humm group

2022: INTERIM REPORT

HUMM GROUP LIMITED
ABN 75 122 574 583

This report is based on the condensed consolidated financial statements for the half-year ended 31 December 2021 which have been reviewed by Ernst & Young.

ABOUT THIS REPORT.

This Interim Financial Report ("Half-Year Report") has been prepared in accordance with Australian Accounting Standards and the *Corporations Act 2001* (Cth) and does not include all the notes of the type normally included in an annual financial report. humm group limited's (referred to hereafter as the "Group" or "**humm**®group") (previously known as FlexiGroup Limited), most recent annual financial report is available at https://investors.humm-group.com/Investor-Centre/ as part of **humm**group's 2021 Annual Report. **humm**group has also released information to the Australian Securities Exchange operated by ASX Limited ('ASX') in compliance with the continuous disclosure requirements of the ASX Listing Rules. Announcements made by **humm**group under such rules are available on ASX's internet site www.asx.com.au (**humm**group's ASX code is ASX:HUM). The material in this report has been prepared by humm group limited ABN 75 122 574 583 and is current at the date of this report. It is general background information about **humm**group's (humm group limited and its subsidiaries) activities, is given in summary form in terms of the requirements of AASB 134 Interim Financial Reporting and does not purport to be complete. It is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor. These should be considered with professional advice when deciding if an investment is appropriate. The Half-Year Report was authorised for issue by **humm**group's Directors on 22 February 2022. The Board of Directors has the power to amend and reissue the Half-Year Report.

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

Level 1
121 Harrington Street
The Rocks
Sydney NSW 2000

ABN 75 122 574 583

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1H22

INTERIM REPORT.

The Directors present their Interim Operating and Financial Review on the consolidated entity consisting of humm group limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2021 ("1H22"), which is designed to provide shareholders with a clear and concise overview of **humm**group's operations and the financial position of the Group.

DIRECTORS

The following persons were Directors of humm group limited during the half-year and up to the date of this report unless otherwise stated:

Christine Christian AO (Chair, appointed 20 December 2021)
Andrew Abercrombie (resigned as Chairman on 20 December 2021)
Rajeev Dhawan
Carole Campbell
John Wylie AC
Alistair Muir

COMPANY SECRETARIES

Belinda Hannover (from 28 July 2021)
Isobel Rogerson

PRINCIPAL ACTIVITIES

hummgroup is a diversified financial services group providing, both directly and through a network of over 90,000 retailers and brokers, an ecosystem, designed to help people buy everything, everywhere, every day. These products include Buy Now Pay Later ("BNPL") products, leasing, asset finance, credit cards and other finance solutions. **humm**group operates in Australia, New Zealand, Ireland, UK and Canada, serving almost 2.75 million customers.

During the half-year our principal activities continued to be:

- BNPL category of products trading as **humm**®, **bundll**® and **humm**®pro.
- Long-term interest free and everyday spend credit cards, with Australia Cards now trading as **humm**®90.
- Commercial Lease and SME financing services.

In the half-year period, humm group limited has undertaken an auditor rotation with PricewaterhouseCooper resigning as Group auditors on 31 December 2021 and the appointment of Ernst & Young from the same date. The change in auditor will be formally ratified at the **humm**group Annual General Meeting in November 2022.

PRESENTATION OF FINANCIAL INFORMATION

Results and key performance indicators of the current and prior periods are set out below on a Cash Net Profit After Tax ("Cash NPAT") basis).

Cash NPAT reflects the reported net profit after tax adjusted for material infrequent items and the amortisation of acquired intangibles.

In the last reporting period, **humm**group has amended the presentation of the income statement line items by changing the description of gross profit to net operating income and cost of sales to cost of origination. This expands and better defines profitability of the Group.

Prior comparative figures have been updated in line with new disclosure line items.

REVIEW OF OPERATIONS.

1. GROUP PERFORMANCE

For the half-year ended 31 December 2021, the Group reported a Cash NPAT of $27.8m, down 37% compared with the prior comparative period ("pcp"). Operating expenses increased 25% on the prior year due to investment in new products and markets as well as increased employee expenses as benefits from JobKeeper support in the prior year were not repeated. This was partly offset by benefits from operating efficiencies. Marketing investment is up on 1H21 and has been skewed to the first half this year to align with seasonal spending trends.

After assessing the offer from Latitude Group Holdings Limited as announced to the market on 6 January 2022, together with the structural shift from credit cards to debit cards, the decline in market capitalisation of comparable fintech and BNPL companies and the reduction of interest bearing balances caused by COVID-19, management determined that the carrying amount should be reduced to the fair value less costs of disposal. As a result, the Group recognised an impairment expense of intangibles assets of $181.2m, including $135.4m of goodwill and $45.8m of software.

Cash EPS of 5.6 cents represents a 42% decrease from prior comparative period of 9.7 cents, reflecting the decrease in Cash NPAT.

