THE EXERCISE OF RIGHTS	OTHER CHANGES DURING THE YEAR	BALANCE AT END OF YEAR
Non-Executive Directors				
Andrew Abercrombie (Chairman)	90,856,167	–	–	90,856,167
Christine Christian (Deputy Chairman)	68,000	–	82,000	150,000
Rajeev Dhawan	275,371	–	30,000	305,371
Jodie Leonard	3,560	–	60,000	63,560
Carole Campbell	25,000	–	55,000	80,000
John Wylie	20,439,256	–	–	20,439,256
Executive KMP				
Rebecca James	–	–	–	–
Chris Lamers	–	19,199	-19,199	–
Ross Aucutt	9,796	20,701	–	30,497

S

SUSTAINABILITY REPORT

ACTIONS SPEAK LOUDER THAN WORDS

flexigroup is committed to supporting the issues that matter most to our people, customers and communities, and to do our part to make the world a better place today, and for tomorrow. That means establishing a strong foundation upon which we can operate, building a diverse workforce, supporting the communities we serve, minimising our impact on the environment, and challenging ourselves to improve each year.

We've faced into the crises that have been thrown at our communities in the last 12 months by doing everything we could to help, including offering support packages for those impacted by the Australian bushfires and supporting customers who experienced financial hardship as a result of COVID-19.

HIGHLIGHTS FROM FY20

15K

CUSTOMERS SUPPORTED THROUGH FINANCIAL HARDSHIP CAUSED BY COVID-19

$200K

DONATED TO AUSTRALIAN BUSHFIRE RELIEF EFFORTS AND ANOTHER

$10K

DONATED TO WILDLIFE RESCUE

800

LAPTOPS DONATED TO DISADVANTAGED NEW ZEALAND STUDENTS TO ENABLE THEM TO STUDY AT HOME DURING COVID-19

45% OF OUR **WORKFORCE** AND

50% OF OUR **BOARD** ARE FEMALE

MORE THAN

4,490

HOURS OF LEARNING DELIVERED TO EMPLOYEES THROUGH OUR LEARNING MANAGEMENT SYSTEM

68%

EMPLOYEE ENGAGEMENT SCORE HAS INCREASED OVERALL FROM **63%**

10

SENIOR LEADERSHIP OFF-SITE DEVELOPMENT PROGRAMS COMPLETED

451

HOURS OF FACE-TO-FACE LEARNING COMPLETED

122

EMPLOYEES RECEIVED AWARDS IN RECOGNITION FOR GOING ABOVE AND BEYOND

OUR WAY OF DOING THINGS

FLEXIGROUP TAKES ITS OBLIGATIONS REGARDING ETHICAL BEHAVIOUR VERY SERIOUSLY.

The principles and policies upon which **flexigroup** operates ensure we are conducting business at the highest ethical standards and can deliver on our commitment to our people, customers and shareholders.

CODE OF CONDUCT

The **flexigroup** Code of Conduct was revised and approved by the Board of Directors in April 2020, and applies to all Directors, officers, employees, contractors, consultants and associates. The Code outlines how we expect our representatives to behave and conduct business in the workplace.

The Board of Directors, as **flexigroup**'s highest governance body, expects that **flexigroup**'s values and ethical standards are reflected in its day-to-day operations; and mandatory employee training supports that aim.

flexigroup takes its obligations regarding ethical behaviour very seriously. In addition to our Code of Conduct, we have a range of policies and procedures in place to manage the things which might compromise these standards, including in relation to the disclosure of personal relationships where a potential conflict may arise. Thorough processes are in place for pre-employment and background checks, particularly for senior leaders and those employees accessing credit information and making financial decisions. We also introduced a new Whistleblower Protection Policy during the year, giving our people the opportunity to speak up freely about any concerns they might have.

OUR PEOPLE

FLEXIGROUP IS A DIVERSE MIX OF PEOPLE CONNECTED ACROSS THREE COUNTRIES.

flexigroup is a diverse mix of people who are connected across three countries by the shared vision of building a digital spending powerhouse.

Equipping everyone with the skills, knowledge and tools to collaborate across geographies and supporting them to work flexibly ensures they enjoy what they do and can continue to innovate.

EQUAL EMPLOYMENT OPPORTUNITY

flexigroup works hard to build an environment that is comfortable, inclusive and safe for everyone. For that reason, we have a zero-tolerance approach to bullying, harassment and discrimination of any kind.

Our Equal Employment Opportunity, Bullying, Harassment and Discrimination Policy (EEO) outlines our position, what we should do if we are subject to or witness these behaviours, and how such a situation would be treated. This policy applies to all team members, contractors, visitors, customers, suppliers, and anyone who visits a **flexigroup** office.

The EEO is closely aligned with the key principles of the **flexigroup** Code of Conduct and is provided to all employees when they commence work with us – a copy is also available on the employee intranet.

EMPLOYEE SATISFACTION

Employee engagement is key to maintaining a satisfied workforce. During the reporting period, **flexigroup** undertook an employee engagement survey. The results of the survey are shared in a transparent manner with all employees and are used to build engagement and employee advocacy.

Our Employee Engagement Score has steadily increased over the last few years from 55% in FY18 up to 63% in FY19 with a further increase to 68% in FY20.

FLEXIBLE WORKING

Flexibility in working arrangements is strongly supported by **flexigroup** as part of our commitment to diversity, inclusion and wellbeing. While some roles are better suited to remote working than others, we remain committed to providing flexible working arrangements wherever possible.

We armed 100% of our workforce with the tools and equipment they need to work from home if required.

Employees are encouraged and supported to take time off with a variety of leave options. These include a Flexi Day – a paid day off for appointments, self-care or life admin; a paid volunteer day; and the option to purchase additional leave, extra parental leave and study leave.

EMPLOYEE WELLBEING

As part of our commitment to supporting the physical and mental wellbeing of our employees, we provide free access to a Wellbeing Centre on the employee intranet, which is packed with helpful healthy content such as recipes, workout videos, guided meditation and resources.

To further support the physical and mental wellbeing of everyone during lockdown, we developed a range of resources including daily tips, online yoga and helpful guides to set up a home office correctly. A communications plan was also developed to connect, inspire and inform the distributed workforce.

OUR PEOPLE

DIVERSITY AND INCLUSION

We know that the diversity of our workforce should represent the diversity of our customers and community. We're one team, representing lots of different ideas, perspectives, experiences, backgrounds, cultures and sexual orientations.

flexigroup strives to create an inclusive workplace where all contributions are valued, so that everyone can bring their whole self to work and reach their full potential.

We are regularly reviewing diversity in key areas – including parental leave statistics, career movement by gender and pay parity – to make better informed decisions and plan events to support different communities that exist with us such as Ramadan, Diwali, Mental Health Awareness Week and Chinese New Year.

Embracing the diversity of our people and creating room for cultural exchanges that are inclusive of everyone is very important to us. With the sponsorship of Executive Leaders, we are extending significant Indigenous events and celebrations such as Matariki (Māori New Year) across the Group so there is shared value for everyone. This includes learning opportunities, cultural events and virtual seminars featuring Indigenous speakers. We believe that understanding is key to addressing inequities because it leads to empathy and recognising the value in culture.

How we dress is also a reflection of who we are and our 'you do you' dress code policy helps to reduce gender barriers, makes employees more comfortable and happier, and promotes diversity by encouraging people to express themselves.

GENDER DIVERSITY STATISTICS

BOARD

	FY20	FY19
MEN	3	3
WOMEN	3	3
WOMEN %	50%	50%

SENIOR MANAGEMENT (CEO AND DIRECT REPORTS)

	FY20	FY19
MEN	6	4
WOMEN	5	5
WOMEN %	45%	55%

ALL EMPLOYEES

	FY20	FY19
MEN	394	463
WOMEN	327	386
WOMEN %	45%	45%

flexigroup complies with the *Workplace Gender Equality Act 2012 (Cth)* and is committed to ensuring strong and practical support for gender diversity.

flexigroup has further achieved greater gender equity with 8% more women appointed to management positions and a 3% increase in promotions for women in FY20.

SUPPORT FOR VICTIMS OF DOMESTIC VIOLENCE

flexigroup supports employees who are victims of domestic violence with leave options including the provision of up to 10 additional paid leave days per year, access to unpaid leave, and leave to support family members who are victims of domestic violence. We also offer additional support through flexible working arrangements that provide our employees the option of changing their working hours, the duties they perform, or (where possible) the location of their role.

In addition to support for victims of domestic violence, training is provided to people leaders to better understand the ways in which our people can support colleagues impacted by domestic violence.

SUPPORTING FAMILIES

flexigroup wants to set our people up for success in both their personal and professional lives, which is why in Australia **flexigroup** offers paid parental leave for both primary and secondary carers in addition to the Government paid parental leave scheme. This allows for primary caregivers to receive six weeks of paid leave with the choice of receiving either:

> an additional four weeks of paid leave; or

> continuing to have their superannuation entitlement paid for any unpaid leave taken as part of their parental leave (up to a maximum of 46 weeks).

In New Zealand and Ireland, employees are provided with additional leave and a lump sum payment upon returning from parental leave.

DEVELOPING EMPLOYEE SKILLS AND CAPABILITIES IS A KEY ELEMENT OF FLEXIGROUP'S SUCCESS.

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We develop a wide range of learning modules, development opportunities and support materials to assist employees in growing their skills.

In the last 12 months,

4,490

hours of learning and development was delivered through our online learning management system, equating to around seven hours per employee, per year.

The modules included: Time Management; Learning Agility; Onboarding; Working from Home; SKYE; **humm** and **bundll**; Compliance; and Customer Service.

We also provided

451

hours of face-to-face learning (equivalent to 1,000 individual participations).

58%

of learning was self-directed as opposed to 3% in the previous 12 months, suggesting a significant investment by employees in their development.

As a result of COVID-19, we were very proud of the way our workforce adapted to uncertainty and working from home. During the lockdown period (April and May 2020), 1,356 hours of learning was completed, with a new emphasis on 'live' presentations delivered through Teams Live.

We wanted to encourage further development of these skills to set everyone up for personal and professional success in a changing world. This led to the development of **flexabilities** – a training program (launched in May 2020) that was designed specifically for our employees that focuses on performance, innovation, reflection, risk-taking and openness to new information.

We also developed a range of learning and development tools that combine virtual and classroom learning to assist in building emotional wellbeing and resilience, leadership in uncertain times, learning agility and digital literacy that will ensure our people are well equipped for the future.

Continuous learning is actively championed by the Executive Leadership and encouraged through internal communication channels and learning drives to ensure engagement across teams.

OUR PEOPLE

EXTRAORDINARY EMPLOYEE ACHIEVEMENT IS RECOGNISED IN MANY WAYS AT FLEXIGROUP.

LEADERSHIP DEVELOPMENT

flexigroup's Springboard into Leadership was introduced in February 2020 to pilot a blended learning approach to leadership development. The program focused on newly appointed and potential leaders and was part of the Company's practical steps to build capability and succession planning within the organisation. (The pilot was suspended shortly after introduction due to working from home arrangements but will recommence when possible.)

RECOGNITION

Extraordinary employee achievement is recognised in many ways at **flexigroup**. Over the past 12 months, 122 of our employees have received rewards for going above and beyond in the form of Quarterly Awards, Executive Nominated Awards and Service Awards.

In addition to rewards, we have established a strong culture of recognition in the form of e-cards with 65% of our people sending or receiving an e-card recognition. There were 1,589 e-cards sent in the last year, a 39% increase on the previous 12 months.

HEALTH AND SAFETY

Health and safety is everyone's responsibility and as part of the organisational approach, employees are instructed to immediately report to their manager any unsafe situations or conditions and undertake an annual refresher course.

During the COVID-19 pandemic, we moved quickly to prioritise the wellbeing of our people in line with Australian Department of Health, NZ Ministry of Health and Ireland Department of Health advice.

Our people were supported to work safely from home and provided with any office equipment they required, including chairs and monitors.

PERFORMANCE DISCUSSIONS ARE A KEY PART OF THE PROFESSIONAL DEVELOPMENT OF EMPLOYEES AT FLEXIGROUP.

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Full-year performance assessments are undertaken along with development planning for each employee.

The process includes:

> **Structured performance objectives:** At the start of each financial year, managers set performance objectives that are linked to business priorities. Performance against these objectives, and the continued relevance of the objectives, is reviewed throughout the year.

> **Values-based performance:** As a values-based organisation, we discuss not only achievement of performance objectives, but also the demonstration of behaviours.

> **Structured development plans:** Managers discuss development goals with team members based on the performance and behaviour objectives for their current role. These conversations are also used to establish a broader understanding of employee career aspirations.

> **Measurement of performance objectives and values:** Identifying and recognising the varying contributions of our people is an important objective of the annual review process. We do this through the evaluation conversations we have, and through applying ratings. Ratings provide the benchmark for performance expectations and development requirements.

OUR CUSTOMERS

FLEXIGROUP IS COMMITTED TO CREATING EXCEPTIONAL CUSTOMER EXPERIENCES.

Our more than **2.2 million customers** are at the heart of everything we do, and we work hard to ensure that they are supported, informed and well protected.

CUSTOMER SERVICE

flexigroup is committed to creating exceptional customer experiences and ensuring that all interactions are based on a foundation of integrity and respect. To support customer service excellence, all employees in customer facing roles receive extensive training on our products, along with dedicated soft skills training including active listening, speaker responsibilities, listener responsibilities, telephone standards and etiquette, effective communication and conflict management. Calls are recorded for training and quality assurance purposes.

Providing customers with greater choice and control is very important to us. We offer a wide range of options for customers to get in touch with us including phone, web chat email and via social media. Chatbots on our sites and apps provide customers with the ability to control their own accounts.

In May 2020, we began the transition to a new telephony system that connects our call centres in Manila, Auckland and Adelaide and provides a world-class experience to our front-line employees and customers.

PROTECTING CUSTOMER PRIVACY

flexigroup is dedicated to protecting the personal information of its customers in line with relevant legislation and our codes in all locations where it operates, including the *Privacy Act 1988 (Cth)*. **flexigroup** has published a Privacy and Credit Reporting Privacy Policy – available on **flexigroup**'s website – outlining the types of personal information (including credit-related information) we collect, and the purposes for which we do that; how we manage all personal information collected how customers can seek access to, and correct, information if necessary; and how customers can make a complaint relating to our handling of that information.

During the reporting period, **flexigroup** did not receive any substantiated complaints concerning breaches of customer privacy.

COMPLAINTS MANAGEMENT

We place great importance on effectively managing and learning from customer complaints. Our Complaint Management Policy is supported by a robust complaints management process which logs, categorises and investigates all complaints. **flexigroup** has a dedicated hotline for customer complaints and each dispute that is received by the complaints team is investigated and addressed on a case-by-case basis as quickly as possible.

SUPPORTING VULNERABLE CUSTOMERS

To support any customers affected by a change in circumstances that results in financial difficulty, **flexigroup** offers a Financial Hardship Support program. As part of this, our dedicated hardship team will work closely with the customer to understand their situation and develop a feasible repayment plan which can include variations to the customer's credit contracts. This is underpinned by the Financial Hardship Policy **flexigroup** has in place, which sets out guidelines on how to appropriately manage customers in financial difficulty.

In response to COVID-19, we reached out to our customers via our product websites, social media and email communications to let them know we were there to help if they were experiencing financial hardship and how to reach us if they needed to.

We have also offered extended interest free periods on essential products and services to make things easier during periods of uncertainty.

We also introduced a more streamlined and automated process, giving our customers comfort more quickly that we were there to support them as they came to terms with their changing world and managed their financial obligations.

OUR PASSIONATE AND EXPERIENCED GROUP FRAUD TEAM WORK HARD TO STAY ONE STEP AHEAD OF FRAUDSTERS.

CYBER SECURITY

In order to ensure that the privacy and information of our customers is protected, **flexigroup** has implemented a group-wide security framework that combines a dedicated internal Cyber and Information Security Team with a Managed Security Service provider. This ensures effective governance of our environment security through policies, standards and continuous risk assessment, as well as security compliance management for industry and regulatory requirements.

The framework also includes group-wide capabilities for the protection of our cyber environment, detection of any attacks or breaches, and response and recovery in the event of any security incidents.

RESPONSIBLE LENDING

As responsible lenders, we are focused on sustainable long-term relationships and protecting our customers from financial risk. We have a stringent process for selecting and onboarding retailers who are approved to offer the BNPL product. This ensures our BNPL retailers are aligned with **flexigroup** in the protection of consumer interests.

We proactively engage with Government, our regulators and industry bodies across a wide range of responsible lending issues, including the recent ASIC update to its Responsible Lending Guide (RG209).

We regularly monitor what credit scores are appropriate for consumers to access BNPL, improve calibration of credit limit allocation tables and proactively decrease credit limits where appropriate to protect our customers from financial risk.

In response to COVID-19, we have taken additional steps to protect our most at-risk customers by reducing credit limits to protect vulnerable customers from over-committing themselves and, at the same time, reduce the opportunity for fraud to occur where there are unutilised and inactive accounts.

In addition, we are enhancing our mobile apps to deliver money management tools, with greater account visibility and control to customers.

FRAUD AND SCAMS

Our passionate and experienced Group Fraud Team work hard to stay one step ahead of fraudsters. The team identify, investigate and respond to suspicious activity, liaising with authorities as required and providing support to impacted customers.

A critical focus of the team is on education to ensure that customers remain vigilant and know how to identify and respond to scams.

The team produce regular communications that assist customers in protecting their accounts from scams and ensure they know what to do if they receive a suspicious call, email or text. These regular emails help to keep our customers safe.

OUR ENVIRONMENT

FLEXIGROUP IS CONTINUOUSLY SEEKING TO ADOPT MEASURES THAT CAN ASSIST IN IMPROVING OUR ENVIRONMENTAL PERFORMANCE.

GREEN BONDS

In 2016, **flexigroup** was the first Australian company to issue a green asset-backed security to fund its solar energy related financing.

flexigroup has since issued four further securitisations of similar loans representing over $375m of green asset-backed securities.

flexigroup closed its latest transaction including green bonds under its Flexi ABS Trust securitisation program, Flexi ABS Trust 2019-2, in November 2019 which was the second successful green bonds issuance for **flexigroup** in 2019. This transaction represented another first for the Australian asset-backed securities market with green bonds offered across all rated Tranches from 'AAA' down to 'BB'. It also represented the largest **flexigroup** green bond issuance to date, with over $100m of green bonds issued in a single transaction. According to distribution data, a large portion of these securities was allocated to ESG focused investors. **flexigroup** has continued to bring innovative green bond structures to the Australian market and is the only Australian asset-backed securities issuer to offer subordinated green bonds, with the Flexi ABS Trust 2019-2 transaction representing the third transaction to include subordinated Tranches.

Across all of **flexigroup**'s transactions, the green Tranches have been Climate Bond Certified by the Climate Bonds Standard Board based in London.

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Environmental initiatives

To reduce paper waste and energy consumption, we've decreased the number of printers in the office. All printers are set up to print double-sided and mono colours by default and everyone must swipe their access card to release a print job. These steps have significantly reduced the amount of printing in our offices.

We are working hard to divert our office waste from landfill through our kitchen and waste paper recycling system. This includes working with Simply Cups to up-cycle all takeaway coffee cups and encouraging the use of real crockery in the office. Our preferred catering supplier encourages the use of sustainable packaging wherever possible.

Our Adelaide office is in a 5-star Greenstar rated building, with solar panels providing an alternative source of renewable energy. Our head office in Sydney has a 4-star NABERS Energy rating and a 3-star NABERS water rating. NABERS is a nationally recognised measure of environmental performance.