Summary Financial Results

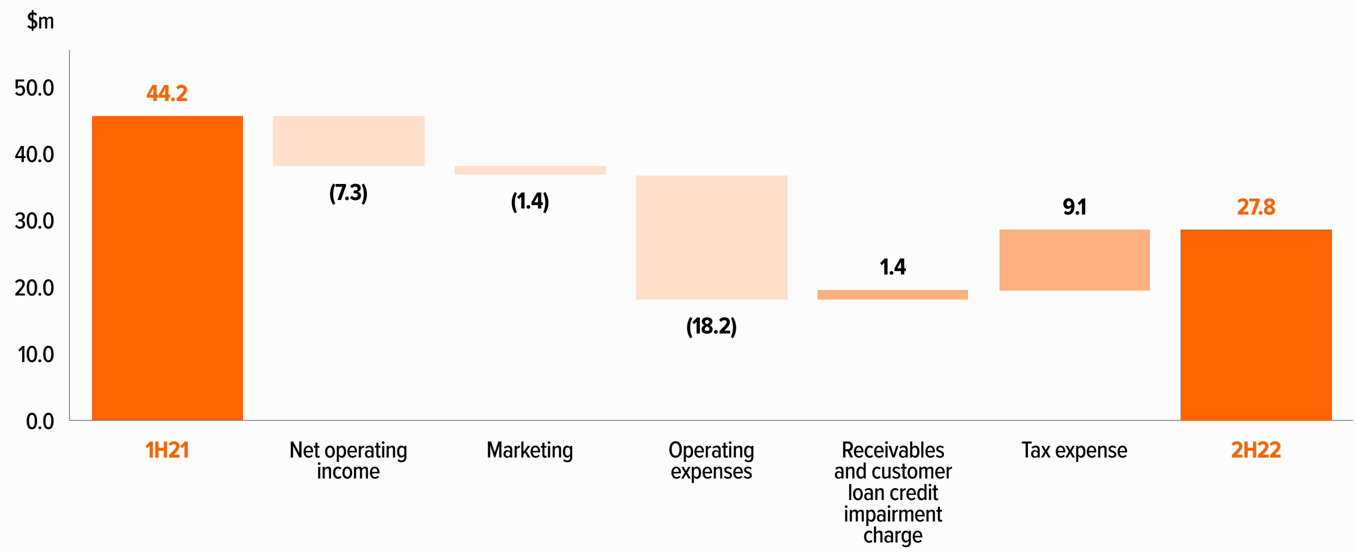
A$m	1H22 Cash NPAT[1]	1H21 Cash NPAT[1,2]	$m Change	Change %
Gross income	220.7	223.8	(3.1)	(1%)
Net operating income	169.4	176.7	(7.3)	(4%)
Marketing expense	(16.8)	(15.4)	(1.4)	9%
Operating expenses	(91.4)	(73.2)	(18.2)	25%
Credit impairment charge	(23.6)	(25.0)	1.4	(6%)
Tax expense	(9.8)	(18.9)	9.1	(48%)
Profit after tax	**27.8**	**44.2**	**(16.4)**	**(37%)**

CNPAT to Statutory Profit Reconciliation

A$m	1H22	1H21
CNPAT[1]	27.8	44.2
Legal provision	(8.4)	–
Impairment of intangibles	(181.2)	–
Amortisation of acquired intangibles	(0.9)	(1.1)
Transaction costs	(3.5)	–
Redundancy	(0.5)	(0.9)
Sale of associate	–	(1.2)
Other	(1.6)	(1.6)
Statutory (loss)/profit	**(168.3)**	**39.4**

1. Cash NPAT reflects the reported net profit after tax adjusted for material infrequent items and the amortisation of acquired intangibles. The analysis of results is based on Cash NPAT to align to the way the Directors view the business and to better understand the Group's performance. The Directors believe that Cash NPAT is the most appropriate measure of maintainable earnings of the Group and therefore best reflects the core drivers and ongoing influences upon those earnings.
2. Retrospectively adjusted for the impacts of International Financial Reporting Interpretation Committee ("IFRIC") guidance on cloud computing costs which reduced software amortisation by $0.8m (after tax).

Below is a period on period Cash NPAT movement by key line items:



KEY PERFORMANCE METRICS

Active Customers (m)

Half-year to 31 December

2021	2020	Change %
2.75	2.62	5%

Active customers increased 5% on pcp, largely driven by strong growth in the BNPL segment including the introduction of new products across Australia and New Zealand. **humm**group also benefited from an increased digital presence with over 2.4m app downloads to date which has also been a key driver of customer growth.

New App Downloads (k)

Half-year to 31 December

2021	2020	Change %
529	540	(2%)

New app downloads reflect engagement with customers across digital channels. This decreased 2% with strong level of app downloads in 1H21 during a period where new products were launched and new customer acquisition was high. As these products mature, the level of app downloads is expected to slow. There has been good growth in **humm**pro and NZ Cards, with a drop in **bundll**. Investment has continued in the digital app experience, which is being reflected in our increasing app store scores.

Distribution Partners (k)

Half-year to 31 December

2021	2020	Change %
90	78	15%

Distribution partners increased from 78k to 90k, mainly due to strong performance in Commercial adding to its network. Growth was also experienced in BNPL in New Zealand, with stable levels in other segments.

Transaction Volume ($b)

Half-year to 31 December

2021	2020	Change %
1.67	1.25	34%

Transaction volume of $1.67b, up 34%. There has been strong growth of 120% in Commercial AU, driven by the successful shift towards SME lending. BNPL saw growth across all regions where **humm**group operates. Cards segments remained stable, impacted by COVID-19 restrictions impacting key Card partners, particularly in travel and hospitality.