OUR COMMUNITIES

WHETHER WE ARE LENDING A HAND OR PROVIDING FINANCIAL SUPPORT TO CHARITIES, FLEXIGROUP CARES DEEPLY ABOUT GIVING BACK TO THE COMMUNITIES WE SERVE.

EMPLOYEE VOLUNTEERING

Caring for the communities we are a part of is something our people are passionate about. To fuel this purpose-led passion, **flexigroup** offers a volunteering program whereby employees can take paid leave to volunteer for a cause that inspires them. In the last 12 months, **flexigroup** employees have volunteered to assist a wide range of organisations including Wesley Mission Food Drive, Dress for Success, Asylum Seekers Trust, Chained Dog Awareness, Eat My Lunch, City Mission, Sustainable Coastlines, Special Children's Christmas Party and Cure Kids.

MODERN SLAVERY ACT

flexigroup whole-heartedly supports the introduction of mandatory reporting as part of the *Modern Slavery Act 2018 (Cth)*. We are actively reviewing our supply chain and operations to ensure that **flexigroup** and its suppliers are compliant and look forward to playing our part as global citizens to ensure that the human rights and freedom of all people are upheld. The Board will report on our progress in accordance with the Act.

COMMUNITY AND CHARITABLE PARTNERSHIPS

flexigroup is proud to support a range of organisations that are making a difference in our communities, particularly in the areas of mental health, suicide and domestic violence. We have also supported those most affected by the Australian bushfires and provided direct relief to customers and employees who were impacted.

We are proud to support:

AUSTRALIAN RED CROSS DISASTER RELIEF FUND

flexigroup donated $200,000 to the Australian Red Cross Disaster Relief Fund, which went directly to the many communities impacted by the Australian wildfires. We also developed relief packages for our affected customers and made a $10,000 donation to support WIRES with the rescue of native wildlife.

LIVIN (AUSTRALIA)

LIVIN is on a mission to break the stigma associated with mental health. **flexigroup** supports the cause through volunteering, raising awareness and donations throughout Mental Health Month. We have also integrated LIVIN information into employee welcome packs.

LIFELINE (NEW ZEALAND)

flexigroup is a proud supporter of Lifeline and the work it does for suicide prevention in New Zealand. Lifeline receives over 10,000 calls per month from people of all ages and ethnicities who are struggling with a wide range of issues including relationship and work problems, mental health, grief, abuse, bullying and loneliness. It helps an average of 8-10 people a day at high risk of suicide.

WOMEN'S REFUGE (NEW ZEALAND)

New Zealand has the highest rate of family violence in the developed world. In 2019, 22 women lost their lives and more than 57,000 women and children were referred to Women's Refuge for assistance. In line with our policy and support for employees impacted by domestic violence, **flexigroup** actively fundraises for Women's Refuge throughout the year with a range of employee initiatives. Employees also collected Christmas gifts and other essential items to support families in crisis over the holiday season.

OUR FUTURE

"IT IS NEVER WRONG TO DO THE RIGHT THING"

MARK TWAIN

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We are proud of our effort but we know there is so much more we can do. In FY21, we commit to building a Group Corporate Social Responsibility Strategy, which will sit across multiple teams but be coordinated out of the Corporate Affairs Team with the active support of flexigroup's Executive Leadership.

As ever, we will be ready for whatever is around the corner and when our customers or communities need us, we'll be there.

CORPORATE GOVERNANCE

A FRAMEWORK FOR EFFECTIVE OVERSIGHT

OUR PURPOSE, OUR VALUES, OUR CULTURE AND OUR GOVERNANCE UNDERPIN THE WORK WE DO, AND IMPORTANTLY THE WAY WE DO THAT WORK.

>>

flexigroup has reviewed its current corporate governance policies and practices against the Australian Securities Exchange (ASX) Corporate Governance Council's (ASX CGC) Corporate Governance Principles and Recommendations 4th Edition (Recommendations) in respect of the year ended 30 June 2020.

As recommended by the ASX CGC, further information in relation to corporate governance practices is set out in the Corporate Governance Statement, which is publicly available on the Company's website at **flexigroup.com.au**

The Board has established a framework of processes and guidelines for the Company that includes corporate policies and monitoring procedures, financial and operational business risk management and internal control systems, and standards for ensuring lawful and ethical conduct.

There was no change to the Board's composition through the year.

Mr Abercrombie indirectly holds approximately 23% of the shares currently on issue in the Company and as a former CEO is not regarded as being an independent Director. The Board continues to believe that Mr Abercrombie is best placed to act as Chairman of both the Board and the Nomination Committee given his extensive corporate knowledge and understanding of the Company, and his industry associations.

Mr Wylie, through his role at Tanarra Capital, has an interest in approximately 5.1% of the shares currently on issue in the Company, and is not considered independent.

As at the date of this report, the Board is majority independent and consists of Mr Andrew Abercrombie (Chair), Ms Christine Christian AO (Deputy Chair), Mr Rajeev Dhawan, Ms Jodie Leonard, Ms Carole Campbell and Mr John Wylie AM. All Board Committees are chaired by Non-Executive Directors. The Company's Audit, Risk and Compliance and Remuneration Committees are entirely independent in composition.

This summary corporate governance report is current as at 26 August 2020, and has been approved by the **flexigroup** Board.

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DIRECTORS' REPORT

DIRECTORS' REPORT

FLEXIGROUP REPORTED A 172% INCREASE IN HUMM ONLINE VOLUMES IN FY20.

We, the Directors, are please to present our report on the consolidated entity (**flexigroup** or the Group) consisting of FlexiGroup Limited (Company) and the entities it controlled as at 30 June 2020 or during the year ended on that date.

ABOUT FLEXIGROUP

flexigroup is a diversified financial services group providing, both directly and through a network of over 73,000 retailers and brokers, no interest ever payment products, leasing, vendor finance programs, interest free finance, credit cards, and other finance solutions to consumers and businesses.

flexigroup offers our financial solutions across a broad range of industries and during the year operated, and continues to operate, in Australia, New Zealand and Ireland.

During the year our principal activities continued to be:

- Consumer revolving finance and cards.
- BNPL category of products.
- Commercial Lease and SME financing services.
- Consumer Leasing, which ceased being offered from October 2019.

KEY DEVELOPMENTS

FY20 saw the continuing execution of the Company's strategy, announced in early 2019, of simplifying our business model, streamlining our originations processes, embedding our position as a leader in BNPL, and expanding our reach through product innovation.

Through simplification the Company reduced the cost base by $10m (on an annualised basis) and continued to improve the customer origination experience while introducing new credit and fraud controls. Over the year **humm** continued to grow its customer base and distribution channels – including in eCommerce – and sales volumes, and we were proud to bring **bundll** to market, the first BNPL product that can be used everywhere.

All of the above was achieved in an environment challenged by natural disasters and a global pandemic. **flexigroup** responded swiftly and compassionately to each of these as they arose, whether through our financial support of bushfire relief efforts, mobilising our people to work from home, adapting our hardship approach, or engaging with our funders to underpin our continued growth.

The effects of COVID-19 will continue to be felt for many years to come. We believe the continued execution of **flexigroup**'s strategy will see it well placed to navigate through the uncharted waters of a global economy dealing with the impacts of a worldwide pandemic.

OPERATING AND FINANCIAL RESULTS

We have provided details of **flexigroup**'s operating and financial results in the Review of Operations at pages 30-45.

DIRECTORS

Set out below, and on pages 24 and 25 above, are the details of those persons who were Directors of FlexiGroup Limited during the year and as at the date of this report, unless specified otherwise. More information on their interests in shares and options at the date of this report can be found in the Remuneration Report:

Andrew Abercrombie // Chairman, Chair Nomination Committee

Christine Christian AO // Deputy Chair, Chair Risk and Compliance Committee

Rajeev Dhawan

Jodie Leonard // Chair Remuneration Committee

Carole Campbell // Chair Audit Committee

John Wylie AM

COMPANY SECRETARY

Isobel Rogerson

Company Matters Pty Limited
Provided governance advisory services during the year.

17%

FLEXIGROUP ACHIEVED 17% VOLUME GROWTH ON CONTINUING PRODUCTS, ENDING FY20 WITH 2.2M+ CUSTOMERS.

MEETINGS OF DIRECTORS

	Board		Board COVID-19		Audit Committee		Nomination Committee		Remuneration Committee		Risk and Compliance Committee	
	A	B	A	B	A	B	A	B	A	B	A	B
Andrew Abercrombie	11	11	15	15	+	+	DNM	DNM	+	+	+	+
Christine Christian AO	11	10	15	14	7	4	DNM	DNM	+	+	6	6
Rajeev Dhawan	11	11	15	15	+	+	DNM	DNM	5	5	6	6
Jodie Leonard	11	11	15	15	7	7	+	+	5	5	+	+
Carole Campbell	11	11	15	15	7	7	+	+	5	5	+	+
John Wylie AM	11	10	15	15	+	+	+	+	+	+	+	+

In addition to the scheduled meetings the Board held an additional series of meetings to address the Company's response to the COVID-19 pandemic.

A = Number of meetings held during the time the Director held office or was a member of the committee during the Reporting Period.
B = Number of meetings attended.
\+ = Not a member of the committee.
DNM = Did not meet during the Reporting Period.

DIRECTORS' REPORT

IN AN ENVIRONMENT CHALLENGED BY NATURAL DISASTERS AND A GLOBAL PANDEMIC, FLEXIGROUP RESPONDED SWIFTLY AND COMPASSIONATELY.

During the year ended 30 June 2020 **flexigroup** paid insurance premiums in respect of a contract for Directors' and Officers' Liability insurance. The policy prohibits **flexigroup** from disclosing the total amount of the premium and the nature of the liabilities covered by the insurance.

REMUNERATION REPORT

We have presented in the Remuneration Report, on pages 46 and following above, information on **flexigroup's** remuneration policies and practises insofar as they relate to our KMP, including in respect of the relationship between remuneration and the Company's performance.

INDEMNITY OF AUDITORS

flexigroup has agreed to indemnify our auditors, PricewaterhouseCoopers, to the extent permitted by law against any claim by a third party arising from the Company's breach of their agreement. The indemnity stipulates that **flexigroup** will meet the full amount of any such liabilities including a reasonable amount of legal costs.

PROCEEDINGS ON BEHALF OF COMPANY

No person has applied to the court under section 237 of the *Corporations Act 2001* for leave of the court to bring proceedings on behalf of the Company, or intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

No proceedings have been brought or intervened in on behalf of the Company with leave of the court under section 237 of the *Corporations Act 2001*.

NON-AUDIT SERVICES

flexigroup may sometimes decide to employ the auditor on assignments additional to its statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important.

Details of the amounts paid to the auditor for audit and non-audit related services provided during the year are set out in note 32 of the financial statements.

The Board has considered the position and, in accordance with advice received from the Audit Committee, is satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out in note 32, did not compromise the auditor independence requirement of the *Corporations Act 2001* for the following reasons:

> all non-audit services have been reviewed by the Audit Committee to ensure they do not impact the impartiality and objectivity of the auditor; and

> none of the services undermines the general principle relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

DIVIDENDS AND OPTIONS

During the year the Company declared a dividend of 3.85cps for the half year ended 31 December 2019, payment of which was deferred to October 2020.

As noted in the Remuneration Report (above), the Board also made a mega grant of options as part of the Transformation Incentive Plan.

DECLARATION OF INTERESTS

Other than as disclosed in the financial statements, no Director of the Company has received or become entitled to receive a benefit other than remuneration by reason of a contract made by the Company or a related corporation with a Director or with a firm of which he or she is a member, or with a company in which he or she has a substantial financial interest except that FlexiRent Capital Pty Limited has rented premises in Melbourne owned by a company associated with Mr Andrew Abercrombie. The lease is on standard market terms.

ENVIRONMENTAL REGULATION

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

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 Financial Statements. Some amounts in the Directors' Report and the Financial Statements have been rounded off in accordance with that instrument to the nearest hundred thousand dollars.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Other than the matters discussed in note 36, there are no other matters or circumstances that have arisen since 30 June 2020 which have significantly affected, or may significantly affect:

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

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration, as required by section 307C of the *Corporations Act 2001*, is set out on page 99.

AUDITOR

PricewaterhouseCoopers continues to act as the Company's auditor in accordance with section 327 of the *Corporations Act 2001*.

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

Andrew Abercrombie
Chairman
Sydney

26 August 2020

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AUDITOR'S INDEPENDENCE DECLARATION

pwc

Auditor's Independence Declaration

As lead auditor for the audit of FlexiGroup Limited for the year ended 30 June 2020, 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 audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

Rob Spring
Partner
PricewaterhouseCoopers

Sydney
26 August 2020

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FINANCIAL STATEMENTS 2020

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FOR THE YEAR ENDED 30 JUNE 2020

ABN 75 122 574 583

These financial statements are the consolidated financial statements for the Group consisting of FlexiGroup Limited and its subsidiaries. A list of all subsidiaries is included in note 29. The financial statements are presented in Australian dollars.

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

Level 7, 179 Elizabeth Street, Sydney NSW 2000

A description of the nature of the consolidated entity's operations and its principal activities is included in the Directors' Report on page 93, which is not part of these financial statements.

The financial statements were authorised for issue by the Directors on 26 August 2020. The Directors have the power to amend and reissue the financial statements.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at a minimum cost to the Company. All ASX announcements, financial statements and other information are available at our Investor Centre on our website: **flexigroup.com.au**

CONTENTS

CONSOLIDATED INCOME STATEMENT

A$m	Notes	2020	2019
Interest income		360.2	352.8
Interest expense		(89.3)	(100.6)
Other portfolio income	4	90.2	119.9
Net income		**361.1**	372.1
Employment expenses		(88.2)	(90.5)
Receivables and customer loan impairment expenses	23(b)	(145.2)	(87.5)
Impairment of intangible assets	5(a)	(1.5)	(10.5)
Depreciation and amortisation expenses	5(b)	(21.4)	(17.1)
Operating expenses	5(c)	(80.1)	(75.6)
Profit before income tax		**24.7**	90.9
Income tax expense	6(a)	(3.3)	(29.2)
Profit for the year attributable to shareholders of FlexiGroup Limited		**21.4**	61.7

Earnings per share for profit attributable to the ordinary equity holders of the Company:		Cents	Cents
Basic earnings per share	20(a)	5.0	15.9
Diluted earnings per share	20(a)	5.0	15.9

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

A$m	2020	2019
Profit for the year	**21.4**	61.7
Other comprehensive income		
Items that may be reclassified to profit and loss		
Exchange differences on translation of foreign operations	(5.2)	9.9
Changes in the fair value of cash flow hedges, net of tax	(15.1)	(9.5)
Other comprehensive (loss)/income for the year, net of tax	**(20.3)**	**0.4**
Total comprehensive income for the year attributable to shareholders of FlexiGroup Limited	**1.1**	62.1

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

A$m	Notes	30 June 2020	30 June 2019
Assets			
Cash and cash equivalents	21	157.5	143.1
Inventories	7	1.9	1.8
Receivables	8	638.2	596.0
Customer loans	8	1,814.4	1,981.4
Investment in associate	9	14.3	13.7
Current tax receivable		1.7	14.0
Plant and equipment	10	7.4	8.7
Right-of-use assets	10	12.5	–
Goodwill	11	239.9	244.3
Other intangible assets	12	113.7	102.0
Deferred tax asset	6(e)	44.9	12.3
Total assets		**3,046.4**	3,117.3
Liabilities			
Trade and other payables	13	67.3	58.0
Current contract liabilities		7.5	10.9
Lease liabilities	25	16.5	–
Borrowings	14	2,295.1	2,387.7
Current tax liabilities		14.8	4.1
Provisions	15	20.5	22.9
Derivative financial instruments	16	38.2	17.6
Total liabilities		**2,459.9**	2,501.2
Net assets		**586.5**	616.1
Equity			
Contributed equity	17(a)	393.1	390.1
Reserves	18(a)	(17.8)	2.8
Retained earnings	18(b)	211.2	223.2
Total equity		**586.5**	616.1

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

2019

A$m	Notes	Contributed equity	Reserves	Retained earnings	Total
Balance at the beginning of the year		362.8	10.3	254.5	**627.6**
Change from initial application of AASB 15		–	–	(11.1)	(11.1)
Correction of error[1]		–	(8.2)	8.2	–
Re-stated balance at 30 June 2018		362.8	2.1	251.6	**616.5**
Changes from initial application of AASB 9		–	–	(59.3)	(59.3)
Re-stated balance at 1 July 2018		362.8	2.1	192.3	557.2
Profit for the year		–	–	61.7	61.7
Other comprehensive income		–	0.4	–	0.4
Total comprehensive income for the year		–	0.4	61.7	**62.1**
Issuance of shares		25.2	–	–	25.2
Treasury shares purchased on-market		(0.1)	–	–	(0.1)
Transfer to share capital from share-based payment reserve or treasury shares		0.4	(0.4)	–	–
Share-based payment expense (net of tax)		–	0.7	–	0.7
Dividends provided for or paid	19	1.8	–	(30.8)	(29.0)
Balance at the end of the year		390.1	2.8	223.2	**616.1**

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.

2020

A$m	Notes	Contributed equity	Reserves	Retained earnings	Total
Balance at the beginning of the year		390.1	2.8	223.2	**616.1**
Profit for the year		–	–	21.4	21.4
Other comprehensive income		–	(20.3)	–	(20.3)
Total comprehensive income for the year		–	(20.3)	21.4	**1.1**
Transfer to share capital from share-based payment reserve		0.3	(0.3)	–	–
Dividends provided for or paid	19	2.7	–	(33.4)	(30.7)
Balance at the end of the year		393.1	(17.8)	211.2	**586.5**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

A$m	Notes	2020	2019
Cash flows from operating activities			
Interest and other portfolio income received from customers		472.9	494.7
Payment to suppliers and employees		(184.6)	(180.0)
Borrowing costs		(86.4)	(105.3)
Income taxes paid		(6.5)	(44.0)
Net cash inflow from operating activities	21	**195.4**	165.4
Cash flows from investing activities			
Payment for purchase of plant and equipment and software		(31.7)	(26.7)
Net movement in:			
Customer loans		21.2	(317.7)
Receivables due from customers		(78.1)	(32.6)
Net cash outflow from investing activities		**(88.6)**	(377.0)
Cash flows from financing activities			
Dividends paid		(15.2)	(28.8)
Proceeds from equity raising, net of transaction costs		–	25.1
Cash payments relating to lease liabilities		(3.1)	–
Treasury shares purchased on-market		–	(0.1)
Drawdown of corporate borrowings		341.6	226.7
Repayment of corporate borrowings		(371.5)	(234.0)
Net movement in:			
Non-recourse borrowings		(43.3)	232.6
Loss reserve on non-recourse borrowings		–	3.5
Net cash inflow from financing activities		**(91.5)**	225.0
Net increase in cash and cash equivalents		15.3	13.4
Cash and cash equivalents at the beginning of the year		143.1	128.2
Effects of exchange rate changes on cash and cash equivalents		(0.9)	1.5
Cash and cash equivalents at the end of the year	21	**157.5**	143.1

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of this Financial Report are set out below or in the accompanying notes to the financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. FlexiGroup Limited is a for-profit entity for the purpose of preparing the financial statements.

The consolidated financial statements of FlexiGroup Limited also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value. The Statement of Financial Position has been prepared in order of liquidity, including the comparatives. The disaggregation of amounts receivable and payable in the next twelve months and beyond is outlined in the accompanying notes to the financial statements and the maturity profile of financial liabilities in outlined in note 23.