30+ Days Arrears (%)

Dec-21	Jun-21	Change %
2.1%	2.9%	(28%)

30+ day arrears reduced due to improved credit performance in AU commercial, and Cards. There has been an increase in BNPL arrears rate as growth products are brought to scale with shorter terms. This resulted in a 12% reduction in the Group's loan impairment charge. Credit and fraud enhancements also contributed to the improvements.

Cost to Income Ratio[1] (%)

Half-year to 31 December

2021	2020	Change %
64%	50%	28%

Cost to income ratio increased 28% from 1H21 due to higher expenses, offset by lower gross income. Operating expenses increased due to investment in growth opportunities including $4.5m increased depreciation and amortisation charge resulting from capitalised costs of product development in new BNPL products and $6.1m in costs incurred in setting up offshore expansion in the UK and Canada. Government support of $6.1m received in 1H21 was not repeated also contributing to the increased cost base. Net operating income fell largely as a result of run off in legacy portfolios and reduced activity associated with COVID-19 lockdowns which limited receivable growth. The highly competitive BNPL market continues to put pressure on yield which has also contributed to lower income.

1. Cost to income is calculated on a Cash NPAT basis. Cost comprises of marketing and operating expenses, while income comprises of gross income, less interest expense and direct cost of sales.

Credit Impairment Charge ($m)

Half-year to 31 December

2021	2020	Charge %
(23.6)	(25.0)	(6%)

Credit impairment charge was down 6% due to higher recoveries and a $10.9m benefit from the partial reversal of the COVID-19 macro overlay relative to $6m reversal booked in 1H21, offset by provisions taken in Commercial in line with receivable growth. The Group continues to take a prudent approach by monitoring the potential impact on arrears and losses and remains well provisioned for the future.

EBITDA ($m)

Half-year to 31 December

	2021	2020	Change %
Cash NPAT	27.8	44.2	(37%)
Tax	9.8	18.9	(48%)
Depreciation and amortisation	15.2	10.7	42%
Interest on corporate debt	1.1	1.8	(39%)
Movement in ECL provisions	(16.4)	(15.0)	9%
EBITDA excluding ECL provision movements	37.5	60.6	(38%)

Earnings before interest, tax, depreciation and amortisation ("EBITDA") excluding ECL provision movements, a measure of performance used in corporate debt covenants, was $37.5m at 31 December 2021, down 38% versus prior year. Lower net operating income, particularly from AU Cards, which remains impacted by COVID-19. Reinstated employee expenses and growth investment, driving an overall reduction in EBITDA excluding ECL provision movements.

KEY FINANCIAL DRIVERS

Gross Income ($m)

Half-year to 31 December

2021	2020	Change %
220.7	223.8	(1%)

Gross income down 1% predominately due to a reduced income from the legacy consumer leasing portfolio and 10% decrease in Australia Cards receivables reflecting COVID-19 impacts on merchant activity, particularly in travel and hospitality. Dishonour fees were also lower as a result of improved customer payments. These have been partially offset by higher interest and fees from Commercial and Leasing with receivables increasing 56% and volumes increasing 101%.

Net Operating Income ($m)

Half-year to 31 December

2021	2020	Change %
169.4	176.7	(4%)

Net operating income down $7.3m or 4% due to a $3.1m or 1% decline in gross income, a $0.8m increase in interest costs due to increased receivables partly offset by lower cost of funds and a $3.4m increase in cost of origination largely due to higher rebates paid to merchants and partners which contributed to the 34% increase in volume.

Marketing and Operating Expenses ($m)[1]

Half-year to 31 December

2021	2020	Change %
(108.2)	(88.6)	22%

Marketing and operating expenses were up 22% due to investment in new products and markets, an increase in marketing spend of $1.4m reflecting a shift in timing of spend to the first half, higher depreciation of $4.5m associated with investment in product and system capability and higher operating expenses of $5.4m. Employee expense increased by $8.7m, uplifted by the withdrawal of $6.1m of JobKeeper support.

1. Presented on a Cash NPAT basis.

Gross Receivables ($m)

Dec-21	Jun-21	Change %
2,979	2,572	16%

Receivables increased 16% from growth in Commercial and Leasing of 56% and BNPL of 14%, offset by a decrease in customer loans in AU Cards of 10% and NZ Cards of 7%.

Commercial and leasing continued its positive momentum from FY20 by increasing lending to SME businesses in Australia through broker channels. The business leveraged its ability to approve deals faster than its competitors, with large market players unable to quickly adapt to COVID-19 restrictions. BNPL receivables increased as a result of continued investment in marketing and new product features, which led to strong growth across existing core products as well as momentum from new products, **bundll** and **humm**pro.

Lower customer loans in AU and NZ Cards were due to higher than normal customer paydowns following government stimulus in the 2020 calendar year and whilst volume increased overall, volume is low from COVID-19 impacted travel partners. The paydown in AU Cards was predominantly across the legacy Once and Lombard portfolios.