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Instrument to the nearest hundred thousand dollars, or in certain cases, to the nearest dollar.

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

The Group has applied the following standards and amendments for the first time for the annual reporting period commencing 1 July 2019:

AASB 16 Leases

The Group had to change its accounting policies as a result of adopting AASB 16 Leases (AASB 16). The impact of the adoption of the leasing standard and the new accounting policies are disclosed in note 25. The Group has adopted AASB 16 retrospectively from 1 July 2019 but has not restated comparatives for the 2019 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.

Other than the above, no other amendments or standards had any impact on the Group's accounting policies.

Interpretation 23 Uncertainty over Income Tax Treatments

AASB Interpretation 23 (Interpretation 23) clarified the application of the recognition and measurement criteria in AASB 112 Income Taxes (AASB 112) where there is uncertainty over income tax treatments and requires an assessment of each uncertain tax position as to whether it is probable that a taxation authority will accept the position. Where it is not probable, the effect of the uncertainty is reflected in determining the relevant taxable profit or loss, tax bases, unused tax losses and unused tax credits or tax rates. The amendment is effective for the period beginning 1 July 2019. The implementation of this interpretation will increase disclosure of tax adjustments from uncertain positions with tax authorities and the resolution once private rulings or application of tax legislation has been finalised. The Group has assessed the impact of the interpretation and does not believe that there are any uncertain tax positions for which the Group is required to reflect a different tax treatment in determining both current and deferred taxes.

AASB 2018-1 Amendments to Australian Accounting Standards – Annual Improvements 2015-2017 Cycle

This is applicable for the Group's financial reporting period commencing on 1 July 2019 and makes amendments to (i) AASB 3 Business Combinations (August 2015) to clarify that an entity remeasures its previously held interest in a joint operation when it obtains control of the business; (ii) AASB 11 Joint Arrangements (July 2015) to clarify that an entity does not remeasure its previously held interest in a joint operation when it obtains joint control of the business; (iii) AASB 112 Income Taxes (August 2015) to clarify that an entity accounts for all income tax consequences of dividend payments according to where the entity originally recognised the past transactions or events that generated the distributable profits; and (iv) AASB 123 Borrowing Costs (August 2015) to clarify that an entity treats any borrowing originally made to develop a qualifying asset as part of general borrowings when the asset is ready for its intended use or sale.

The Group expects the impact of these amendments to be immaterial.

ii) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquired entity and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired are recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired, and after the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

iii) Parent entity financial information

The financial information for the parent entity, FlexiGroup Limited, disclosed in note 34 has been prepared on the same basis as the consolidated financial statements, except as set out below.

iv) Investments in subsidiaries

Investments in subsidiaries are accounted for at cost less allowance for impairment in the financial statements of FlexiGroup Limited.

v) Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is FlexiGroup Limited's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using average exchange rates for the respective month. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in the Consolidated Income Statement. They are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investments in foreign operations.

Foreign exchange gains and losses are presented in the Consolidated Income Statement on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

(c) Group companies

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

- assets and liabilities for each Statement of Financial Position presented are translated at the closing rate at the date of the Statement of Financial Position;
- income and expenses for each Income Statement and Statement of Comprehensive Income are translated at average exchange rates for the respective month (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange difference is recognised in the Income Statement, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign entities and as a result are expressed in the functional currency of the foreign operation and translated at the closing rate.

vi) Indirect taxes

Indirect taxes comprise Goods and Services Tax (GST) in Australia and New Zealand and Value Added Tax (VAT) in Ireland. Revenues, expenses and assets are recognised net of the amount of indirect taxes, unless the amount incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated exclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxation authority, are presented as operating cash flows.

vii) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions.

Australian JobKeeper subsidies of $2.8m are included in the 'Employment expenses' line item. There are no unfulfilled conditions or other contingencies attaching to these grants. The group did not benefit directly from any other forms of government assistance.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

While the specific areas of judgement as noted below did not change, the impact of COVID-19 resulted in the application of further judgement within those identified areas. Given the dynamic and evolving nature of COVID-19 and the limited recent experience of the economic and financial impacts of such a pandemic, changes to the estimates and outcomes that have been applied in the measurement of the Group's assets and liabilities may arise in the future.

Where specific areas of judgement and uncertainty exist we have included increased disclosure in the accompanying notes to the financial statements.

The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are outlined below.

i) Expected Credit Losses (ECL)/Provision for doubtful debts

The Group estimates expected credit losses on its loans and lease receivables in accordance with the policy set out in note 23.

The COVID-19 pandemic is leading to material structural shifts in the behaviour of the economy and customers, and unprecedented actions by governments and regulators in response. ECL models are expected to be subject to a higher than usual level of uncertainty during this period. In this environment there is a heightened need for the application of judgement in order to reflect these evolving uncertainties and risks.

This judgement has been applied in the form of the revision to macro-economic model overlays including scenario weightings and COVID-19 hardship and watchlist overlays.

ii) Assessment of impairment of goodwill, investments in subsidiaries, investment in associates and capitalised software

Under accounting standards, the Group is required to perform an annual assessment as to whether there has been any impairment of its goodwill. In addition, the Group is required to perform an impairment assessment of other assets in the event it identifies an indicator of impairment. Details of the basis of performance of the assessment and the assumptions made are set out in note 11.

iii) Estimation of unguaranteed residuals on leases

The Group estimates the value of unguaranteed lease residuals based on its prior experience for similar contracts. Where applicable, residual values are set at rates ranging between 0% and 20% depending on asset type and the duration of the contract.

iv) Acquired intangible assets

The assets and liabilities of businesses acquired through a business combination are to be measured at their acquisition date fair values. The Group applies judgement in selecting valuation techniques and setting valuation assumptions to determine the acquisition date fair values and to estimate the useful lives of these assets as set out in note 12.

v) Fair value of financial instruments

All derivatives are recognised and measured at fair value. The derivatives are valued using valuation techniques that utilise observable market inputs. The fair value of financial instruments is included within note 24.

vi) Share-based payments expense

In determining the share-based payments expense for the period, the Group makes various assumptions in determining the fair value of the instruments, the probability of non-market vesting conditions being met, and the likelihood of employees meeting tenure conditions. Refer to note 22.

vii) Taxation

Judgement is required in determining provisions held in respect of uncertain tax positions. The Group estimates its tax liabilities based on its understanding of the relevant tax law in each of the countries in which it operates and seeks independent advice to support the assessment where required. Refer to note 6.

viii) Provision for customer remediation

Judgement is required in determining provisions held in respect of customer remediation obligations. The Group estimates these provisions based on its understanding of likely outcomes, considering expert opinions and on-going discussions with regulatory bodies. Refer to note 15.

ix) Lease liabilities

The Group cannot readily determine the interest rate implicit in its lease liabilities; therefore, it uses the lessee's incremental borrowing rate to measure this. The incremental borrowing rate is the rate of interest that the lessee would have to pay to borrow over a similar term, with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. Refer to note 27.

3. SEGMENT INFORMATION

a) Description of segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision makers. The chief operating decision makers, who are responsible for allocating resources and assessing performance of the operating segments, have been identified as the Board of Directors.

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 and Farmers Mastercard);
- Australia Cards (**SKYE**, LOMBARD, ONCE and **bundll**); and
- Commercial and Leasing (consisting of Australia Commercial Leasing, New Zealand Leasing and Consumer Leasing).

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. Neither of these segments are individually material.

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 segment information for the prior year has been restated following the changes in the composition of its reportable segments.

The segment information provided to the Board of Directors for the reportable segments for the year ended 30 June 2020 is as below:

3. SEGMENT INFORMATION CONTINUED

b) Operating segments

Year ended 30 June 2020

A$m	BNPL	AU Cards	NZ Cards	Commercial and Leasing	Total
Interest income	93.9	86.9	120.8	58.6	360.2
Interest expense	(20.3)	(20.1)	(27.7)	(21.2)	(89.3)
Other portfolio income[1]	24.4	16.6	15.3	33.9	90.2
Net income	98.0	83.4	108.4	71.3	**361.1**
Impairment losses on receivables and customer loans	(48.9)	(35.5)	(33.8)	(27.0)	(145.2)
Impairment of other intangible assets	(0.5)	(0.1)	(0.2)	(0.7)	(1.5)
Amortisation of acquired intangible assets	(0.2)	–	(2.5)	(0.6)	(3.3)
Operating expenses	(43.9)	(48.3)	(50.2)	(44.0)	(186.4)
Profit before income tax	4.5	(0.5)	21.7	(1.0)	**24.7**
Income tax expense	(0.5)	0.6	(4.6)	1.2	(3.3)
Statutory profit for the year	4.0	0.1	17.1	0.2	**21.4**
Recurring non-cash adjustments:					
Amortisation of acquired intangible assets	0.1	–	1.8	1.4	3.3
Impairment of other intangible assets	0.4	0.1	0.1	0.5	1.1
Redundancy and restructure	0.9	0.9	0.9	0.8	3.5
Other	0.3	0.4	(0.1)	(0.7)	(0.1)
Cash net profit after tax	5.7	1.5	19.8	2.2	**29.2**
Total segment assets at 30 June 2020	714.9	653.2	982.3	696.0	**3,046.4**

1. Other portfolio income:					
Account servicing fees	17.1	11.7	11.9	0.8	41.5
Transaction processing fees	8.8	15.3	7.3	3.8	35.2
Leasing related income	–	–	–	28.8	28.8
Cost of sales	(3.2)	(11.5)	(10.0)	–	(24.7)
Share of profit after tax from investment in associate	–	–	–	0.5	0.5
Other income	1.7	1.1	6.1	–	8.9
Total other portfolio income	24.4	16.6	15.3	33.9	**90.2**

Year ended 30 June 2019

A$m	BNPL	AU Cards	NZ Cards	Commercial and Leasing	Total
Interest income	89.2	81.4	109.6	72.6	352.8
Interest expense	(20.0)	(24.1)	(30.9)	(25.6)	(100.6)
Other portfolio income[1]	34.6	21.2	17.8	46.3	119.9
Net income	103.8	78.5	96.5	93.3	**372.1**
Impairment losses on receivables and customer loans	(29.8)	(26.9)	(10.9)	(19.9)	(87.5)
Impairment of other intangible assets	(0.9)	(0.2)	(4.0)	(5.4)	(10.5)
Amortisation of acquired intangible assets	(1.1)	–	(2.4)	(0.6)	(4.1)
Operating expenses	(35.8)	(40.1)	(47.0)	(56.2)	(179.1)
Profit before income tax	36.2	11.3	32.2	11.2	**90.9**
Income tax expense	(9.5)	(3.9)	(8.7)	(7.1)	(29.2)
Statutory profit for the year	26.7	7.4	23.5	4.1	**61.7**
Recurring non-cash adjustments:					
Amortisation of acquired intangible assets	0.8	–	1.7	0.4	2.9
Impairment of other intangible assets	0.6	0.1	2.9	3.9	7.5
Sale of Think Office Technology	–	–	–	(2.2)	(2.2)
Historical tax and accounting matters	–	–	–	6.2	6.2
Cash net profit after tax	28.1	7.5	28.1	12.4	**76.1**
Total segment assets at 30 June 2019	792.1	782.0	775.7	767.5	**3,117.3**
1. Other portfolio income:					
Account servicing fees	11.7	18.2	11.2	–	41.1
Transaction processing fees	17.3	15.1	6.0	6.7	45.1
Leasing related income	–	–	–	35.8	35.8
Cost of sales	(1.3)	(11.6)	(6.7)	–	(19.6)
Share of profit after tax from investment in associate	–	–	–	1.4	1.4
Gain on sale of Think Office Technology	–	–	–	2.5	2.5
Other income	6.9	(0.5)	7.3	(0.1)	13.6
Total other portfolio income	34.6	21.2	17.8	46.3	**119.9**

4. INTEREST AND OTHER PORTFOLIO INCOME

Interest income

ACCOUNTING POLICY

Interest income is recognised in the Income Statement using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset and of allocation of the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

Other portfolio income

ACCOUNTING POLICY

flexigroup has adopted AASB 15 Revenue from Contracts with Customers (AASB 15) as the primary accounting standing for revenue recognition. AASB 15 uses 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. Revenue earned by the Group from its contracts with customers primarily consists of the following categories of income:

Account service fee

Account servicing fees involve fees earned for managing and administering facilities for customers. Revenue is recognised over the service period on an accrual basis as the performance obligations are satisfied. Contract liabilities in the Statement of Financial Performance relate to unearned account service fee income.

Transaction processing fee

Transaction processing fees involve fees charged when transactions are carried out for the customers or when payments are dishonoured. Revenue is recognised when the fee is charged to customers; this is typically a single performance obligation.

Leasing related income

The Group operates an equipment protection and debt waiver plan entitled Protect Plan. Equipment protection plan revenue is recognised on an accruals basis over the life of the contract. A provision for outstanding expected claims is recognised in the Statement of Financial Position for the cost of Protect Plan claims which have been incurred at year end, but have not yet been notified to the Group; or which have been notified to the Group but not yet paid.

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

Cost of sales

Cost of sales includes direct costs associated with income generation including brokerage, sales incentives and commissions and credit reference costs.

Other income

Other income includes premium revenue earned from the Group's Consumer Insurance business in New Zealand. Premium revenue is recognised in the Income Statement when it has been earned. The unearned portion of premium revenue is recognised as an unearned premium liability on the Statement of Financial Position.

General insurance acquisition costs incurred in obtaining general insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the Income Statement in subsequent reporting periods. Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the general insurance contracts to which they relate. The pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

A$m	2020	2019
Account servicing fees	41.5	41.1
Transaction processing fees	35.2	45.1
Leasing related income	28.8	35.8
Cost of sales	(24.7)	(19.6)
Share of profit after tax from investment in associate	0.5	1.4
Gain on sale of Think Office Technology	–	2.5
Other income	8.9	13.6
Total other portfolio income	**90.2**	119.9

5. EXPENSES

ACCOUNTING POLICY

Expenses are recognised in the income statement as and when the provision of services is received.

a) Impairment of intangible assets

A$m	2020	2019
Impairment of other intangible assets	1.5	10.5
Total impairment of other intangibles	**1.5**	10.5

b) Depreciation and amortisation expenses

A$m	2020	2019
Depreciation of plant and equipment	5.4	2.5
Amortisation of other intangible assets	16.0	14.6
Total depreciation and amortisation expenses	**21.4**	17.1

c) Operating and other expenses

A$m	2020	2019
Advertising and marketing	23.7	14.7
Customer remediation program	0.9	0.3
Information technology and communication	22.0	18.8
Other occupancy, equipment and related costs	4.7	6.9
Outsourced operation costs	6.0	7.9
Professional, consulting and other service provider costs	16.0	19.6
Other	6.8	7.4
Total operating and other expenses	**80.1**	75.6

6. INCOME TAX EXPENSE

ACCOUNTING POLICY

The income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses.

The current income tax charge is calculated based on the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate, based on amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amounts and tax bases of investments in foreign operations where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset when there is a legally enforceable right to offset and an intention to either settle the liability simultaneously.

Current and deferred tax is recognised in the Income Statement except to the extent that it relates to items recognised in Other Comprehensive Income or directly in equity. In this case, the tax is also recognised in Other Comprehensive Income or directly in equity respectively.

Tax consolidation legislation

FlexiGroup Limited and its wholly owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set-off in the consolidated financial statements.

On adoption of the tax consolidation legislation, the entities in the Tax Consolidated Group entered into a Tax Sharing Agreement which limits the joint and several liability of the wholly owned entities in the case of a default by the head entity, FlexiGroup Limited.

The head entity, FlexiGroup Limited, and the controlled entities in the Tax Consolidated Group, account for their own current and deferred tax accounts. These tax amounts are measured as if each entity was a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, FlexiGroup Limited also recognises the current tax liabilities (assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the Tax Consolidated Group.

Assets or liabilities arising under the Tax Funding Agreement with the members of the Tax Consolidated Group are recognised as amounts receivable from or payable to other entities in the Group. Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) members of the Tax Consolidated Group.

The entities have also entered into a Tax Funding Agreement under which the wholly owned entities compensate FlexiGroup Limited for any current tax payable assumed and are compensated by FlexiGroup Limited for any current tax receivable and deferred tax assets relating to the unused tax losses or unused tax credits that are transferred to FlexiGroup Limited under the tax consolidation legislation. The amounts are recognised in the wholly owned entities' financial statements.

The amounts receivable/payable under the Tax Funding Agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of the financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as intercompany receivables.

a) Income tax expense

A$m	2020	2019
Current tax	22.0	17.1
Deferred tax expense	(15.2)	7.2
Under/(over) provision in prior years	(3.5)	4.9
Total income tax expense	**3.3**	29.2

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

A$m	2020	2019
Profit before income tax expense	24.7	90.9
Tax at the Australian tax rate of 30%	7.4	27.3
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Permanent differences[1]	(0.9)	(1.7)
Effect of differences in tax rates in a foreign jurisdiction	0.3	(1.3)
Adjustment of current tax of prior periods	(3.5)	4.9
Income tax expense	**3.3**	29.2

1. Includes interest on preference shares, gain on sales to Thinkex, income from investment in associates and other non-deductible costs.

c) Amount recognised directly in equity

A$m	2020	2019
Share-based payments	(0.1)	(0.1)
Cash flow hedge	(6.2)	3.4
Deferred income tax expense related to items taken directly to equity	**(6.3)**	3.3

d) Deferred tax expense represents movements in deferred tax assets/liabilities

A$m	2020	2019
Difference between lease principal to be returned as assessable income and depreciation on leased assets to be claimed as a tax deduction	(4.1)	(7.3)
Initial direct transaction costs	(1.8)	(1.5)
Other intangible assets	(2.7)	2.8
Plant and equipment	0.4	(0.1)
Payables and provisions	2.3	11.0
Expected credit allowance	(10.4)	5.7
Lease liabilities	(4.3)	–
Software	2.3	(0.3)
Unearned income	(0.1)	(3.1)
Right-of-use assets	3.2	–
Deferred tax expense	**(15.2)**	7.2

e) Deferred tax assets and liabilities

Deferred tax assets

A$m	Notes	2020	2019
Payables and provisions		11.5	4.8
Expected credit allowance		44.2	34.2
Lease liabilities		4.3	–
Derivative financial instruments		11.2	5.0
Software	4	3.9	6.3
Unearned income		3.2	3.1
Others		1.0	0.9
Total deferred tax assets		79.3	54.3

Deferred tax liabilities

A$m	2020	2019
Difference between lease principal to be returned as assessable income and depreciation on leased assets to be claimed as a tax deduction	14.3	20.7
Initial direct transaction costs	3.0	4.8
Plant and equipment	1.8	1.4
Other intangible assets	12.1	15.1
Right-of-use assets	3.2	–
Total deferred tax liabilities	**34.4**	42.0
Net deferred tax assets	**44.9**	12.3

Deferred tax liabilities continued

A$m	2020	2019
Amounts expected to be settled within 12 months	14.7	21.2
Amounts expected to be settled after more than 12 months	30.2	(8.9)
Net deferred tax assets	**44.9**	12.3

f) Carry forward tax losses

As at 30 June 2020, the balance of carry forward losses and the associated deferred tax asset were both $Nil (2019: $Nil).

g) Significant estimates – uncertain tax position

During the year, the Group continued to work closely with the Australian Taxation Office (ATO) to respond to its questions and requests for information as part of the ATO Top 1,000 Tax Performance Program 'Streamlined Assurance Review'. The review has now been completed and the ATO has issued the Streamlined Tax Assurance Report for FlexiGroup Limited, with a medium overall level of assurance. The Group will continue to work with the ATO in the future to address those matters for which a high level of assurance was not obtained. Other than the matters highlighted above, as at 30 June 2020, the Group does not have any material uncertain tax matters not otherwise provided for.