Goodwill ($m)

Dec-21	Jun-21	Change %
105.9	239.2	(56%)

Reduction of goodwill of 56% is due to an impairment in goodwill relating to NZ Cards ($85.8m), AU Cards ($18.9m) and BNPL ($30.7m). Lower market capitalisation for **humm**group combined with the recent offer from Latitude Group Holdings Limited has indicated impairment of goodwill held on the balance sheet related to historical acquisitions. Structural changes in the market within which the Cards business operates along with the adverse impacts of COVID-19 were key factors in determining the impairment of goodwill relating to the Cards businesses. The impairment of BNPL goodwill relates to legacy technology acquired over 20 years ago.

Other Intangibles ($m)

Dec-21	Jun-21	Change %
61.1	110.9	(45%)

Reduction in other intangibles of 45% includes software impairment of $33.2m relating to BNPL and $12.6m relating to AU Cards. The impairment has arisen due to changes in market conditions and the pace of technological change. Other intangibles include merchant, customer relationships and brand names and these were not impaired.

FUNDING AND CAPITAL

hummgroup maintains a well-established, mature funding platform with a dynamic funding plan that supports the Group's growth strategy. **humm**group's funding strategy is focused on retaining committed, cost and capital efficient funding for all existing products, securing cost effective funding to support new products and markets and increasing **humm**group's debt capital markets presence across both Australia and New Zealand. The Group has strong banking relationships across all geographies in which it operates with wholesale debt facilities in place with Authorised Deposit-taking Institutions and large international banks and fund managers. **humm**group is also supported by numerous institutional investors through its asset-backed securities ("ABS") programs in both Australia and New Zealand. The Group issued over $1b of ABS during FY21 with further diversification introduced across its institutional investor base. The momentum in public markets continued during the period to 31 December 2021 with over $590.0m of ABS placed with domestic and offshore investors under the Australian and New Zealand ABS programs.

At balance sheet date, the Group had $3,496.4m of wholesale debt facilities, with $797.1m of facilities undrawn. The wholesale debt facilities include both public and private debt facilities which are secured against underlying pools of receivables, chattel loans and customer loans. All facilities provide for the ultimate repayment of outstanding debt through collections received in respect of the relevant receivables, chattel loans and customer loans. In some cases, the Group's wholesale debt facilities are structured to include a revolving period where funding can be drawn and receipts from customers can be used to fund originations of new receivables, chattel loans and customer loans, ahead of the repayment of outstanding debt. The balance of facilities provide for repayment of outstanding debt in line with repayment of the underlying receivables and customer loans.

CORPORATE DEBT FACILITY

In June 2021, the Group entered into a $110.0m three year syndicated revolving loan facility to replace the $197.3m bilateral corporate debt facilities which were undrawn when replaced. The syndicated revolving loan facility will assist the Group in prudently managing its liquidity and cashflow needs, alongside its wholesale debt facilities. Corporate debt remained undrawn at 31 December 2021.

Corporate Debt Gearing (%)

Half-year to 31 December

2021	2020	Change %
0%	0%	0%

The Group continues to optimise its capital structure to maximise shareholder value and prudently manage liquidity by working to securitise a higher portion of assets across its wholesale debt facilities and make greater use of mezzanine debt investment. Continued funding efficiency has supported corporate debt gearing remaining at 0% at balance sheet date.

Return on Equity Ratio (ROE) (%)[1]

Half-year to 31 December

2021	2020	Change %
8%	13%	(38%)

ROE of 8% decreased by 38% compared to 1H21 due to lower Cash NPAT, from increased costs despite higher average equity balances from the capital raise.

1. ROE is calculated as Cash NPAT in the year divided by average total equity.

Wholesale Debt and Corporate Borrowings ($m)

	Dec-21	Jun-21	Change %
Secured Debt Facilities	2,699.3	2,406.5	12%
Corporate Debt Facility	0.0	0.0	0%

Wholesale debt increased 12% due to increases in Chattel Loans and Customer Loans. Consistently with pcp, there was no corporate debt outstanding at 31 December 2021.

2. SEGMENT PERFORMANCE

The Directors consider the business from a product perspective and have identified four reportable segments:

- BNPL (a consolidation of **humm** Australia and New Zealand, legacy Ireland FlexiFi, Ireland **flexicommercial**® and legacy Ireland FlexiRent, **bundll** and **humm**pro),
- New Zealand Cards (including Farmers, Q Card and Flight Centre Mastercard®),
- Australia Cards (**humm**90, Lombard and Once),
- Commercial and Leasing (consisting of Australia and New Zealand Commercial lending and the legacy Consumer Leasing product).