7. INVENTORIES

ACCOUNTING POLICY

Inventory comprises returned rental equipment prior to end of term and inertia assets from matured customer lease contracts. Inventory is recognised at the lower of cost and net realisable value when legal ownership transfers to **flexigroup** and is expected to be realised in the next 12 months.

A$m	2020	2019
Rental equipment	1.9	1.8
Total inventories	**1.9**	1.8

8. RECEIVABLES AND CUSTOMER LOANS

ACCOUNTING POLICY

Financial assets are grouped into the following classes:

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; and
- 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.

The Group has two classes of assets measured at amortised cost being finance lease receivables and customer loans.

Fair value through other comprehensive income (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; and
- 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.

The Group had no assets in this category at 30 June 2020.

Fair value through profit and loss (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 had no assets in this category at 30 June 2020.

A$m	2020	2019
Finance lease receivables	621.0	575.4
Other debtors	17.2	20.6
Total receivables	**638.2**	**596.0**
Customer loans	1,814.4	1,981.4
Total receivables and customer loans	**2,452.6**	2,577.4

Finance lease receivables

A$m	2020	2019
Gross investment in finance lease receivables	742.6	684.0
Guaranteed residuals	13.6	8.1
Unguaranteed residuals	29.3	34.7
Unamortised initial direct transaction costs	10.2	16.7
Unearned future income	(133.5)	(138.6)
Net investment in finance lease receivables	**662.2**	604.9
Provision for doubtful debts/expected credit allowance	(41.2)	(29.5)
Net investment in finance lease receivables	**621.0**	575.4

Maturity profile of net investment in finance lease receivables before provision for doubtful debts or expected credit allowance:

A$m	2020	2019
Less than 1 year	308.4	327.1
Between 1 and 2 years	214.4	214.9
Between 2 and 3 years	143.8	120.8
Between 3 and 4 years	83.9	58.3
Between 4 and 5 years	43.6	21.6
More than 5 years	1.6	0.8
Unearned future income	(133.5)	(138.6)
Net investment in finance lease receivables	**662.2**	604.9

Customer loans

A$m	2020	2019
Gross customer loans	2,020.0	2,160.4
Unearned future income	(100.2)	(98.6)
Net loan receivables	**1,919.8**	2,061.8
Expected credit allowance	(105.4)	(80.4)
Net investment in customer loans	**1,814.4**	1,981.4

Maturity profile of net customer loans before provision for doubtful debts or expected credit allowance:

A$m	2020	2019
Due within one year	1,472.3	1,412.9
Due after one year but not later than five years	547.5	729.2
Due greater than five years	0.2	18.3
Unearned future income	(100.2)	(98.6)
Net loan receivables	**1,919.8**	2,061.8

8. RECEIVABLES AND CUSTOMER LOANS CONTINUED

The following table shows receivables and customer loans presented based on their industry classification:

A$m	2020	2019
Accommodation and Food Services	33.8	26.5
Administrative and Support Services	5.8	–
Agriculture, Forestry and Fishing	5.6	1.6
Arts and Recreation Activities	14.5	11.7
Construction	44.6	16.4
Consumer Leasing	48.8	96.3
Education and Training	4.8	1.8
Electricity, Gas, Water and Waste Services	4.1	0.2
Financial and Insurance Services	23.5	1.6
Government	77.3	77.1
Healthcare and Social Assistance	16.8	10.9
Information Media and Telecommunications	16.1	17.2
Manufacturing	23.9	10.2
Mining	1.3	–
Other Services	198.6	288.1
Professional, Scientific and Technical Services	44.2	10.3
Rental, Hiring and Real Estate Services	16.7	9.3
Retail Trade	19.2	15.4
Transport, Postal and Warehousing	39.3	8.3
Wholesale Trade	23.3	2.0
Total	**662.2**	604.9

The following table shows finance lease receivables and customer loans presented based on the location of origination:

A$m	Australia	New Zealand	Ireland	Total
Receivables	517.2	143.5	1.5	662.2
Customer Loans	1,153.3	704.0	60.5	1,919.8
	1,672.5	847.5	62.0	**2,582.0**

Disclosures of the Group's credit impairment models and ECL provisions are outlined in note 23.

Movement in ECL allowance/provision for doubtful debts:

A$m	Finance Lease Receivables	Customer Loans	Total
2019			
Balance as at 1 July 2018	31.3	83.9	115.2
Provided for during the year, less write-offs previously provided for	(1.8)	(3.5)	(5.3)
Carrying amount at end of year	29.5	80.4	**109.9**
2020			
Balance as at 1 July 2019	29.5	80.4	**109.9**
Provided for during the year, less write-offs previously provided for	11.7	25.0	**36.7**
Carrying amount at end of year	41.2	105.4	**146.6**

9. INVESTMENT IN ASSOCIATES

ACCOUNTING POLICY

Associates are entities in which the Group has significant influence, but not control, over the operating and financial policies. The Group accounts for associates using the equity method. The investments are initially recognised at cost (except where recognised at fair value due to a loss of control of a subsidiary), and increased (or decreased) each year by the Group's share of the associates' profit (or loss). Dividends received from the associate reduce the investment in the associate. Investments in associates are considered to be non-current.

In July 2018, **flexigroup** sold its investment in its fully owned subsidiary, Australian Print Holdings Pty Limited (trading as Think Office Technology 'TOT'), and in exchange for a 35% equity stake in Thinkex Holdings Pty Limited.

Entity name	Country of incorporation	Percentage of shares held 2020	Percentage of shares held 2019
Thinkex Holdings Pty Limited	Australia	35.0%	35.0%

A$m	2020	2019
Profit from continuing operations	0.5	1.3
Total comprehensive income	**0.5**	1.3

10. PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

ACCOUNTING POLICY

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All repairs and maintenance are charged to the Income Statement during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line or diminishing value method to allocate their cost or revalue amounts, net of their residual values, over their estimated useful lives, as follows:

Assets	Method	Depreciation Rate
Computers	Diminishing value	50%
Plant and equipment	Diminishing value	30%
Motor vehicles	Diminishing value	25%
Leasehold improvements	Straight-line/Diminishing value	14% to 33%
Furniture and fittings	Diminishing value	15% to 25%

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount of the asset disposed. These are included in the Income Statement.

Right of use assets have been recognised and measured in accordance with AASB 16. Refer to note 25 for more details.

A$m	2020	2019
Plant and equipment – Cost	16.2	15.5
Plant and equipment – Accumulated depreciation	(8.8)	(6.8)
	7.4	**8.7**
Right-of-use assets – Cost	15.5	–
Right-of-use assets – Accumulated depreciation	(3.0)	–
	12.5	–
Net total book amount	**19.9**	8.7

Movement in plant and equipment at net book amount:

2019

A$m	Notes	Plant and equipment	Right-of-use assets	Total
Balance at the beginning of the year		8.3	–	8.3
Additions		2.9	–	2.9
Depreciation	5	(2.5)	–	(2.5)
Balance at the end of the year		8.7	–	**8.7**

2020

A$m	Notes	Plant and equipment	Right-of-use assets	Total
Balance at the beginning of the year		8.7	–	8.7
Additions		1.1	–	1.1
First time adoption of IFRS	25	–	15.5	15.5
Depreciation	5	(2.4)	(3.0)	(5.4)
Balance at the end of the year		7.4	12.5	**19.9**

11. GOODWILL

ACCOUNTING POLICY

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows, which are largely independent of the cash inflows from other assets or groups of assets' cash-generating units (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting period. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

a) Carrying value

A$m	2020	2019
Cost	239.9	244.3
Net book amount	**239.9**	244.3
Movement in goodwill at net book amount		
Balance at the beginning of the year	244.3	236.5
Effect of movements in exchange rates	(4.4)	7.8
Balance at the end of the year	**239.9**	244.3

b) Impairment testing for cash-generating units containing goodwill

A$m	2020	2019
BNPL – **humm**	30.7	30.7
AU Cards	18.9	18.9
NZ Leasing	17.9	18.4
NZ Cards	172.4	176.3
	239.9	244.3

The carrying amount of goodwill of each CGU is tested for impairment at each statutory reporting date and whenever there is an indicator that the asset may be impaired. If an asset is impaired, it is written down to its recoverable amount. The recoverable amount is based on a value in use calculation using cash flow projections based on the Board approved three-year plan. The cash flow projections are derived from running a number of budget scenarios to arrive at the single most likely view over the next three years, which is incorporated in the value in use model. Cash flows for a further two-year period were extrapolated using declining growth rates and the long-term terminal growth was determined at 2.5%, which does not exceed the long-term average for the sectors and economies in which the CGUs operate.

The key assumptions used in determining value in use for 30 June 2020 are:

Assumption	How determined
Forecast revenues and expenses	Forecast revenues and expenses for FY24 and FY25 beyond the financial year forecast period have been extrapolated using declining growth rates such that the long-term terminal growth rates are as follows: • BNPL – 2.5% (2019: 2.5%) • AU Cards – 2.5% (2019: 2.5%) • NZ Leasing – 2.5% (2019: 2.0%) • NZ Cards – 2.5% (2019: 2.0%)
Long-term growth rate	The above long-term growth rate for each of the CGUs does not exceed the long-term average growth rate for the sector/industry in which the CGU operates.
Cost of Equity Capital	The discount rate applied to the cash flows of each CGU is based on the risk free rate for 10-year Commonwealth Government bonds, adjusted for a risk premium to reflect both the increased risk of investing in equities and the risk of the specific Group operating company. In making this adjustment, inputs required are the equity markets risk premium (that is the required increased return required over and above a risk free rate by an investor who is investing in the market as a whole) and the risk adjustment, beta, applied to reflect the risk of the specific Group operating company relative to the market as a whole, giving rise to the CGU-specific Cost of Equity Capital. Geared cash flows are used to calculate recoverable amounts for all CGUs. The post-tax discount rates used for impairment testing are as follows: • **humm** – 12.50% (2019: 12.68%) • AU Cards – 12.50% (2019: 12.68%) • NZ Leasing – 9.54% (2019: 9.95%) • NZ Cards – 11.41% (2019: 12.75%)

Discount rate

If the post-tax discount rate applied to the cash flow projections of the NZ Cards CGU had been adjusted by a reasonable possible amount of up to 1.6% higher than management's estimate (up to 13% instead of 11.41%), the Group would have had to recognise an impairment against NZ Cards goodwill of up to $17m. The point at which the NZ Cards goodwill starts to be impaired would be 12.39%. In the prior year there were no reasonably possible changes in any of the key assumptions that would have resulted in an impairment write down in the NZ Cards CGU.

Sensitivity conclusion

The Directors and management have considered and assessed reasonably possible changes for other key assumptions and have not identified any instances that could cause the carrying amounts of all CGUs to exceed their respective recoverable amounts.

12. OTHER INTANGIBLE ASSETS

ACCOUNTING POLICY

a) IT development and software

Costs incurred on software development projects (relating to the design and testing of new or improved software products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technical feasibility and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including direct labour. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Capitalised development costs are recorded as an intangible asset and amortised using the straight-line method from the point at which the asset is ready for use over its useful life from three to 10 years. Software maintenance costs are expensed as incurred.

b) Merchant and customer relationships

Merchant and customer relationships acquired as part of a business combination are recognised separately from goodwill. The assets are measured at fair value at the date of acquisition less accumulated amortisation and impairment losses. Amortisation is calculated based on the timing of the projected cash flows of the relationships.

- Merchant relationships: from three to 27 years.
- Customer relationships: from three to 15 years.

A$m	Notes	IT development and software	Merchant and customer relationships and other rights	Brand name	Total
At 1 July 2018		58.2	37.9	4.3	100.4
Additions		24.0	–	–	24.0
Impairment[1]		(10.5)	–	–	(10.5)
Amortisation	6	(10.4)	(4.2)	–	(14.6)
Effect of movements in exchange rates		1.0	1.5	0.2	2.7
At 30 June 2019		62.3	35.2	4.5	**102.0**
At 1 July 2019		62.3	35.2	4.5	**102.0**
Additions		30.4	–	–	**30.4**
Impairment[2]		(1.5)	–	–	**(1.5)**
Amortisation		(12.8)	(3.3)	–	**(16.1)**
Effect of movements in exchange rates		(0.5)	(0.2)	(0.4)	**(1.1)**
At 30 June 2020		77.9	31.7	4.1	**113.7**

1. Impairment relates to the write-down of intangible assets relating to the Consumer Leasing CGU and the write-down of capitalised software as assets are replaced by future state architecture.
2. Impairment relates to the write-down of capitalised software as assets are replaced by future state architecture.

13. TRADE AND OTHER PAYABLES

ACCOUNTING POLICY

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

A$m	2020	2019
Trade and other payables	64.1	58.4
Total trade and other payables	**64.1**	58.4

14. BORROWINGS

ACCOUNTING POLICY

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Income Statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are an incremental cost relating to the actual draw-down of the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility.

Borrowings are removed from the Statement of Financial Position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the Income Statement.

Wholesale debt facilities are secured against underlying pools of receivables and customer loans. The majority of these facilities provide for the repayment of outstanding loans in line with the relevant receivables and customer loans held in these facilities. The remaining facilities have a soft bullet with sufficient lead-time for refinance ahead of maturity.

A$m	2020	2019
Secured		
Corporate debt	66.7	98.1
Secured loans	2,255.0	2,320.8
Total secured borrowings	**2,321.7**	2,418.9
Loss reserve	(26.6)	(31.2)
Total borrowings	**2,295.1**	2,387.7
Maturity profile of borrowings, net of loss reserve:		
Due within one year	1,235.7	1,438.0
Due after one year but not later than five years	1,059.4	949.7
Total borrowings	**2,295.1**	2,387.7

Assets pledged as security

The loans subject to recourse funding arrangements are secured by rentals and payments receivable in respect of the underlying lease and loan receivable contracts. Under the terms of some of the recourse funding arrangements, the funders retain a part of the gross amount funded as security against credit losses on the underlying loans. This amount is referred to as a ‘loss reserve’ and represents a reduction in the amount borrowed.

Financing arrangements

Unrestricted access was available at balance date to the following lines of credit before loss reserves:

A$m	2020	2019
Total loan facilities available	3,099.8	2,952.5
Loan facilities used at balance date	(2,321.7)	(2,418.9)
Loan facilities unused at balance date	**778.1**	533.6

15. PROVISIONS

ACCOUNTING POLICY

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Employee benefit provisions include:

a) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months after the end of the period in which the employees render the related service, are recognised in respect of employees' services up to the end of the reporting period and are measured as the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised as a provision in the Statement of Financial Position. All other short-term employee benefit obligations are presented as payables.

b) Other long-term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method.

Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on government bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows.

c) Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

$7.3m of provisions are due for settlement in the next twelve months, including annual leave liabilities, premium and claim liabilities, customer remediation and make good provisions.

A$m	Notes	2020	2019
Annual leave		4.3	4.4
Long service leave		1.8	2.4
Outstanding claims liability		0.5	0.6
Unearned premium liability		0.5	0.5
Customer remediation		1.5	1.5
Make good provision		0.6	0.4
Undrawn credit commitments	23	11.3	13.1
Total provisions		**20.5**	22.9

16. DERIVATIVE FINANCIAL INSTRUMENTS

ACCOUNTING POLICY

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group designates all derivatives held as at 30 June 2020 and 30 June 2019 as hedges of a particular risk associated with the cash flows of recognised liabilities and highly probable forecast transactions (cash flow hedges) or hedges of a net investment in a foreign operation (net investment hedges).

At the inception of the hedging transaction, the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of derivative financial instruments used for hedging purposes are disclosed below. Movements in the hedging reserve in shareholders' equity are shown in note 18.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other income or other expense.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for instance when the interest payment that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in profit or loss within interest expense.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in other income or other expenses.

Hedges of net investment in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument related to the effective portion of the hedge is recognised in Other Comprehensive Income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement within other income or other expenses. Gains and losses accumulated in equity are reclassified to the Income Statement when the foreign operation is partly disposed or sold.

A$m	2020	2019
Interest rate swaps used for hedging	**38.2**	17.6

Risk exposures and fair value measurements

Information about the Group's exposure to credit risk, foreign exchange risk and interest rate risk is provided in note 23 and about the methods and assumptions used in determining fair values is provided in note 24. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of derivative financial liabilities mentioned above.

17. CONTRIBUTED EQUITY

ACCOUNTING POLICY

Ordinary shares and subordinated perpetual notes are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the owners of FlexiGroup Limited as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of FlexiGroup Limited.

a) Share capital

	2020 # Shares	2019 # Shares	2020 A$m	2019 A$m
Ordinary shares – fully paid	394,333,872	394,286,499	339.5	339.2
Subordinated perpetual notes	49,129,075	49,129,075	53.6	50.9
Total share capital	**443,462,947**	**443,415,574**	**393.1**	**390.1**

b) Movement in ordinary shares

	Number of shares	A$m
1 July 2018	374,050,685	313.7
Treasury shares purchased on-market	(45,000)	(0.1)
Transfer from treasury shares on vesting of options	166,867	0.1
Transfer from share-based payment reserve	–	0.4
Issuance of shares	20,113,947.0	25.1
30 June 2019	**394,286,499**	**339.2**
1 July 2019	394,286,499	339.2
Treasury shares purchased on-market	–	–
Transfer from treasury shares on vesting of options	47,373	0.1
Transfer from share-based payment reserve	–	0.2
30 June 2020	**394,333,872**	**339.5**

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of, and amounts paid on, the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote, and upon a poll each share is entitled to one vote. There is no current on-market buy-back of shares, other than shares purchased by the Share Plan Trust to satisfy vested share-based payments.

17. CONTRIBUTED EQUITY CONTINUED

c) Movement in treasury shares

Treasury shares are shares in FlexiGroup Limited that are held by the **flexigroup** Tax Deferred Employee Share Plan Trust for the purposes of issuing shares under the **flexigroup** Long-Term Incentive Plan (see note 22).

	Number of shares	A$m
1 July 2018	226,493	0.4
Treasury shares purchased on-market	45,000	0.1
Transfer from treasury shares on vesting of options	(166.867)	(0.1)
30 June 2019	**104,626**	**0.4**
1 July 2019	104,626	0.4
Treasury shares purchased on-market	–	–
Transfer from treasury shares on vesting of options	(47,373)	(0.1)
30 June 2020	**57,253**	**0.3**

d) Subordinated perpetual notes

FlexiGroup Limited issued unsecured subordinated perpetual notes as part of the consideration for the acquisition of Fisher & Paykel Finance. The face value of the notes issued was $49.1m, the A$ equivalent of NZ$55.0m. Interest is payable on the perpetual notes at the sole and absolute discretion of the issuer commencing on 18 March 2018 and, to date, has been capitalised as part of the note. Interest payable or capitalised has been accounted for as a dividend in equity. In the unlikely event that no interest is paid or capitalised on the perpetual notes in any given year, the Group may not pay or declare any ordinary dividends to the ordinary shareholders.

From 18 March 2021, the issuer will continue to have full discretion as to the payment of interest on the perpetual notes; however if the Group elects to pay or declare any ordinary dividends to the ordinary shareholders following such date, interest accrued from such date must be paid to the noteholder in cash.