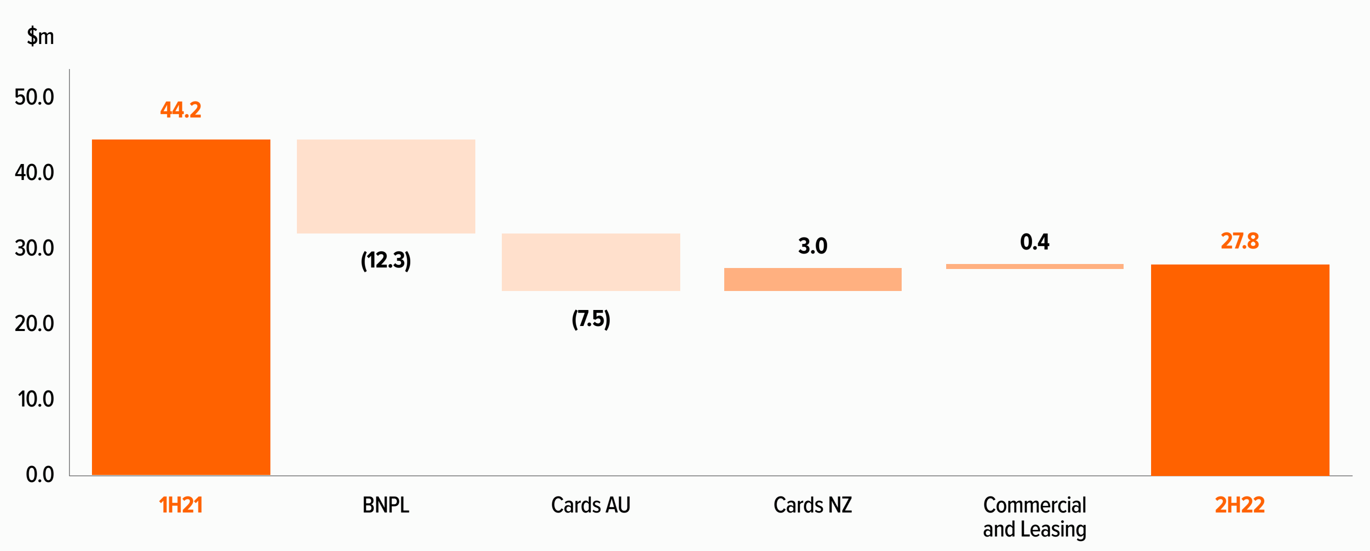
Comparative financial information has been restated in order to enhance comparability of current period results with pcp. This relates to costs incurred in relation to the development of **humm**pro in the pcp of $1.0m, which have been reclassified from Commercial Leasing and recognised in BNPL. As a result Cash NPAT reduced in BNPL by $0.7m and increased in Commercial.

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

Segment Summary

A$m	Dec-21	Dec-20	Change %
BNPL	(9.7)	2.6	(473%)
Australia Cards	4.7	12.2	(61%)
New Zealand Cards	17.5	14.5	21%
Commercial and Leasing	15.3	14.9	3%
Total Cash NPAT	**27.8**	**44.2**	**(37%)**

Cash NPAT movement by reportable segment ($m)



SEGMENT ANALYSIS

BNPL

A$m	Dec-21	Dec-20	Change %
Gross income	61.6	58.8	5%
Net operating income	48.7	45.5	7%
Marketing expense	(9.3)	(8.5)	9%
Operating expenses	(36.2)	(20.3)	78%
Credit impairment charge	(16.6)	(13.1)	27%
Cash NPAT	**(9.7)**	**2.6**	**(473%)**
Volume	651.2	473.0	38%
Closing customer loans	799.2	699.4	14%

Cash NPAT in BNPL of ($9.7m) in 1H22 represents a $12.3m decline on the prior comparative period. The key movements are as follows:

- net income is up 7% due to higher fee income from **humm** AU and **bundll**, lower interest expense partial offset by lower interest income as a result of margin compression.
- volume and receivables up 38% and 14% respectively from growth in customer spend and increased contribution from **bundll** and **humm**pro.
- operating and marketing expenses were up 58% as a result of investment in offshore expansion ($6.1m), increased depreciation from investment of new products ($2.0m) and additional staff costs.
- impairment was up 27% on the back of an increase in underlying portfolio growth.

Australia Cards

A$m	Dec-21	Dec-20	Change %
Gross income	37.9	47.2	(20%)
Net operating income	24.5	37.5	(35%)
Marketing expense	(2.4)	(2.4)	0%
Operating expenses	(18.7)	(18.5)	1%
Credit impairment benefits	3.0	0.2	1,400%
Cash NPAT	**4.7**	**12.2**	**(61%)**
Volume	223.9	200.8	12%
Closing customer loans	428.0	475.1	(10%)

Cash NPAT of $4.7m in 1H22 decreased from $12.2m in 1H21. This performance is attributable to:

- gross income was down 20% due to lower average receivables as new volume failed to keep pace with increased repayments and legacy receivables run off, a decline in yield largely a product of a decline in interest bearing receivables and a fall in fee income associated with slowdown in activity and volume.
- a reduction of 35% in net income because of lower gross income and an increase in funding costs.
- volume increased by 12% attributed to COVID-19 related restrictions easing which drove some bounce back in merchant activity, resulting in higher interest free volume.
- operating and marketing expenses increased 1% driven by staff costs and depreciation.
- impairment losses fell as a result of lower arrears as well as a release of macro overlay provision.