In limited circumstances upon a change of control, the noteholder may elect to convert the perpetual notes having an aggregate principal amount equal to the face value into 28.5 million ordinary shares. Prior to conversion, the perpetual notes have no right to share in any surplus assets or profits, or ordinary dividends, and no voting rights.

e) Performance shares, options and sign-on incentive rights

Information relating to the **flexigroup** Employee Options and Performance Rights Plan, including details of performance and sign-on incentive rights exercised and lapsed during the financial year and performance and sign-on incentive rights outstanding at the end of the financial year, is set out in note 22.

f) Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and to maintain an optimal capital structure to facilitate growth in the business. Consistent with others in the industry, the Group monitors capital on the basis of its gearing ratio. In order to maintain or adjust its capital structure, the Group considers the issue of new capital, return of capital to shareholders and its dividend policy as well as its plans for acquisition and disposal of assets.

18. RESERVES AND RETAINED EARNINGS

ACCOUNTING POLICY

Share-based payment reserve

The share-based payment reserve is used to recognise:

- the fair value of options and rights issued to Directors and employees but not exercised;
- the fair value of shares issued to Directors and employees; and
- other share-based payment transactions.

Foreign currency translation reserve

Foreign currency translation of the foreign controlled entities is taken to the foreign currency translation reserve as described in note 1(ii)c. The reserve is recognised in profit or loss when the net investment is disposed of.

Cash flow hedge reserve

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised in Other Comprehensive Income as described in note 18. Amounts are reclassified to profit or loss when the associated hedge transaction affects profit or loss.

a) Reserves

A$m	2020	2019
Share-based payment reserve	0.4	0.7
Foreign currency translation reserve	9.0	14.2
Cash flow hedge reserve	(27.2)	(12.1)
	(17.8)	2.8

Movements: Share-based payment reserve

A$m	2020	2019
Balance at 1 July	0.7	0.4
Transfer to share capital	(0.3)	(0.4)
Share-based payment expense (net of tax)	–	0.7
Balance at 30 June	**0.4**	0.7

Movements: Foreign currency translation reserve

A$m	2020	2019
Balance at 1 July	14.2	4.3
Other comprehensive income	(5.2)	9.9
Balance at 30 June	**9.0**	14.2

18. RESERVES AND RETAINED EARNINGS CONTINUED

Movements: Cash flow hedge reserve

A$m	2020	2019
Balance at 1 July	(12.1)	(2.6)
Other comprehensive income	(15.1)	(9.5)
Balance at 30 June	**(27.2)**	(12.1)

b) Retained earnings

Movements in retained earnings were as follows:

A$m	Notes	2020	2019
Balance at 1 July		223.2	251.6
Adoption of AASB 9		–	(59.3)
Restated balance at 1 July		**223.2**	192.3
Net profit for the year		21.4	61.7
Dividends	19	(33.4)	(30.8)
Balance at 30 June		**211.2**	223.2

19. DIVIDENDS

ACCOUNTING POLICY

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Group, on or before the end of the financial year but not distributed at balance date.

Final dividends accrued or paid

	Parent entity	
A$m	**2020**	**2019**
Ordinary shares		
2019 final dividend paid on 11 October 2019: 3.85 cents (2018 final dividend paid on 12 October 2018: 3.85 cents) per ordinary share franked to 100%	15.2	14.4

Interim dividends accrued or paid

	Parent entity	
A$m	**2020**	**2019**
Ordinary shares		
2020 interim dividend to be paid on 14 October 2020: 3.85 cents (2019 interim dividend paid on 12 April 2019: 3.85 cents) per ordinary share franked to 100%	15.2	14.4
Preference shares		
Unsecured subordinated perpetual notes	3.0	2.0
Total dividends accrued and paid	33.4	30.8

Final dividends proposed but not recognised at year end

	Parent entity	
A$m	**2020**	**2019**
2020: Nil cents (2019: 3.85 cents) per ordinary share franked to 100%	–	15.2

Franked dividends

Franking credits available at 30 June 2020 comprised:

	Consolidated		Parent entity	
A$m	**2020**	**2019**	**2020**	**2019**
Franking credits available for subsequent financial years based on a tax rate of 30% (2019: 30%)	55.9	63.1	55.9	63.1

The above amounts are calculated from the balance of the franking account as at the end of the reporting period, adjusted for franking credits and debits that will arise from the settlement of liabilities or receivables for income tax and dividends after the end of the year. The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of subsidiaries were paid as dividends.

20. EARNINGS PER SHARE

ACCOUNTING POLICY

Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to equity holders of the Company less preference dividends accrued or paid,
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

a) Earnings per share

Cents	2020	2019
Total basic earnings per share attributable to the ordinary equity shareholders of the Company	5.0	15.9
Total diluted earnings per share attributable to the ordinary equity shareholders of the Company	**5.0**	15.9

b) Reconciliation of earnings used in calculating earnings per share

A$m	2020	2019
Profit attributable to the ordinary equity shareholders of the Company used in calculating basic and diluted earnings per share		
Profit for the year	21.4	61.7
Less: preference share dividend (net of tax)	(2.1)	(1.4)
Profit after preference share dividend	**19.3**	60.3

c) Weighted average number of ordinary shares

	2020	2019
Weighted average number of ordinary shares used in calculation of basic earnings per share	394,324,164	379,677,933
Add: potential ordinary shares considered dilutive	–	–
Weighted average number of ordinary shares used in calculating diluted earnings per share	**394,324,164**	379,677,933

Information concerning the classification of securities

Performance, sign-on incentive and deferred STI rights

Performance, sign-on incentive and deferred STI rights granted to employees under the **flexigroup** incentive plans are settled through an on-market share purchase. The rights are not considered to be dilutive. The rights have not been included in the determination of basic and diluted earnings per share. Details relating to the rights are set out in note 22.

21. CASH FLOW INFORMATION

ACCOUNTING POLICY

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash.

Included in cash at bank was $143.0 million (2019: $112.9 million) which is held as part of the Group's funding arrangements and is 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.

A$m	2020	2019
Cash at bank and on hand	**157.5**	143.1

a) Reconciliation of profit after income tax to net cash inflow from operating activities

A$m	2020	2019
Net profit for the year after tax	21.4	61.7
Receivables and loan impairment expenses	145.2	87.5
Depreciation and amortisation	21.4	17.1
Impairment of other intangible assets	1.5	10.5
Share-based payment expense	0.2	0.7
Exchange differences	1.0	(0.2)
Other non-cash movements	0.4	(0.1)
Net cash inflows from operating activities before changes in operating assets and liabilities	**191.1**	177.2
Change in operating assets and liabilities:		
Decrease in other receivables	9.8	2.3
Decrease/(increase) in current tax receivables	13.5	(14.7)
(Decrease)/increase in payables	(2.2)	4.2
Decrease/(increase) in inventories	(0.1)	0.8
Increase/(decrease) in current tax liabilities	9.9	(8.3)
Decrease/(increase) in net deferred tax assets/liabilities	(26.6)	3.9
Net cash inflows from operating activities	**195.4**	165.4

21. CASH FLOW INFORMATION CONTINUED

b) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

A$m	2020	2019
Cash and cash equivalents	157.5	143.1
Borrowings – repayable within one year	(1,253.9)	(1,438.0)
Borrowings – repayable after one year	(1,067.8)	(980.9)
Net debt	**(2,164.2)**	(2,275.8)
Cash and liquid investments	157.5	143.1
Gross debt – fixed interest rates	(58.1)	(116.1)
Gross debt – variable interest rates	(2,263.6)	(2,302.8)
Net debt	**(2,164.2)**	(2,275.8)

A$m	Cash at bank	Borrowings due within 1 year	Borrowings due after 1 year	Total
Net debt as at 1 July 2018	**125.3**	**(1,327.0)**	**(836.0)**	**(2,037.7)**
Cash flows	16.3	(96.2)	(125.5)	(205.4)
Foreign exchange adjustments	1.5	(14.8)	(19.4)	(32.7)
Net debt as at 30 June 2019	**143.1**	**(1,438.0)**	**(980.9)**	**(2,275.8)**
Cash flows	15.3	173.7	(96.0)	93.0
Foreign exchange adjustments	(0.9)	10.4	9.1	18.6
Net debt as at 30 June 2020	**157.5**	**(1,253.9)**	**(1,067.8)**	**(2,164.2)**

22. SHARED-BASED PAYMENTS

ACCOUNTING POLICY

The fair values of share-based compensation arrangements are recognised as employment expenses in the Income Statement with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the relevant party becomes unconditionally entitled to the instruments.

Fair values at grant date are independently determined using a Monte Carlo or Binomial Tree option pricing methodology that takes into account the exercise price, the term of the options or share rights, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the options.

The fair value of the instruments granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, earnings per share and return on equity targets). Non-market vesting conditions are included in assumptions about the number and value of instruments that are expected to become exercisable. The share-based payment expense recognised each period takes into account the most recent estimate.

Upon the exercise or expiry of instruments, the balance of the share-based payments reserve relating to those instruments is transferred to share capital and the proceeds received (if any), net of any directly attributable transaction costs, are credited to share capital.

a) Long-Term Incentive Plan

The establishment of the **flexigroup** Long-Term Incentive Plan (LTIP) was approved by the founding shareholders on 20 November 2006. The LTIP is designed to provide relevant employees with an incentive for future performance, with conditions for the vesting and exercise of options and performance rights and under the LTIP encouraging those executives to remain with **flexigroup** and contribute to the future performance of the Company. Under the plan, participants are granted either an option or right, which only vests if certain performance standards are met.

The Board may determine which persons will be eligible to participate in the LTIP from time to time. Eligible persons may be invited to apply to participate in the LTIP. The Board may in its discretion accept such applications.

At the commencement of the financial year, the Board undertook a three-year transformation program considered critical to the Company's future success. Accordingly, the Board resolved to issue a single 'mega grant' under the LTIP in FY20, the Transformation Incentive Plan (TIP), rather than provide annual grants as issued in prior years. The TIP is aimed at measuring and rewarding for delivery of financial results flowing from the success of the transformation strategy. It was introduced to attract, motivate and retain key Executives to actively and responsibly drive sustainable shareholder value by driving the transformation and growth of **flexigroup**.

22. SHARED-BASED PAYMENTS CONTINUED

The table below shows options, performance rights, sign-on incentive rights and deferred STI rights granted under the different plans:

Consolidated and Parent Entity – 2020

Tranche	Grant date	Expiry date	Exercise price	Balance at start of the period	Granted during the period	Exercised during the period	Forfeited during the period	Balance at end of the period	Vested and exercisable at the end of the period
				Number	Number	Number	Number	Number	Number
2018 Deferred STI	05/09/2018	13/09/2019	$0.00	52,286	–	(47,373)	(4,913)	–	47,373
Tranche 5	27/11/207	15/03/2022	$0.00	815,516	–	–	(312,904)	502,612	–
Tranche 6	15/11/2018	15/03/2023	$0.00	528,846	–	–	(265,936)	262,910	–
Tranche 6	16/05/2019	15/03/2023	$0.00	785,962	–	–	–	785,962	–
Transformation LTIP (TIP) – EPS	18/11/2019	18/11/2025	$2.00	–	5,439,013	–	(267,247)	5,171,766	–
	06/03/2020	18/11/2025	$2.00	–	935,363	–	–	935,363	–
	23/03/2020	18/11/2025	$2.00	–	60,002	–	–	60,002	–
TIP – ASP	18/11/2019	18/11/2025	$2.00	–	7,252,020	–	(356,328)	6,895,692	–
	06/03/2020	18/11/2025	$2.00	–	1,247,148	–	–	1,247,148	–
	23/03/2020	18/11/2025	$2.00	–	79,998	–	–	79,998	–
TIP – ROE	18/11/2019	18/11/2025	$2.00	–	5,439,017	–	(267,246)	5,171,771	–
	06/03/2020	18/11/2025	$2.00	–	935,361	–	–	935,361	–
	23/03/2020	18/11/2025	$2.00	–	60,000	–	–	60,000	–
Total				**2,182,610**	**21,447,922**	**(47,373)**	**(1,474,574)**	**22,108,585**	**47,373**
Weighted average exercise price				**$1.86**					

Consolidated and Parent Entity – 2019

Tranche	Grant date	Expiry date	Exercise price	Balance at start of the period	Granted during the period	Exercised during the period	Forfeited during the period	Balance at end of the period	Vested and exercisable at the end of the period
				Number	Number	Number	Number	Number	Number
Tranche 4	01/12/14	15/10/18 15/10/19 31/10/20 31/10/21	$0.00	359,500	–	–	(359,500)[1]	–	–
Tranche 4	26/11/15	15/10/18 15/10/19 31/10/20 31/10/21	$0.00	320,000	–	–	(320,000)[2]	–	–
Sign-on Rights	22/11/16	15/10/19	$0.00	36,000	–	(36,000)	–	–	36,000
Sign-on Rights	03/07/17	01/10/19	$0.00	25,000	–	(25,000)	–	–	25,000
2017 Deferred STI	06/09/17	15/10/18	$0.00	106,548	–	(57,567)	(48,981)	–	57,567
Tranche 5	27/11/17	15/03/22	$0.00	1,730,052	–	–	(914,536)	815,516	–
2018 Deferred STI	05/09/2018 12/9/2018	13/09/19	$0.00	–	102,484	–	(50,198)	52,286	–
Tranche 6	15/11/18	15/03/23	$0.00	–	528,846	–	–	528,846	–
Tranche 6	16/05/19	15/03/23	$0.00	–	785,962	–	–	785,962	–
Total				**2,577,100**	**1,417,292**	**(118,567)**	**(1,693,215)**	**2,182,610**	**118,567**
Weighted average exercise price				**$0.00**					

1. Includes 143,800 performance rights that are TSR lapsed and remain in payments reserve.
2. Includes 128,000 performance rights that are TSR lapsed and remain in payments reserve.

The weighted average remaining contractual life of performance, deferred STI and sign-on incentive rights outstanding at the end of the year was 3.08 years (2019: 2.32 years).

b) Transformation LTIP

The TIP options were issued in three Tranches as outlined in the table above. The fair value at grant date was independently determined using a Binomial Tree option pricing methodology for non-market based and Monte Carlo simulation for market based that takes into account the strike price, the term of the performance options, the impact of dilution, the share price at grant date and the expected price volatility of the underlying share, the expected dividend yield, and the risk-free interest rate for the term of the performance options.

22. SHARED-BASED PAYMENTS CONTINUED

The model inputs for TIP options granted during the year ended 30 June 2020 included:

- Exercise price: $2
- Grant date: 18 November 2019, 6 March 2020, 23 March 2020
- Expiry date: 18 November 2025
- Share price at grant date: $2.08, $1.465, $0.40
- Expected price volatility of the Company's shares: 45% and 51%
- Expected dividend yield: 4.6% and 1.8%
- Risk-free interest rate: 0.87%, 43% and 0.42%

c) Performance right LTIP plans issued in 2019

For performance rights issued on 15 November 2018 and 16 May 2019, the fair values at grant date were independently determined using a Binomial Tree option pricing methodology that takes into account the exercise price, the term of the performance rights, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the performance rights.

The model inputs for performance rights granted during the year ended 30 June 2019 included:

- Exercise price: nil
- Grant date: 15 November 2018 and 16 May 2019
- Expiry date: 15 March 2023
- Share price at grant date: $1.51 and $1.95
- Expected price volatility of the Company's shares: 40%
- Expected dividend yield: 4.2%
- Risk-free interest rate: 2.2%

Shares provided on exercise of performance rights

Refer to section 8.1 of the Remuneration Report, included in the Directors' Report, for vesting conditions associated with outstanding options for TIP and performance rights for Tranches 5 and 6.

d) Sign-on incentive rights

In 2019 and 2020 nil ordinary shares in the Company were issued as a result of the exercise of any remuneration performance and sign-on incentive rights. The 2016 and 2017 sign-on incentive rights were settled through an on-market share purchase and did not result in an increase in issued share capital.

e) Employee Share Plan

The Employee Share (Taxed Upfront) Plan (ESP) is a general employee share plan pursuant to which grants of shares may be offered to employees of **flexigroup** on terms and conditions as determined by the Board from time to time. Nil shares were issued under this plan in 2019 and 2020. 48,300 shares under **flexigroup**'s 2016 ESP vested on 22 February 2019.

The Board is responsible for administering the ESP in accordance with the ESP Rules and the terms and conditions of specific grants of shares to participants in the ESP. The ESP Rules include the following provisions:

Eligibility

The Board may determine which persons will be eligible to be offered the opportunity to participate in the ESP from time to time. The Board may make offers to eligible persons for participation in the ESP.

Terms of offer

The Board has the discretion to determine the specific terms and conditions applying to each offer, provided that the terms of the offer do not vary the disposal restrictions imposed on shares under the ESP Rules under which shares acquired under the ESP cannot be transferred, sold or otherwise disposed of until the earlier of:

- the time when the participant is no longer employed by the Group or by the company that was the employer of the participant as at the time the shares were acquired, or
- the third anniversary of the date on which the shares were acquired, and

The offer does not include any provisions for forfeiture of shares acquired under the ESP in any circumstances.

Consideration for grant

The Board may determine the price at which the shares will be offered to an employee. Shares may be granted at no cost to the employee or the Board may determine that market value or some other price is appropriate.

Allocation of shares

Shares allocated under the ESP may be existing shares or newly issued shares. Allocated shares must be held in the name of the employee. Any shares that are issued under the ESP will rank equally with those traded on the ASX at the time of issue. A participant under the ESP is entitled to receive distributions/dividends made in respect of, and exercise voting rights attaching to, shares held under the ESP (whether or not the shares are subject to disposal restrictions).

Restrictions on shares

Shares acquired under the ESP will be subject to the disposal restrictions described above. **flexigroup** will implement such arrangements (including a holding lock) as it determines are necessary to enforce this restriction.

Once the restriction is removed, and subject to **flexigroup**'s Trading Policy, shares acquired under the ESP may be dealt with freely. Details of **flexigroup**'s Trading Policy are contained in the Corporate Governance Statement.

Employee gift offers

There were no employee gift offers in the year ended 30 June 2020 (2019: Nil).

f) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

A$m	2020	2019
Performance, sign-on incentive and deferred STI rights issued under LTIP	**199,643**	736,377

23. FINANCIAL RISK MANAGEMENT

Overview

The Group's activities expose it to a variety of financial risks, being credit risk, liquidity risk and market risk (including foreign exchange risk and interest rate risk).

The Board is responsible for approving **flexigroup**'s Risk Management Framework and strategy and determining the risk appetite within this. The Board is also responsible for monitoring the effectiveness of risk management within the framework.

The Board has delegated responsibility for financial and operational risk management to the Risk and Compliance Committee which in turn assigns responsibility to the following committees to oversee the management of financial risk:

- Australia Credit Committee and New Zealand Credit Committee – responsible for overseeing credit risk; and
- Asset and Liability Committee (ALCO) – responsible for managing liquidity and market risk.