New Zealand Cards

A$m	Dec-21	Dec-20	Change %
Gross income	64.1	69.2	(7%)
Net operating income	50.8	54.7	(7%)
Marketing expense	(4.9)	(4.4)	11%
Operating expenses	(18.3)	(19.2)	(5%)
Credit impairment charge	(4.2)	(11.2)	(63%)
Cash NPAT	**17.5**	**14.5**	**21%**
Volume	359.2	359.2	0%
Closing customer loans	628.9	677.6	(7%)

Cash NPAT in New Zealand Cards of $17.5m in 1H22 represents a 21% increase on the prior comparative period. The increase is largely attributable to:

- a reduction of 7% in gross income which translated to a lower net income mainly because of reduced customer receivables, in particular legacy receivables run off partly offset by a reduction in funding costs.
- operating and marketing expenses fell by 2% reflecting operational efficiencies offsetting an increase in depreciation.
- impairment losses reduced 63% as a result of lower arrears, higher recoveries and provision releases including a release of macro overlay provision.
- volume was flat compared to the prior year as a result of continued COVID-19 related reductions in activity and spend.

Commercial and Leasing

A$m	Dec-21	Dec-20	Change %
Gross income	57.1	48.6	17%
Net operating income	45.4	39.0	16%
Marketing expense	(0.3)	(0.1)	200%
Operating expenses	(18.1)	(15.2)	19%
Credit impairment charge	(5.8)	(0.9)	544%
Cash NPAT	**15.3**	**14.9**	**3%**
Volume	432.8	215.7	101%
Closing customer loans	1,122.5	719.6	56%

Cash NPAT of $15.3m in 1H22, increased from $14.9m in the prior comparative period. The increase is largely attributable to:

- gross income increased by 17% reflecting strong volume momentum leading to a 56% increase in receivables. This was partially offset by declining yield due to the competitive market environment and changing business mix. Net operating income increased by 16%.
- volume was $432.8m in the half-year up 101% on the prior comparative half driven by strong new origination growth in the Commercial business in Australia.
- operating and marketing expenses increased 20% due to increased depreciation with investment in technology across the Group and higher salary costs reflecting increased resourcing and inflationary pressures.
- impairment costs were $5.8m up from $0.9m in the prior corresponding period. Bad debts were lower despite growth in the book due to improved credit risk management. Provision charges were higher reflecting growth in the book in this half with provision releases in the prior corresponding half.

DIRECTORS' REPORT.

Dividends on Ordinary Shares

	31 Dec 2021		31 Dec 2020	
A$m	**Cents**	**$m**	**Cents**	**$m**
2020 interim dividend paid on 14 October 2020	–	–	3.85	15.2
Total dividends paid during the half-year	**–**	**–**	**3.85**	**15.2**

Subsequent to the half-year, on 22 February 2022, the Group determined an interim ordinary dividend of 1.7 cents per share totalling $8.4m, which will be paid on 6 April 2022.

REVIEW OF OPERATIONS

We have provided on pages 2-9 above, Review of Operations, an update on the key performance measures and financial position of the Group for the period ended 31 December 2021.

MATTERS SUBSEQUENT TO END OF THE HALF-YEAR

Dividends are determined after period-end and contained within the announcement of the results for the period. Interim dividends are determined in February and paid in March. Final dividends are determined in August and paid in September. Dividends determined are not recorded as a liability at the end of the period to which they relate. Subsequent to the half-year, on 22 February 2022, the Group determined an interim ordinary dividend of 1.7 cents per share totalling $8.4m, which will be paid on 6 April 2022.

On 18 February 2022, the Group entered into a share sale agreement with Latitude Group Holdings Limited for the sale of **humm**group's consumer finance business ("HCF") for approximately $335.0m. The consideration comprises of $35.0m cash and 150 million of Latitude shares with an assumed share price of $2. The share sale agreement is subject to shareholder approval, regulatory approval and other conditions precedent.

Apart from the matters above as at the date of this report the directors are not aware of any other matter or circumstance that has arisen since 31 December 2021 that has significantly affected, or may significantly affect:

a) the Group's operations in future financial years, or

b) the results of those operations in future financial years, or

c) the Group's state of affairs in future financial years.

ENVIRONMENTAL REGULATION

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

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 11.

ROUNDING OF AMOUNTS

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

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

Christine Christian AO
Chairperson
Sydney

22 February 2022

Building a better working world

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Auditor's Independence Declaration to the Directors of humm group limited

As lead auditor for the review of the half-year financial report of humm group limited for the half-year ended 31 December 2021, I declare to the best of my knowledge and belief, there have been:

a) No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b) No contraventions of any applicable code of professional conduct in relation to the review.

c) No non-audit services provided that contravene any applicable code of professional conduct in relation to the review.

This declaration is in respect of humm group limited and the entities it controlled during the financial period.

Ernst & Young

Ernst & Young

R.Balfour

Richard Balfour
Partner
Sydney

22 February 2022

GROUP CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the half-year ended 31 December 2021

A$m	Notes	31 Dec 21	31 Dec 20 (restated)[1]
Interest income		169.8	171.5
Fee and other income	3	50.9	52.3
Gross income		**220.7**	**223.8**
Cost of origination		(13.7)	(10.3)
Interest expense		(37.6)	(36.8)
Net operating income		**169.4**	**176.7**
Employment expenses		(45.7)	(38.0)
Credit impairment charge		(23.6)	(25.0)
Depreciation and amortisation expenses		(16.4)	(12.1)
Marketing expenses		(16.8)	(15.4)
Operating expenses	4	(48.8)	(28.5)
Impairment of intangibles	4	(181.2)	–
(Loss)/Profit before income tax		**(163.1)**	**57.7**
Income tax benefit/(expense)		(5.2)	(18.3)
(Loss)/Profit for the half-year attributable to shareholders of humm group limited		**(168.3)**	**39.4**
Other comprehensive income			
Items that may be reclassified to profit and loss			
Exchange differences on translation of foreign operations		2.3	(0.1)
Changes in the fair value of cash flow hedges, net of tax		17.1	4.8
Items that will not be reclassified to profit and loss			
Net loss on equity instruments at fair value through other comprehensive income		(0.2)	(0.6)
Other comprehensive income for the half-year, net of tax		**19.2**	**4.1**
Total comprehensive (expenses)/income for the half-year attributable to shareholders of humm group limited		**(149.1)**	**43.5**
Earnings per share for (loss)/profit attributable to the ordinary equity holders of the humm group limited		Cents	Cents
Basic earnings per share		(34.0)	8.6
Diluted earnings per share		(34.0)	8.6

1. Refer to Note 1 (a) for further details of restatements.

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
for the half-year ended 31 December 2021

A$m	Notes	31 Dec 21	30 Jun 21
Assets			
Cash and cash equivalents	5	272.1	218.2
Receivables	6	107.4	234.7
Chattel loans	6	1,021.0	635.3
Customer loans	6	1,791.6	1,783.1
Inventories		1.5	1.0
Assets classified as held for sale		–	8.5
Equity investment		0.8	1.1
Plant and equipment		5.0	5.2
Right-of-use assets		14.3	15.9
Other intangible assets	7	61.1	110.9
Goodwill	7	105.9	239.2
Deferred tax assets		45.7	46.3
Derivative financial instruments		5.4	–
Total assets		**3,431.8**	**3,299.4**
Liabilities			
Trade and other payables		54.0	56.2
Contract liabilities		9.1	7.8
Lease liabilities		17.4	18.6
Borrowings		2,699.3	2,406.5
Current tax liabilities		1.6	6.4
Provisions		34.5	21.8
Derivative financial instruments		–	18.3
Deferred tax liabilities		5.5	4.7
Total liabilities		**2,821.4**	**2,540.3**
Net assets		**610.4**	**759.1**
Equity			
Contributed equity	9	507.6	507.6
Reserves		12.2	(7.4)
Retained earnings		90.6	258.9
Total equity		**610.4**	**759.1**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the half-year ended 31 December 2021

2020 (Restated)

A$m	Contributed equity	Reserves	Retained earnings	Total
Balance at the beginning of the half-year	**393.1**	**(17.8)**	**211.2**	**586.5**
Initial application of IFRIC guidance on Cloud computing costs[1]	–	–	(8.0)	(8.0)
Restated balance at the beginning of the year	**393.1**	**(17.8)**	**203.2**	**578.5**
Profit for the half-year	–	–	39.4	39.4
Other comprehensive income	–	4.1	–	4.1
Total comprehensive income for the half-year	**–**	**4.1**	**39.4**	**43.5**
Share issue (net of transaction costs)	112.4	–	–	112.4
Share-based payment expense	–	2.1	–	2.1
Transfer to share capital from share-based payment reserve	2.1	(2.1)	–	–
Balance at the end of the half-year	**507.6**	**(13.7)**	**242.6**	**736.5**

2021

A$m	Contributed equity	Reserves	Retained earnings	Total
Balance at the beginning of the half-year (restated)	**507.6**	**(7.4)**	**258.9**	**759.1**
Loss for the half-year	–	–	(168.3)	(168.3)
Other comprehensive income	–	19.2	–	19.2
Total comprehensive (expenses)/income for the half-year	**–**	**19.2**	**(168.3)**	**(149.1)**
Purchase of treasury shares	–	(0.3)	–	(0.3)
Share-based payment expense (net of tax)	–	0.7	–	0.7
Balance at the end of the half-year	**507.6**	**12.2**	**90.6**	**610.4**

1. Refer to Note 1 (a) for further details of restatement.

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

CONSOLIDATED STATEMENT OF CASH FLOWS
for the half-year ended 31 December 2021

A$m	31 Dec 21	31 Dec 20
Cash flows from operating activities		
Interest income received from customers	171.8	176.1
Fee and other income received from customers less cost of origination	50.9	60.3
Payment to suppliers and employees	(127.6)	(87.6)
Borrowing costs	(37.6)	(39.1)
Income taxes paid	(15.6)	(8.7)
Net movement in:		
Customer loans	(49.5)	58.4
Chattel loans	(324.0)	(77.3)
Receivables	110.1	(28.6)
Net cash inflow from operating activities	**(221.5)**	**53.5**
Cash flows from investing activities		
Payment for equity investment	–	(2.5)
Payment for purchase of plant and equipment software	(10.1)	(17.2)
Net cash outflow from investing activities	**(10.1)**	**(19.7)**
Cash flows from financing activities		
Dividends paid	–	(15.2)
Proceeds from issuance of shares	–	112.4
Purchase of treasury shares	(0.3)	–
Cash payments relating to lease liability	(1.2)	(2.5)
Drawdown of corporate borrowings	–	84.9
Repayment of corporate borrowings	–	(152.3)
Net movement in:		
Non-recourse borrowings	286.6	(42.8)
Loss reserve on non-recourse borrowings	–	(0.6)
Net cash inflow/(outflow) from financing activities	**285.1**	**(16.1)**
Net increase in cash and cash equivalents	**53.5**	**17.7**
Cash and cash equivalents at the beginning of the period	218.2	157.5
Effects of exchange rate changes on cash and cash equivalents	0.4	(0.1)
Cash and cash equivalents at the end of the period	**272.1**	**175.1**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

NOTE 1. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The condensed interim consolidated financial statements for the half-year ended 31 December 2021 have been prepared in accordance with AASB 134 *Interim Financial Reporting and the Corporations Act 2001*.