During the year a Group Commercial Credit Committee (GCCC) was established. The GCCC assumed oversight of commercial credit risk from the Australia and New Zealand Credit Committees.

flexigroup uses policies, risk limits and stress testing as a mechanism of managing risks within appetite. Monthly reporting of risk exposure against designated limits is reported to the Australia and New Zealand Credit Committees and ALCO. Risk exposures outside of appetite are reported to the Risk and Compliance Committee and the Board.

a) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its financial liabilities, including payments to customers, suppliers and other third parties, as required. The Risk and Compliance Committee oversees liquidity risk and delegates day-to-day responsibility to Group Treasury, under the responsibility of the Chief Financial Officer. Group Treasury ensures the Group has continuous access to funds in accordance with policies established and monitored by the Board.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities at all times and ensuring the availability of funding through an adequate amount of committed credit facilities. Surplus funds are only invested with highly rated banks in the countries in which the Group operates.

flexigroup's liquidity risk management is executed under its risk management policy which is designed to ensure that the Group maintains sufficient liquidity to meet its obligations as they fall due and that cash liquidity is maintained and managed to prevent disruption to business activities. **flexigroup**'s liquidity risk appetite is designed to ensure that the Group is able to meet all of its liquidity obligations during a period of liquidity stress over a 12-month period and under a range of operating circumstances.

flexigroup develops a funding strategy for the Group on an annual basis and monitors progress against the strategy on an ongoing basis. The funding strategy aims to maintain a diversity of current and projected funding sources, ensure ongoing compliance with all risk management policy requirements and support forecast asset growth. The funding strategy is reviewed by ALCO, endorsed by the Risk and Compliance Committee and approved by the Board.

In response to COVID-19, Treasury conducted discrete stress testing and sensitivity analysis against the Group's liquidity position. This analysis was performed by reference to a range of different operating scenarios post COVID-19 and included liquidity stress testing against current and forecast funding sources, including all outstanding securitisation transactions in market. The Group also reviewed the composition and strength of its funding lines and updated the funding strategy to take account of revised market conditions and opportunities to diversify current and projected funding sources.

On 19 March 2020, the Australian government announced an initial A$15bn Structured Finance Support Fund (SFSF) to be administered by the Australian Office of Financial Management (AOFM) to support small and medium enterprises financing loan originations through securitisation to ensure continued access to funding markets. In accordance with the objective of diversifying funding sources, the Group successfully obtained AOFM delegate approval for committed funding lines to support its Australian wholesale funding facilities of A$53m from the SFSF during the financial year. A further committed funding line of A$61m was secured from the SFSF following the reporting period.

Undrawn credit lines

To mitigate against liquidity risk, the Group maintains cash reserves and committed undrawn credit facilities to meet anticipated funding requirements for new business and unexpected commitments. In addition, the Group can redraw against its committed credit limits if the principal outstanding is reduced including, in the case of recourse funding arrangements, through receipt of contractual amortisation payments. Details of unused available loan facilities are set out in note 14. Amounts due to funders are repaid directly by rentals and repayments received from the Group's customers.

Capital markets issuance

The Group took advantage of the constructive market conditions in the first half of the year. This enabled the Group to raise funding of $251.8m (2019: $285m) through the Australian asset-backed securitisation program and NZ$290.0m (2019: NZ$298.3m) through the New Zealand asset-backed securitisation program. This level of issuance is in excess of that typically executed in the first half of the Group's financial year and enabled the Group to operate without further access to capital markets as the COVID-19 pandemic led to a deterioration in market conditions.

Loan covenants

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

Contractual maturity of financial liabilities on an undiscounted basis

The table below shows cash flows associated with financial liabilities including derivative financial liabilities within relevant maturity groupings based on the earliest date on which the Group may be required to pay.

The balances in the table will not agree with amounts presented in the Statement of Financial Position as amounts incorporate net cash flows on an undiscounted basis and include both principal and associated future interest payments.

It should be noted this is not how the Group manages its liquidity risk, which is detailed above.

23. FINANCIAL RISK MANAGEMENT CONTINUED

A$m	Less than 1 year	1-2 years	2-5 years	5 years+	Total
At 30 June 2020					
Non-derivative financial liabilities					
Payables	67.3	–	–	–	67.3
Contract liabilities	7.5	–	–	–	7.5
Lease liabilities	5.0	2.4	6.3	7.1	20.8
Borrowings before loss reserves	1,295.0	574.9	530.7	0.3	2,400.9
Derivative financial instruments					
Interest rate swaps	13.2	10.4	14.3	0.1	38.0
Total undiscounted financial liabilities	**1,388.0**	**587.7**	**551.3**	**7.5**	**2,534.4**
At 30 June 2019					
Non-derivative financial liabilities					
Payables	58.0	–	–	–	58.0
Contract liabilities	10.9	–	–	–	10.9
Borrowings before loss reserves	1,509.6	488.1	542.5	–	2,540.2
Derivative financial instruments					
Interest rate swaps	7.9	5.7	4.5	–	18.1
Total undiscounted financial liabilities	**1,586.4**	**493.8**	**547.0**	**–**	**2,627.2**

b) Credit risk

Credit risk management

Credit risk is the risk that a contracting party will not complete its obligations under a financial instrument and, as a result, cause the Group to incur a financial loss. The Group has exposure to credit risk on all financial assets included in its Statement of Financial Position.

To manage credit risk, the Group has developed a comprehensive credit assessment process. Loans and receivables consist of lease and loan contracts provided to consumer and commercial customers. Credit underwriting typically includes the use of either an application scorecard and credit bureau report or a detailed internal risk profile review for each application, including a review of the customer against a comprehensive credit database. Internal credit review and verification processes are also used depending on the applicant.

At origination, a credit assessment system along with information from two national credit bureaus determines the creditworthiness of applications based on the statistical interpretation of a range of application information. These credit risk assessments are supported by reviews of certain applications by dedicated credit employees who apply the Group's credit and underwriting policy within specific approval authorities. Portfolio performance and credit risk of new applications are monitored daily by management. The Group has a specialist collections function, which manages all delinquent accounts.

A primary measure of delinquency used by the Group is the proportion of contracts with an outstanding payment that is 30, 60, 90+ days past due. The total principal owing on the contract is defined as the past due amount.

Counterparty risk is where the Group incurs credit exposures to banks as a consequence of hedging of interest rate risks. Credit limits for counterparties are based on external ratings and the Group manages and controls its credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and by monitoring exposures in relation to such limits. Determination of the fair value of the derivatives includes credit valuation adjustment (CVA) to reflect the creditworthiness of the counterparty.

In response to COVID-19 we have mitigated any increased credit risk by:

- modelling various scenarios under different unemployment and government support assumptions in order to determine appropriate courses of action to minimise losses;
- pro-actively supporting our customers with short-term repayment relief through the peak COVID-19 period;
- on-boarding additional collections resources, to work with customers to help them manage their capacity to pay and at the same time increasing cash collections or restructuring arrangements, if required. To date the program has been successful with a large pool of customers exiting hardship arrangements earlier than expected; and
- limiting exposure to certain high risk Commercial sectors while still remaining open for business.

Prior to COVID-19 we also undertook the following actions to mitigate credit risks:

- implementing new scorecards and on-line bank statement verification in AU Cards;
- reducing zero deposit transactions and introducing credit limit shaping in BNPL; and
- reducing revolving credit limits for high risk customers in AU and NZ Cards.

ACCOUNTING POLICY

The impairment requirements of AASB 9: Financial Instruments apply to the Group's finance lease receivables and customer loans measured at amortised cost. The model applies to 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. The carrying amount of the consolidated entity's financial assets represents the maximum credit exposure.

Model inputs

The Group has developed credit models at a product or sub-product level based on shared risk characteristics using a collectively assessed approach. Individually assessed provisions are considered for larger single-name exposures.

The key model inputs used in measuring the ECL include:

- **Exposure at Default (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.
- **Probability of 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, three to five years of historical delinquency transition matrices are used to develop a point in time PD estimate.
- **Loss Given Default (LGD):** the LGD is the magnitude of the ECL in a default event. The LGD is estimated using three years of historical recovery and three to five years of cure rate experience.

Three-stage approach

Under the ECL model, the Group applies a three-stage approach to measuring the 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 PD, the LGD and the 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 (SICR) since initial recognition require, at initial recognition, a provision for ECL associated with the PD events occurring within the next 12 months (12-month ECL). For those financial assets with a remaining maturity of less than 12 months, a PD is used that corresponds to the remaining maturity.

Stage 2: Lifetime ECL – Significantly increased credit risk

In the event of a SICR 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 will require a lifetime provision. This stage references exposures that are at least 90 days past due.

23. FINANCIAL RISK MANAGEMENT CONTINUED

ACCOUNTING POLICY (CONTINUED)

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.

Method of determining SICR

A financial asset moves from Stage 1 to Stage 2 when there is a SICR since initial recognition.

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

- forbearance status; including requests for repayment relief coupled with risk indicators in bureau data and relevant application attributes such as employment type, employment tenure and disposable income that indicate higher risk of default;
- 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.

SICR, which requires judgement, is used to determine whether an exposure's credit risk has increased significantly and requires higher PD factors.

Definition of default

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.

Modification of financial assets

The Group sometimes modifies the terms of leases or customer loans provided to customers due to commercial renegotiations with a view to maximising recovery.

Such restructuring activities include extended payment term arrangements, payment holidays, and payment forgiveness and are based on indicators or criteria which, in the judgement of management, indicate the payments will most likely continue. The policies are kept under continuous review.

Write-off policy

The Group writes off financial assets in whole or in part when it has exhausted all practical recovery efforts and/or the assessed cost of further recovery action is considered prohibitive or uneconomical. The Group has a pre-defined work-out strategy for late stage arrears including insourced collection activities, outsourced collection activities and debt sales.

Indicators that there is no reasonable expectation of recovery include:

i) ceasing enforcement activity due to, for example, bankruptcy, fraud, compliance issues, debt being uneconomical to pursue; and
ii) realisation of the security to recover remaining outstanding amounts beyond which amounts are deemed unrecoverable; and
iii) sale of debt to external parties beyond earlier work-out strategies.

Products are written off at pre-defined points of late stage arrears, except where further investigation is underway or opportunities for recovery still exist. These are:

- Revolving cards products – 180 days in arrears
- BNPL products – 120 days in arrears
- Leasing products – 120 days in arrears

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 and 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 ALCO provides ultimate approval for FLI inputs.

ECL measurement uncertainties

Despite COVID-19, **flexigroup** has followed a consistent approach to FLI to previous years, incorporating Central Estimate, Best Case and Worst Case using external consensus assembled from key sources to arrive at the right level of macro-economic overlay. The macro-economic overlay model has been expanded to include unemployment scenarios at varying horizons (six, 12 and 24 months in the future) to address the possibility that we may see sharp declines and recoveries in macro-economic conditions. COVID-19 has resulted in increased probabilities to the downside and increased scaler factors compared to that applied previously resulting in higher macro overlay provision. There is a risk that the economic impacts of COVID-19 could be deeper or more prolonged which would result in higher credit losses than those modelled under the Base Case.

Sensitivities to 100% Central Estimate, Best Case and Worst Case scenarios with associated probability weights have been presented.

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

Expected Credit Losses

Scenario	Weighting	Expectation
Central Estimate A 100% weighting to this scenario would result in a decrease to total ECL provision on balance sheet at the reporting date of $6.3m	**Possible** 50% probability	The current base case economic forecast sees unemployment rising in the Sept-Dec 2020 quarter followed by a recovery in FY21 and beyond, however remaining above pre-COVID-19 levels. The base case scenario uses forecasts from five reputable economists and reflects an up-to-date macro-economic view. Forecasts consider both the economic and societal impacts of COVID-19, the Australian Government stimulus measures implemented to cushion the impacts, including the JobKeeper package, and the New Zealand Government stimulus package. The economics forecast assumes the following: • a short-term increase in the unemployment rate to 9.6% for AU and 9.3% for NZ, reducing to 6.5% for AU and 6% for NZ by the end of 2022; and • a short-term contraction in quarterly GDP recovering in FY21 and returning to pre-COVID-19 GDP growth levels in FY22. We see on-going monetary policy support over the 24-month forecast period with the cash rate expected to remain at or below current levels of 0.25bps in Australia and New Zealand. Further quantitative easing is expected across both jurisdictions. We expect a gradual unwind of government support measures in AU and NZ over the remainder of the calendar year.
Best Case A 100% weighting to this scenario would result in a decrease to total ECL provision on balance sheet at the reporting date of $27.7m	**Remote** 10% probability	We still see unemployment rising in the Sept-Dec 2020 period, peaking at 8.5% for AU and 8% for NZ, with further improvement over the 24-month period. Our forecast unemployment rate in June 2022 would be 5.5% for AU and 5% for NZ. The scenario assumes no second COVID-19 wave, a gradual reduction in government support programs and on-going monetary policy support.
Worst Case A 100% weighting to this scenario would in an increase to total ECL provision on balance sheet at the reporting date of $14.7m	**Likely** 40% probability	The downside scenario is a more severe scenario with expected credit losses higher than those under the current base case scenario. The more severe loss outcome for the downside is generated under a prolonged recession scenario in which the combination of negative GDP growth, declining property prices and an increase in the unemployment rate, simultaneously impacting expected credit losses across all portfolios from the reporting date. Worst case sees unemployment peaking at 11% for AU and 10.3% for NZ recovering to 8% for AU and 7% for NZ in 2022. The assumptions in this scenario and relativities to the base case scenario will be monitored, having regard to the emerging economic conditions, and updated where necessary.

Commercial exposures

The Group individually reviews the ECL for Commercial customers showing signs of stress with exposure > $75k and determines the watchlist overlay provision required. As a consequence of the uncertain environment and the extent of customers requiring short-term repayment relief, we have not been able to individually assess all customers that may potentially have repayment stress. We have assessed ~50% of the Commercial hardship pool considering the customer risk rating, guarantees, financial support and capacity or other measures to support their business, to determine any additional watchlist overlay required. For the remaining pool of Commercial hardship customers, we have derived a watchlist overlay for AU and NZ markets through an assessment of our exposure to industry segments, which have been rated as high, medium or low risk based on the likely economic impact of COVID-19. We expect the overlay to reduce as we observe businesses recovering or flowing into default.

23. FINANCIAL RISK MANAGEMENT CONTINUED

As part of the work-out strategy for impaired lease receivables, **flexigroup** has a right to recover the leased asset; and for impaired loan receivables, in certain instances, **flexigroup** has access to collateral. Given the portfolio contains a large number of small accounts, it is not practical to assess the value of the collateral.

Other COVID-19 hardship overlays

A COVID-19 hardship overlay has been recognised for retail customers where we believe a SICR exists and the ECL model does not yet fully capture higher PD for increased risk, as we have not yet observed any significant impact to customer delinquency. We have determined the SICR PD for the pool of hardship customers by reference to internal experience and external credit reference data. We expect the performance of these loans and credit commitments will evolve as more data is available to model or understand the credit risk/loss implications from the COVID-19 pandemic and the mitigating impact of government stimulus.

Drivers of loan impairment charge

The table below disaggregates Receivables and customer loan impairment expenses, disclosed in the Income Statement, between ECL provision movements and Net write-offs (gross bad debts, less recoveries):

Drivers of loan impairment charge

A$m	2020	2019
Net write-offs	**109.0**	105.5
Macro and watchlist overlay	34.8	(3.4)
Hardship overlay charge	7.2	–
Model overlays	(0.4)	(0.9)
Baseline provision movement	(5.4)	(13.7)
ECL provision movement	**36.2**	(18.0)
Receivables and customer loan impairment expenses	**145.2**	87.5

ECL provision at balance date

Expected Credit Losses

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

	As at 30 June 2020			As at 1 July 2019		
A$m	Gross	ECL allowance	Net	Gross	ECL allowance	Net
Finance lease receivables	662.2	(41.2)	621.0	604.9	(29.5)	575.4
Customer loans	1,919.8	(105.4)	1,814.4	2,061.8	(80.4)	1,981.4
Undrawn credit commitments	–	(11.3)	(11.3)	–	(13.1)	(13.1)
Total	**2,582.0**	**(157.9)**	**2,424.1**	2,665.7	(123.0)	2,543.7

Loans and receivables

The majority of the Group's lease and loan receivable balances are high volume low value lease and loan receivables advanced to individual customers and small businesses. In the vast majority of cases no externally assessed credit rating is available for these counterparties. The ECL allowance as a percentage of gross carrying amount was determined as follows:

30 June 2020

A$m	Current	Stage 1	Stage 2	Stage 3	Total
Finance lease receivables					
Expected loss rate	3%	13%	37%	67%	6%
Gross carrying amount	695.6	19.0	9.3	18.7	742.6
Loss allowance	**22.7**	**2.4**	**3.5**	**12.6**	**41.2**
Customer loans					
Expected loss rate	2%	16%	44%	73%	6%
Gross carrying amount	1,824.4	78.5	80.0	37.1	2,020.0
Loss allowance	42.4	12.2	34.9	27.2	116.7

30 June 2019

A$m	Current	Stage 1	Stage 2	Stage 3	Total
Finance lease receivables					
Expected loss rate	2%	15%	41%	64%	4%
Gross carrying amount	631.2	29.8	8.4	14.6	684.0
Loss allowance	**12.3**	**4.5**	**3.4**	**9.3**	**29.5**
Customer loans					
Expected loss rate	2%	12%	39%	66%	4%
Gross carrying amount	1,949.9	121.7	52.1	36.7	2,160.4
Loss allowance	34.9	14.3	20.2	24.1	93.5

23. FINANCIAL RISK MANAGEMENT CONTINUED

The following table explains the movement in gross carrying amount between the beginning and the end of the annual period:

A$m	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at 1 July 2019	**2,732.6**	**60.5**	**51.3**	**2,844.4**
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	(65.9)	65.9	–	–
Transfer from Stage 1 to Stage 3	(21.9)	–	21.9	–
Transfer from Stage 2 to Stage 1	14.6	(14.6)	–	–
Transfer from Stage 2 to Stage 3	–	(4.9)	4.9	–
Transfer from Stage 3 to Stage 1	4.5	–	(4.5)	–
Transfer from Stage 3 to Stage 2	–	1.4	(1.4)	–
Net of new financial assets and repayments during the year	111.5	(15.5)	(13.4)	82.6
FX movements	(21.4)	(0.5)	(0.4)	(22.3)
Write-offs	(136.5)	(3.0)	(2.6)	(142.1)
Gross carrying amount as at 30 June 2020	**2,617.5**	**89.3**	**55.8**	**2,762.6**

The following table explains the changes in loss allowance between the beginning and the end of the annual period:

A$m	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Collectively assessed	Total
Loss allowance as at 1 July 2018	**78.2**	**22.8**	**35.3**	**–**	**136.3**
Movements with P&L impact					
Transfers:					
Transfer from Stage 1 to Stage 2	(1.2)	17.8	–	–	16.6
Transfer from Stage 1 to Stage 3	(0.8)	–	21.1	–	20.3
Transfer from Stage 2 to Stage 1	0.5	(6.9)	–	–	(6.4)
Transfer from Stage 2 to Stage 3	–	(1.9)	3.3	–	1.4
Transfer from Stage 3 to Stage 1	0.3	–	(6.4)	–	(6.1)
Transfer from Stage 3 to Stage 2	–	0.6	(1.1)	–	(0.5)
New financial assets originated or purchased	30.7	6.4	14.3	–	51.4
Changes in PDs/LGDs/EADs	(16.1)	(3.1)	(6.0)	–	(25.2)
Macro, watchlist and hardship overlays	(3.4)	–	–	–	(3.4)
FX movements	0.9	0.1	0.2	–	1.2
Write-offs	(23.0)	(12.2)	(27.4)	–	(62.6)
Loss allowance as at 30 June 2019	66.1	23.6	33.3	–	123.0
Loss allowance as at 1 July 2019	**66.1**	**23.6**	**33.3**	**–**	**123.0**
Movements with P&L impact					
Transfers:					
Transfer from Stage 1 to Stage 2	(1.7)	33.3	–	–	31.6
Transfer from Stage 1 to Stage 3	(0.7)	–	17.0	–	16.3
Transfer from Stage 2 to Stage 1	0.5	(7.3)	–	–	(6.8)
Transfer from Stage 2 to Stage 3	–	(1.8)	3.1	–	1.3
Transfer from Stage 3 to Stage 1	0.2	–	(4.0)	–	(3.8)
Transfer from Stage 3 to Stage 2	–	0.8	(1.3)	–	(0.5)
New financial assets originated or purchased	26.7	6.6	5.8	–	39.1
Changes in PDs/LGDs/EADs	(21.9)	(20.5)	4.8	–	(37.6)
Macro, watchlist and hardship overlays	26.4	15.6	–	–	42.0
FX movements	(0.4)	(0.1)	(0.2)	–	(0.7)
Write-offs	(15.5)	(11.8)	(18.7)	–	(46.0)
Loss allowance as at 30 June 2020	**79.7**	**38.4**	**39.8**	**–**	**157.9**

23. FINANCIAL RISK MANAGEMENT CONTINUED

c) Market risk

Market risk is the risk of an adverse impact on Group earnings resulting from changes in market factors, such as interest rates and foreign exchange rates.

The Group uses interest rate swaps to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes and in no circumstances are used as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and foreign exchange risk, and ageing/credit scorecard analysis for credit risk.

Market risk management is overseen by the Risk and Compliance Committee, with day-to-day responsibility assigned to Group Treasury, under the management of the Chief Financial Officer.

i) Interest rate risk

Interest rate risk results principally from the repricing risk or differences in the repricing characteristics of the Group's receivables portfolio and borrowings.

The Group's lease receivables and customer loans consist of:

- fixed rate consumer and commercial instalment lease contracts. The interest rate is fixed for the life of the contract. Lease contracts are typically originated with maturities ranging between one and five years and generally require the customer to make equal monthly payments over the life of the contract. The majority of leases are funded within two weeks of being settled with the rental stream discounted at a fixed rate of interest to determine the borrowing amount;
- an interest free consumer loan portfolio where the payments are fixed for the term of the loan; and/or
- revolving credit card portfolios where the payments may vary for the term of the loan.

Borrowings to fund the receivables are a mix of fixed rate borrowings and variable rate borrowings where the rates are reset regularly to current market rates. Interest rate risk is managed on these borrowings by entering into interest rate swaps, whereby the Group pays fixed rate and receives floating rate.

The contracts require settlement of net interest receivable or payable monthly. The settlement dates coincide with the dates on which interest is payable on the underlying debt. The gain or loss from remeasuring the hedging instruments at fair value is recognised in Other Comprehensive Income and deferred in equity in the hedging reserve, to the extent that the hedge is effective. It is reclassified into the Income Statement if the hedging relationship ceases. In the year ended 30 June 2020, nil was reclassified into profit or loss (2019: Nil) and included in Interest Expenses. There was no hedge ineffectiveness in the current or prior year.

At the end of the reporting period, the Group had the following variable rate borrowings outstanding:

A$m	Weighted average interest rate %	2020	Weighted average interest rate %	2019
Floating rate borrowings	2.08	2,263.6	2.13	2,302.8
Interest rate swaps (notional principle amount)	1.68	(1,594.1)	2.03	(1,323.8)
Unhedged variable borrowings		**669.5**		979.0

Interest rate risk sensitivity analysis

The analysis demonstrates the impact of a 100 basis point change in interest rates, with all other variables held constant. A sensitivity level of +/–100 basis point change is determined considering the range of interest rates applicable to the following variable rate financial assets and financial liabilities in the Group:

A$m	2020	2019
Credit card customer loans	813.5	698.7
Cash and cash equivalents	157.5	143.1
Loss reserve on borrowings	26.6	31.2
Floating rate borrowings	2,263.6	2,302.8
Interest rate swaps (notional principal amount)	**(1,594.1)**	(1,323.8)

Based on the variable rate financial assets and financial liabilities held at 30 June 2020, if interest rates had changed by, +/–100 basis points from the year-end rates with all other variables held constant, the impact on the Group's after-tax profits and equity of above exposures would have been $2.3m lower/$2.3m higher (2019: $0.7m lower/$0.7m higher).

Cash flow hedges

The Group hedges a portion of the variability in future cash flows attributable to the interest rate risk on floating rate borrowings of 71% (2019: 58%) using interest rate swaps. There were no forecast transactions for which cash flow hedge accounting had to be ceased as a result of the forecast transaction no longer being expected to occur in the current or prior period.

ii) Foreign exchange risk

Foreign exchange risk results from an impact on the Group's profit after tax and equity from movements in foreign exchange rates.

Changes in value would occur in respect of translating the Group's capital invested in overseas operations into Australian dollars at the reporting date (translation risk).

The Group's only material exposure to this risk arises from its investment in its New Zealand and Ireland businesses. The foreign exchange gain or loss on translation of the investment in foreign subsidiaries to Australian dollars at the end of the reporting period is recognised in Other Comprehensive Income and accumulated in the foreign currency translation reserve, in shareholders' equity.

The Group designated NZ$59.5m (2019: NZ$59.5m) of the acquisition corporate debt as a hedging instrument against the net assets of the acquired entity (Fisher & Paykel Finance). At the end of the financial year NZ$4.0m (2019: NZ$21.0m) was outstanding. This creates a natural hedge between the underlying intercompany funding arrangements.

Movements in foreign currency are accounted for in Other Comprehensive Income as a translation reserve in equity to the extent that the hedging relationship remains effective. The reserve will be reclassified to profit and loss on disposal of the hedged entity.

24. 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 these are categorised as per below under fair value hierarchy.

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

Cash and cash equivalents

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

Receivables and customer loans

The fair values 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 values (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 and derivative financial instruments

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

2020

A$m	Notes	Carrying amount	Fair value
Financial assets			
Cash and cash equivalents	21	157.5	157.5
Receivables	8	638.2	638.2
Customer loans	8	1,814.4	1,814.4
Financial liabilities			
Payables	13	67.3	67.3
Lease liabilities		16.5	16.5
Borrowings[1]			
Floating interest rate[1]		2,263.6	2,263.6
Fixed interest rate		58.1	46.1
Total borrowings before loss reserves	14	**2,321.7**	**2,309.7**
Derivative financial instruments	16	**38.2**	**38.2**

1. Refer to note 23 for further information on how the Group manages its interest rate risk.

2019

A$m	Notes	Carrying amount	Fair value
Financial assets			
Cash and cash equivalents	21	143.1	143.1
Receivables	8	596.0	596.0
Customer loans	8	1,981.4	1,981.4
Financial liabilities			
Payables	13	58.0	58.0
Borrowings[1]			
Floating interest rate[1]		2,302.8	2,302.8
Fixed interest rate		116.1	117.7
Total borrowings before loss reserves	14	2,418.9	2,420.5
Derivative financial instruments	16	17.6	17.6

1. Refer to note 25 for further information on how the Group manages its interest rate risk.

Fair value hierarchy

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

a) Receivables and customer loans

Unobservable inputs such as historic and current product margins and credit risk are considered to determine the fair value. These are classified as Level 3.

b) Borrowings 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. There are no Level 1 or Level 3 borrowings and derivative financial instruments.

25. CHANGE IN ACCOUNTING POLICY

Until the 2020 financial year, 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. 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.

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.

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.

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. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 5.3%.

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 liabilities recognised as at 1 July 2019	**19.5**
Which are:	
Current lease liabilities	2.9
Non-current lease liabilities	16.6
	19.5

A$m	
Lease liabilities recognised as at 30 June 2020	
Which are:	
Less than 1 year	4.1
Between 1 and 2 years	1.6
Between 2 and 3 years	1.4
Between 3 and 4 years	1.5
Between 4 and 5 years	1.7
More than 5 years	6.2
	16.5

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

A$m	30 June 2020	1 July 2019
Properties	12.2	15.1
Motor vehicles	0.3	0.4
Total right-of-use assets	**12.5**	15.5

The Income Statement shows the following amounts relating to leases:

A$m	30 June 2020
Depreciation:	
Properties	2.8
Motor vehicles	0.2
Total right-of-use assets	**3.0**
Interest expense (included in finance cost)	**1.1**

Total cash outflow for leases in 2020 was $3,060,000.

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

- right-of-use assets – increased by $15.5m;
- lease liabilities – increased by $19.5m; and
- operating lease accrual – decreased by $4.0m.

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

25. CHANGE IN ACCOUNTING POLICY CONTINUED

Lease segment assets and segment liabilities at 30 June 2020 increased as a result of the change in accounting policy are now included in segment assets.

A$m	Segment assets	Segment liabilities
Commercial and Leasing	0.5	(1.2)
AU Cards	0.4	(1.9)
NZ Cards	7.4	(9.3)
BNPL	4.2	(4.1)
	12.5	(16.5)

Lessor accounting

flexigroup did not need to make any adjustments to the accounting for assets held as lessor under operating leases or finance leases as a result of the adoption of AASB 16 (see note 8).

26. COMMITMENTS

Commitments for property, plant and equipment

Leases are entered into to meet the business needs of the entities in the Group. Leases are for premises and plant and equipment. The leases have varying terms, escalation clauses and renewal rights.

From 1 July 2019, **flexigroup** has recognised lease assets and liabilities under AASB 16, except for short-term and low-value leases, see note 25 for further information.

A$m	2020	2019
Non-cancellable operating leases contracted for, but not capitalised in the financial statements due:		
– within one year	–	4.1
– after one year but not later than five years	–	11.4
– greater than five years	–	9.3
	–	24.8

Commitments other than operating leases

flexigroup has a call centre service agreement, where the Group will receive call centre services. At 30 June 2020, the contract had a remaining term of two-and-a-half years with minimum spend conditions. Additionally, in the normal course of business at 30 June 2020 the Group has approved customer loan and lease receivable accounts, which have not been drawn at year end. Committed amounts are typically drawn within a short period of the loan or lease being approved. Refer to note 15 for provision for undrawn credit commitments.

27. CONTINGENT LIABILITIES

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 focused 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 AFCA to compensate affected customers. A provision of $7.0m was recognised in the 2018 financial year with respect to the refund of fees charged to impacted customers; and following settlement during the year, $1.5m provision remains at 30 June 2020.

FlexiRent has resolved the matters previously disclosed in the 2019 Annual Report with AFCA in relation to the liquidation of Viewble Media Pty Ltd.

Flexicards Australia Pty Limited has resolved the matters previously disclosed in the 2019 Annual Report with AFCA in relation to responsible lending practices undertaken by Flexicards for its Once, Lombard and SKYE cards products.

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

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

28. INSURANCE

The Group conducts insurance business through its controlled entity in New Zealand, Consumer Insurance Services Limited (CISL). CISL's primary insurance activities are the development, underwriting and management of non-life insurance products under *The Insurance (Prudential Supervision) Act 2010*. The non-life insurance products are in respect of Goods Cover, Payment Protection and Extended Warranty Cover. The solvency capital of CISL at 30 June 2020 of NZ$4.6m (A$4.3m) (2019: NZ$4.9m (A$4.7m)) is greater than the minimum required solvency capital of NZ$3.0m (A$2.8m) (2019: NZ$3.0m (A$2.9m)). The insurance business of CISL comprises less than 1.0% of the total assets of the Group. No new products have been sold or renewed since June 2019.

29. INVESTMENTS IN SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following controlled entities in accordance with the accounting policy described in note 1(ii):

Entity name	Footnote	Country of incorporation	Percentage of shares/units 2020	Percentage of shares/units 2019
Certegy Ezi-Pay Pty Ltd	2	Australia	**100%**	100%
The Trustee for Flexi ABS Trust 2010-2		Australia	**100%**	100%
The Trustee for Flexi ABS Trust 2015-1	3	Australia	**100%**	100%
The Trustee for Flexi ABS Trust 2015-2	3	Australia	**100%**	100%
Flexi ABS Trust 2016-1	3	Australia	**100%**	100%
The Trustee for Flexi ABS Trust 2017-1		Australia	**100%**	100%
The Trustee for Flexi ABS Trust 2018-1		Australia	**100%**	100%
The Trustee for Flexi ABS Trust 2019-1		Australia	**100%**	100%
The Trustee for Flexi ABS Trust 2019-2	1	Australia	**100%**	100%
The Trustee for Flexi ABS Warehouse Trust No. 2		Australia	**100%**	100%
The Trustee for Flexi ABS Warehouse Trust No. 3		Australia	**100%**	100%
The Trustee for FlexiGroup Employee Share Plan Trust		Australia	**100%**	100%
FlexiGroup Management Pty Limited		Australia	**100%**	100%
FlexiGroup SubCo Pty Limited	2	Australia	**100%**	100%
FlexiGroup Australia Holdings Pty Limited	2	Australia	**100%**	100%
FlexiRent Horizon SPV Pty Ltd		Australia	**100%**	100%
FlexiRent SPV Number 2 Pty Ltd		Australia	**100%**	100%
FlexiRent SPV Number 4 Pty Ltd		Australia	**100%**	100%
FlexiRent Capital Pty Ltd	2	Australia	**100%**	100%
FlexiRent SPV Number 7 Pty Ltd	3	Australia	**100%**	100%
FlexiRent SPV Number 8 Pty Ltd	3	Australia	**100%**	100%
Flexicards Australia Pty Ltd	2	Australia	**100%**	100%
The Trustee for Helix Trust		Australia	**100%**	100%
The Trustee for Lighthouse Warehouse Trust No. 9		Australia	**100%**	100%
The trustee for Lombard Warehouse Trust No. 1		Australia	**100%**	100%
Once Credit Pty Limited	2	Australia	**100%**	100%
Oxipay Pty Ltd		Australia	**100%**	100%
RentSmart Finance Limited	2 / 3	Australia	**100%**	100%
RentSmart Pty Ltd	2 / 3	Australia	**100%**	100%
RentSmart Servicing Pty Ltd	2 / 3	Australia	**100%**	100%
The Trustee for the RentSmart Unit Trust	3	Australia	**100%**	100%

Entity name	Footnote	Country of incorporation	Percentage of shares/units 2020	2019
SmartCheck Pty Ltd	2 / 3	Australia	**100%**	100%
The Trustee for ThinkSmart Trust	3	Australia	**100%**	100%
Wiired (Australia) Pty Ltd	1	Australia	**100%**	–
FlexiFi Europe Limited		Ireland	**100%**	100%
FlexiFi Europe Holdings Limited		Ireland	**100%**	100%
FlexiRent Ireland Limited		Ireland	**100%**	100%
FlexiFi Europe Services Limited		Ireland	**100%**	100%
Flexi Orlaigh SPV DAC	4	Ireland	**0%**	0%
Columbus Financial Services Limited		New Zealand	**100%**	100%
Columbus Trust		New Zealand	**100%**	100%
Consumer Finance Limited		New Zealand	**100%**	100%
Consumer Insurance Services Limited		New Zealand	**100%**	100%
Flexi Cards Limited		New Zealand	**100%**	100%
Flexi Finance Limited		New Zealand	**100%**	100%
Flexi Financial Services Limited		New Zealand	**100%**	100%
FlexiGroup (New Zealand) Limited		New Zealand	**100%**	100%
FlexiGroup NZ SPV1 Limited		New Zealand	**100%**	100%
FlexiGroup NZ SPV2 Limited		New Zealand	**100%**	100%
FlexiGroup NZ SPV3 Limited		New Zealand	**100%**	100%
Q Card Trust		New Zealand	**100%**	100%
Retail Financial Services Limited		New Zealand	**100%**	100%
RFS Trust 2016-1		New Zealand	**100%**	100%
TRL Leasing Limited		New Zealand	**100%**	100%
Wiired (New Zealand) Limited[1]		New Zealand	**100%**	–

1. Created during the year ended 30 June 2020.
2. These controlled entities have entered into a deed of cross guarantee (refer to note 33) with the Company pursuant to ASIC Class order 98/1418 dated 13 August 1998. These controlled entities and the Company form a closed group (closed group is defined as a group of entities comprising a holding entity and its related wholly owned entities). Relief was granted to these controlled entities from the *Corporations Act 2001* requirements for preparation, audit and publication of an annual financial report.
3. These are in the process of being wound up.
4. **flexigroup** consolidates the entity by nature of its interest in the risks and rewards of the entity.

30. KEY MANAGEMENT PERSONNEL DISCLOSURES

a) Directors

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

Andrew Abercrombie	Non-Executive Director and Chairman
Christine Christian	Non-Executive Director and Deputy Chairman
Rajeev Dhawan	Non-Executive Director
Jodie Leonard	Non-Executive Director
Carole Campbell	Non-Executive Director
John Wylie	Non-Executive Director

b) Other Key Management Personnel

KMP in the current year

Following the transformation and organisation restructure in FY20, it has been determined that the Chief Revenue Officer, GM Commercial and Chief Operating Officer roles no longer exist or are no longer considered KMP. The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group during the financial year:

Rebecca James	Chief Executive Officer
Chris Lamers	Deputy Group Chief Executive Officer and Chief Executive Officer – New Zealand
Ross Aucutt	Chief Financial Officer[1]

1. Stepped down as CFO effective 9 July 2020 and will cease employment with **flexigroup** on 6 October 2020.

c) Key Management Personnel compensation

A$	2020	2019[1]
Short-term employee benefits	2,704,823	2,431,603
Post-employment benefits	131,737	136,700
Long-term benefits	–	–
Share-based payments	271,717	185,669
Total	**3,108,277**	2,753,972

1. The prior year numbers have been restated to only include those deemed key management personnel in the current year.

Further remuneration disclosures are provided in section 10.1 of the Remuneration Report on pages 71-73.

d) Other transactions with related parties

Rental of Melbourne premises

FlexiRent Capital Pty Limited has rented premises in Melbourne owned by entities associated with Mr Andrew Abercrombie. The rental arrangements for these premises are based on market terms.

A$	2020	2019
Rental expense for premises	**185,866**	187,284

31. RELATED PARTY TRANSACTIONS

a) Parent entity

The parent entity of the Group is FlexiGroup Limited.

b) Subsidiaries and associate

Interests in Group entities are set out in note 29.

c) Transactions with related parties

As outlined in note 30, FlexiRent Capital Pty Limited has rented premises in Melbourne owned by entities associated with Mr Andrew Abercrombie.

John Wylie, Director of FlexiGroup Limited appointed 21 March 2019, is Chairman of Tanarra Capital Pty Limited, which holds 20,113,947 shares, being 5.1% interest in **flexigroup**'s total shares on issue.

32. REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by the auditor of the parent entity and its related parties.

a) Audit and assurance services

A$	2020	2019
Audit services		
PwC Australian firm:		
Audit and review of financial statements	1,000,179	738,167
Related practices of PwC Australian firm	358,179	343,900
Total remuneration for audit and assurance services	**1,358,359**	1,082,067

b) Non-audit services

A$	2020	2019
Taxation services		
PwC Australian firm:		
Tax compliance and advice on transactions	77,234	259,514
Related practices of PwC Australian firm	302,651	223,972
Other assurance services		
PwC Australian firm:	4,590	5,090
Other assurance services including due diligence services	–	8,102
Total remuneration for audit and assurance services	**1,742,834**	1,578,745

It is the Group's policy to employ PwC on assignments additional to its statutory audit duties where PwC's expertise and experience with the Group are important. These assignments are principally regulatory audits, procedures performed as part of completing funding agreements, tax advice and due diligence reporting on acquisitions, or where PwC is awarded assignments on a competitive basis.

33. CLOSED GROUP

The table below presents the consolidated pro forma Income Statement and Statement of Financial Position for the Company and controlled entities, which are party to the deed of cross guarantee (referred to as a closed group). For further information, refer to note 29, footnote 2. The effects of transactions between entities to the deed are eliminated in full in the Consolidated Income Statement and Consolidated Statement of Financial Position.

a) Statement of comprehensive income

A$m	2020	2019
Interest income	7.6	7.5
Interest expense	(4.2)	(6.2)
Other portfolio income	39.7	61.1
Dividend income	344.5	68.5
Net income	**387.6**	130.9
Employment expenses	(64.5)	(63.2)
Loan impairment expenses	(25.4)	3.3
Other intangible assets impairment	(1.0)	(6.5)
Depreciation and amortisation	(11.4)	(9.2)
Operating and other expenses	(28.9)	(35.7)
Profit before income tax	**256.4**	19.6
Income tax expense	26.4	(7.0)
Profit for the year	**282.8**	12.6
Other comprehensive income		
Items that may be reclassified to profit or loss		
Changes in the fair value of cash flow hedges, net of tax	0.1	(0.1)
Other comprehensive income for the year, net of tax	**0.1**	(0.1)
Total comprehensive income for the year	**282.9**	12.5

b) Statement of financial position

A$m	2020	2019
Assets		
Cash and cash equivalents	7.3	24.5
Inventories	0.8	0.6
Receivables and customer loans	32.2	54.4
Investment in associate	14.3	13.7
Plant and equipment	7.5	3.7
Goodwill	49.6	49.6
Other intangible assets	51.0	39.8
Deferred tax asset	14.9	20.7
Other financial assets	342.7	80.7
Total assets	**520.3**	287.7

A$m	2020	2019
Liabilities		
Payables	60.7	42.2
Borrowings	67.3	98.1
Provisions	5.0	12.2
Total liabilities	**133.0**	152.5
Equity		
Contributed equity	392.6	390.1
Reserves	0.8	0.7
Retained profits/(accumulated losses)	(6.1)	(255.6)
Total equity	**387.3**	135.2

34. PARENT ENTITY FINANCIAL INFORMATION

a) Summary financial information

The parent entity financial information is presented as follows:

A$m	2020	2019
Balance sheet		
Non-current assets	667.7	695.7
Total assets	**667.7**	695.7
Current liabilities	53.3	42.6
Non-current liabilities	27.9	84.6
Total liabilities	**81.2**	127.2
Net assets	**586.5**	586.5
Issued share capital	768.4	765.4
Share-based payment reserve	4.5	4.8
Hedge Reserve of Net Investment	(2.0)	(1.4)
Accumulated losses	(184.4)	(444.3)
Shareholders' equity	**586.5**	324.5
Profit for the year	49.7	(5.6)
Exchange differences on hedged net investment	(0.6)	(1.4)
Total comprehensive income	**49.1**	(7.1)

b) Guarantees entered into by the parent entity

Pursuant to Australian Securities and Investment Commission Class Order 98/1418 dated 13 August 1998, relief was granted to certain controlled entities (note 29, footnote 2) from the *Corporations Act 2001 (Cth)* requirements for preparation, audit and publication of annual financial reports. It is a condition of the Class Order that the Company and each of the controlled entities are party to a deed of cross guarantee. The effect of the deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the controlled entities under certain provisions of the *Corporations Act 2001 (Cth)*.

No liability was recognised by the parent entity or the consolidated entity in relation to the above guarantee as the fair value of the guarantee is immaterial.

c) Contingent liabilities and contractual commitments of the parent entity

The parent entity has no contingent liabilities or contractual commitments as at 30 June 2020 (2019: $Nil).

d) Dividend income

The parent entity received $295m (2019: $Nil) of dividends from subsidiaries in the current year.

e) Impairment of Investments in subsidiaries

The net assets of the parent entity were assessed against the recoverable amount of the consolidated Group's net assets and impairment of $3.4m was recognised.

35. 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 set out in note 29 as the Group is exposed or has rights to variable returns and has the ability to affect its returns through its power over the securitisation and special purpose vehicles. The Group may serve as a sponsor, servicer, manager, liquidity provider, purchaser of notes and/or purchaser of residual interest and capital units with respect to these securitisation and special purpose vehicles.

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

A$m	2020	2019
Receivables	576.9	510.7
Customer loans	1,814.9	1,723.5
Cash held by securitisation vehicles	143.0	112.9
Total	**2,534.8**	2,347.1
Borrowings related to receivables and customer loans	2,228.4	2,289.6

36. EVENTS OCCURRING AFTER THE REPORTING PERIOD

As at the date of signing, the Company is intending to raise additional equity capital by undertaking an accelerated non-renounceable entitlement offer, comprising an institutional component and a retail component. Following the accelerated institutional component, eligible retail shareholders will have two weeks to participate in the entitlement offer.

Subsequent to the balance sheet date, the maturity date in respect of $93m of the Group's $197.1m corporate debt facilities was extended from March 2021 to December 2021.

Other than the matters noted above, as at the date of this report the Directors are not aware of any matter or circumstance that has arisen since 30 June 2020 that has significantly affected, or may significantly affect:

- the Group's operations in future financial years; or
- the results of those operations in future financial years; or
- the Group's state of affairs in future financial years.

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report

To the members of FlexiGroup Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of FlexiGroup Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended

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

What we have audited

The Group financial report comprises:

- the Consolidated Statement of Financial Position as at 30 June 2020
- the Consolidated Income Statement for the year then ended
- the Consolidated Statement of Comprehensive Income for the year then ended
- the Consolidated Statement of Changes in Equity for the year then ended
- the Consolidated Statement of Cash Flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

Materiality	Audit scope
• For the purpose of our audit we used overall Group materiality of \$2,739,250, which represents approximately 5% of the Group's average profit before tax from continuing operations over the past 3 years. • We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. • We chose Group profit before tax because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. • We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.	• Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. • We decided the nature, timing and extent of work that needed to be performed by us and component auditors operating under our instruction. We then structured our audit approach as follows: – We identified two components, FlexiGroup Core (composed of the Consumer Leasing, Commercial Leasing, Australia Cards, New Zealand Leasing, and BNPL) and New Zealand Cards, based on a combination of reportable operating segments and shared operating centres with consistent processes and controls. – Audit procedures over the FlexiGroup Core component were performed by PwC Australia. – Work was performed by component auditors in New Zealand in regards to the New

Zealand Cards component. For these procedures, we decided on the level of involvement required from us to be able to conclude whether sufficient appropriate audit evidence had been obtained. Our involvement included discussions, written instructions and receiving reporting throughout the year from the component auditors.

– Where deemed appropriate, we performed tests of relevant controls to evaluate whether they were appropriately designed and operated effectively during the year for the purpose of our audit. We considered the results of the controls tests and the implications for our remaining audit work.

– We performed further audit procedures at a Group level, including over the consolidation of the Group's reporting units and the preparation of the financial report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit Committee.

Key audit matter	*How our audit addressed the key audit matter*
Provision for doubtful debts for receivables and customer loans *(Refer to notes 8 and 23.b of the financial statements)* This was a key audit matter because the determination of the provision under Australian Accounting Standard AASB 9 *Financial Instruments* (AASB 9) was driven by subjective judgements made by the Group in predicting expected credit losses (ECL). Given the ongoing COVID-19 pandemic and	We have performed the following procedures, amongst others: • Together with PwC credit modelling experts, examined and assessed the ECL model developed by the Group in considering the key judgements and assumptions supporting the ECL against the requirements of AASB 9, focusing on changes and new developments. • Assessed the accuracy of hardship status at a customer account level on a sample basis by

Key audit matter	*How our audit addressed the key audit matter*
uncertainty as to the economic and financial market impacts, additional judgement was exercised by the Group in calculating the ECL. The majority of the receivables and customer loans balances were low value and therefore the provision was modelled and calculated on a collective basis. Key elements in determining the provision for doubtful debts under AASB 9 include: • Judgements applied in determining exposures that have had a significant increase in credit risk, which is assessed by the Group based on the delinquency or hardship status of an exposure. • Judgements applied in setting the assumptions used in the ECL models, such as the probability of default (PD) and loss given default (LGD). • Judgements applied in assessing the impact of COVID-19 on expected losses of the Group's receivables. • Judgements applied in developing macroeconomic scenarios, use of forward looking information and their associated weightings given the wide range of potential economic outcomes and impacts from COVID-19 that may impact the future ECL. • Other post-model adjustments included to reflect emerging trends or particular situations including hardship which are not otherwise captured by the ECL model. The Group identified certain Commercial contracts which were individually assessed where subjective judgements were applied, separate to the collectively assessed provision. COVID-19 related overlays on the Commercial contracts were also assessed on this basis.	comparing the hardship status to supporting documentation. • Assessed the integrity of data used as inputs into the models by tracing a sample of inputs used in the models to source systems and calculations. • Considered the accuracy and reasonableness of the modelled calculations by reperforming the ECL calculations, on a sample basis. • Together with PwC credit modelling experts, assessed the reasonableness of the COVID-19 overlays by assessing the methodology adopted by the Group, the reasonableness of the scenarios weightings, mathematical accuracy of the calculation and accuracy of key input data on a sample basis. • Together with PwC credit modelling experts, assessed the reasonableness of forward-looking information incorporated into the impairment calculations by assessing the reasonableness of the forecasts, assumptions and probability weightings applied in the multiple economic scenarios, and comparing on a sample basis against supporting evidence where applicable. • Assessed the other post-model adjustments in the context of the key model and data limitations identified by the Group, considered their rationale and recalculated, where applicable. • For a sample of receivables which were identified and provisioned for individually, considered the basis of measuring the individually assessed provisions by considering the latest information available to the Group. • Assessed the appropriateness of the Group's disclosures in the financial report in light of the requirements of Australian Accounting Standards.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition *(Refer to note 4 of the financial statements)* The Group has three main streams of revenue: finance lease interest income, interest income on customer loans and other portfolio income. This was a key audit matter because of: • The significance of interest income and other portfolio income in the context of the profit of the Group. • The judgement involved in the estimation of the finance lease unguaranteed residual values, which should reflect the amount the Group expects to realise at the end of the lease contractual period. The residual value is included in the calculation of the effective interest rate at the commencement of the lease contract, which affects the revenue recognition.	We performed the following procedures, amongst others: • Re-performed the automated calculation of interest income on a sample basis. • Compared the balances between the product systems and the general ledger as of 30 June 2020. • Inspected and compared contract data contained in the product system to the signed contract for a sample of finance leases. • For a sample of customer loans, compared the income recognised and the cash received and reflected in the product system to the relevant signed contract and bank statements. • Assessed the Group's methodology to estimate the residual value is in accordance with the requirements of Australian Accounting Standards • Inspected that the residual value applied was in line with methodology used by the Group, for a sample of contracts with unguaranteed residual values as at year end.
Valuation of goodwill *(Refer to note 11 of the financial statements)* This was a key audit matter because the carrying value of goodwill and other intangibles was material for the Group and the determination of their recoverable amounts was impacted by subjective judgements and assumptions as well as strategic changes implemented by the Group in the current financial year, which included the introduction of new products and modification to reported segments. The recoverable amount of goodwill and other intangibles was determined through a 'value in use' valuation model based on the Group's cash flow forecasts from the latest board approved business plans for each cash generating unit ("CGU"). The most significant judgements related to the discount rate applied together with the assumptions supporting the underlying forecast cash flows, in particular, the impacts of COVID-19, revenue growth rates and terminal growth rates. The Group considered that each reportable operating segment constituted its own CGU.	We inspected the Group's impairment analysis for all CGUs disclosed in note 11 of the financial statements and developed an understanding of the process by which they were developed. Together with our valuation experts, we assessed the reasonableness of the value in use ("VIU") model by performing the following procedures, amongst others: • Assessing the methodology used in the model is consistent with VIU approach and the requirements of Australian Accounting Standards • Checking the calculations for mathematical accuracy of discounted cashflow models • Reviewing certain assumptions and, where relevant, comparing them to available market data on a sample basis • Performing sensitivity analysis over the key assumptions including discount rate and revenue growth rate, to consider the extent of change in

Key audit matter	*How our audit addressed the key audit matter*
	those assumptions that would be required for the intangible assets to be impaired. We assessed the appropriateness of the Group's disclosures in the financial report in light of the requirements of Australian Accounting Standards.
Current tax liabilities and deferred tax liabilities *(Refer to note 6 of the financial statements)* The Group was subject to taxation in each location in which it operated. The assessment of the amounts expected to be paid to tax authorities was considered initially by the Group at a local level and then reviewed by the Group, with consideration given to particular tax positions in certain jurisdictions. In some cases, the treatment of tax positions required judgement related to the determination of temporary and permanent differences, tax treatment for different locations as well as the impact of business combinations. We considered this to be a key audit matter due to the extent of judgement involved by the Group.	Together with our PwC tax specialists, our procedures included evaluating the tax analysis performed by the Group, which set out the basis for judgements made in respect of the status, possible outcomes, associated exposures and ultimate amounts expected to be paid to tax authorities, by: • inspecting a risk-focussed sample of internally and externally prepared documentation to evaluate tax positions • considering the likelihood of additional tax exposures occurring based on other audit evidence, our understanding of the Group and our understanding of relevant tax laws and recent tax rulings • checking the mathematical accuracy of management's provision calculations on a sample basis • agreeing relevant input data to supporting records on a sample basis We assessed the appropriateness of the Group's disclosure in the financial report in light of the requirements of Australian Accounting Standards.
IT general controls The Group is dependent on its IT systems for the processing and recording of significant volumes of transactions. This was a key audit matter because a number of key financial controls are related to IT systems and automated controls. Access rights to technology are important because they are intended to ensure changes to applications and data are appropriately implemented and authorised. Ensuring staff have appropriate access to IT systems and that access is monitored are key controls in mitigating the potential for fraud or error as a result of underlying changes to an application or data.	We evaluated the design and implementation of IT general controls, which included assessing: • The technology control environment: the governance processes and controls used to monitor and enforce control consciousness throughout the Group's technology teams. • Change management: the processes and controls used to develop, test and authorise changes to the functionality and configurations within systems. • Security: the access controls designed to enforce segregation of duties or evaluate that data is only changed through authorised means. • IT operations: the controls over key operations are used to assess that any issues that arise are managed appropriately. We noted design issues with the controls managing and monitoring access which impact our ability to rely

Key audit matter	*How our audit addressed the key audit matter*
	on the key financial systems relevant to our audit approach. We carried out further independent tests of detail to evaluate the accuracy of selected calculations, the correct generation of certain reports, and to assess the correct operation of selected automated controls and technology dependent manual controls.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 47 to 73 of the directors' report for the year ended 30 June 2020.

In our opinion, the remuneration report of FlexiGroup Limited for the year ended 30 June 2020 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of *the Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

Rob Spring
Partner

Sydney
26 August 2020

DIRECTORS' DECLARATION

In the Directors' opinion:

a. The financial statements and notes set out on pages 101 to 169 are in accordance with the *Corporations Act 2001*, including:
   (i) complying with the Accounting Standards, the Corporations Regulations 2001, and other mandatory professional reporting requirements; and
   (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2020 and of its performance for the financial year ended on that date; and

b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due and payable; and

c. at the date of this declaration, there are reasonable grounds to believe that the members of the closed group identified in note 29 will be able to meet any obligations or liabilities which they are, or may become, subject to by virtue of the deed of cross guarantee referred to in note 34.

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

The Directors have been given the declaration by the Chief Executive Officer and Chief Financial Officer as required by s295A of the *Corporations Act 2001*.

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

Andrew Abercrombie
Chair
Sydney

26 August 2020

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 10 August 2020.

A. DISTRIBUTION OF EQUITY SECURITIES

Class of equity security

	Ordinary Shares	
A$m	No. of holders	No. of shares
1 – 1,000	5,232	3,101,992
1,001 – 5,000	6,759	18,614,744
5,001 – 10,000	2,574	19,868,543
10,001 – 100,000	2,799	74,953,611
100,001 and over	182,953,611	277,852,235
Total	**17,546**	**394,391,125**

There were 1,382 holders of less than a marketable parcel of ordinary shares.

B. EQUITY SECURITY HOLDERS

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

	Ordinary Shares	
	Numbers held	Percentage of issued shares %
The Abercrombie Group Pty Ltd	66,683,314	16.91
HSBC Custody Nominees (Australia) Limited	47,020,654	11.92
J P Morgan Nominees Australia	28,128,546	7.13
Tefig Pty Ltd	24,083,279	6.11
BNP Paribas Noms Pty Ltd	18,842,594	4.78
Citicorp Nominees Pty Limited	17,961,424	4.55
National Nominees Limited	9,686,988	2.46
Tamorer Pty Ltd	8,045,578	2.04
Behan Superannuation Pty Ltd	4,270,000	1.08
BNP Paribas Nominees Pty Ltd	3,993,069	1.01
Brazil Farming Pty Ltd	2,663,709	0.68
Investment Op No. 1 Pty Ltd	2,011,395	0.51
Mr Brendan Charles Behan and Mrs Dawn Helen Behan	1,950,000	0.49

	Ordinary Shares	
	Numbers held	Percentage of issued shares %
S M and R W Brown Pty Ltd	1,181,110	0.30
Donnelly Group Aust Pty Ltd	1,148,000	0.29
B and R James Investments Pty Limited	1,100,000	0.28
Comsec Nominees Pty Limited	825,337	0.21
INFIN8 Executive Services Pty Ltd	700,000	0.18
Woodross Nominees Pty Ltd	691,000	0.18
BNP Paribas Nominees Pty Ltd	676,818	0.17
Total	**241,662,815**	**61.28**

Unquoted equity securities

	Number on issue	Number of holders
Options and performance rights issued under the FlexiGroup Limited Long-Term Incentive Plan and Transformation Incentive Plan to take up ordinary shares	22,108,585	14

The Company has no other unquoted equity securities.

C. SUBSTANTIAL HOLDERS

Substantial holder in the Company is set out below:

	Number held	Percentage %	Date of notice
The Abercrombie Group	89,537,979	24.05%	25 November 2015
Renaissance Smaller Companies	27,264,161	6.91%	29 May 2020
Tamorer	20,439,256	5.18%	22 March 2019

Note: As disclosed in substantial holding notices provided to the Company.

D. VOTING RIGHTS

The voting rights attaching to equity securities are set out below:

a. Ordinary shares

On a show of hands, every member present at a meeting in person or by proxy and entitled to vote shall have one vote and upon a poll, each share shall have one vote.

b. Options, performance rights and subordinated perpetual notes

No voting rights.

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CORPORATE DIRECTORY

>> BOARD OF DIRECTORS

Andrew Abercrombie (Chair)

Christine Christian AO (Deputy Chair)

Rajeev Dhawan

Jodie Leonard

Carole Campbell

John Wylie AM

>> COMPANY SECRETARY

Isobel Rogerson

>> NOTICE OF ANNUAL GENERAL MEETING

The Annual General Meeting of FlexiGroup Limited will be held at 4.00pm on 19 November 2020.

Subject to developments, the meeting will be held virtually, or at the Sydney offices of:

PricewaterhouseCoopers
One International Towers
Watermans Quay
Barangaroo NSW 2000
Australia

>> PRINCIPAL REGISTERED OFFICE IN AUSTRALIA

FlexiGroup Limited

Level 7
179 Elizabeth Street
Sydney NSW 2000
Australia

>> SHARE REGISTRY

Link Market Services Limited

Level 12
680 George Street
Sydney NSW 2000
Australia

>> AUDITOR

PricewaterhouseCoopers

One International Towers
Watermans Quay
Barangaroo NSW 2000
Australia

>> BANKERS

Australia and New Zealand Banking Group

>> AUSTRALIAN SECURITIES EXCHANGE LISTING

FlexiGroup Limited shares are listed on the Australian Securities Exchange under the code FXL

>> WEBSITE

flexigroup.com.au