The condensed interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements. As a result, they should be read in conjunction with the annual consolidated financial statements for the year ended 30 June 2021 and any public announcements made in the period by humm group limited ('the Group') in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the *ASX Listing Rules*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period and the change in accounting policy as a result of the IFRS Interpretation Committee's ("IFRS IC") agenda decision on SaaS arrangements.

The Group previously capitalised costs incurred in configuring or customising SaaS arrangements as intangible assets, as the Group considered that it would benefit from those costs to implement the SaaS arrangements over the useful life and contract and expected renewable term of the arrangements. Following the IFRS IC agenda decision on Configuration or Customisation Costs in a Cloud Computing Arrangement in March 2021, the Group has reconsidered its accounting treatment and adopted the treatment set out in the IFRS IC agenda decision, which is to recognise those costs as intangible assets only if the implementation activities create an intangible asset that the entity controls and the intangible asset meets the recognition criteria. Costs that do not result in intangible assets are expensed as incurred, unless they are paid to the suppliers of the SaaS arrangement to significantly customise the cloud-based software for the Group, in which case the costs are recorded as a prepayment for services and amortised over the expected renewable term of the arrangement.

This change in treatment has required a restatement in the December 2020 Consolidated statement of comprehensive income as follows:

- Depreciation and amortisation expenses have decreased by $1.2m.
- Income tax expense has increased by $0.4m.

The impact of the above change increased the basic EPS by 0.1 cent and diluted EPS by 0.1 cent.

In the current reporting period **humm**group has amended the presentation of Consolidated statement of comprehensive income by adding the sub-totals gross income and net operating income. Gross income comprises of interest and fee and other income and net operating income comprises of gross income less cost of origination and interest expense. Cost of origination, previously referred to as cost of sales, was disclosed as part of fee and other income. This expands and better defines profitability of the Group. Marketing expenses have also been shown separately on the face of the Consolidated statement of comprehensive income. Prior comparative figures have been updated in line with new disclosure line items.

In the current period the Consolidated statement of cash flows has been restated to include cash flows from customer loans and receivables as part of cash flows from operating activities; previously presented as part of cash flows from investing activities in prior year published financial statements. Prior comparatives have been restated to align with the presentation in the current period. This better presents the operating cash flow activities of the Group as a diversified financial services business.

In the current period the Consolidated statement of comprehensive income has had the following reclassifications to December 2020 numbers in order to be comparative to current year reporting:

- $1.5m from interest expense to interest income.
- $2.5m from cost of origination to operating expenses.
- $0.2m from interest income to cost of origination.
- $0.3m from interest expense to cost of origination.

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

Interest Rate Benchmark Reform – Phase 2: Amendments to AASB 9, AASB 39, AASB 7, AASB 4 and AASB 16

The amendments provide temporary relief which addresses the financial reporting effects when an interbank offered rate ("IBOR") is replaced with an alternative nearly risk-free interest rate ("RFR"). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest;
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued; and
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

These amendments had no impact on the interim financial statements of the Group. The Group intends to use the practical expedients in future periods if they become applicable.

(ii) Use of judgement, estimates and assumptions

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements for the year ended 30 June 2021.

From early 2020, COVID-19 has had a significant impact on the economies in which **humm**group operates and led to material interventions by federal governments. Though positive signs of returning to pre-pandemic life are emerging, snap lockdowns may continue to occur in some of the key markets in which **humm**group operates. High vaccination rates will lessen the impact of new variants of COVID-19 on the economy and the performance of **humm**group, however, uncertainties remain and changes to the estimates and outcomes may arise in the future which are different to those applied in the measurement of the Group's assets and liabilities.

As disclosed in note 14, **humm**group has received an offer from Latitude Group Holdings Limited (Latitude) for the sale of **humm**goup's consumer finance business ("HCF"). Accordingly significant level of judgement is required by the Group to determine:

- whether an asset or group of assets is classified and presented as held for sale or as a discontinued operation (note 14); and
- estimates used in the impairment test of the business subject to the sales offer (note 7).

NOTE 2. SEGMENT INFORMATION

Description of segments

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

The Directors consider the business from a product perspective and have identified four reportable segments:

- BNPL (a consolidation of **humm** Australia and New Zealand, legacy Ireland FlexiFi, Ireland **flexicommercial** and legacy Ireland FlexiRent, **bundll** and **humm**pro).
- New Zealand Cards (including Farmers, Q card and Flight Centre Mastercard®).
- Australia Cards (**humm**90, Lombard and Once).
- Commercial and Leasing (consisting of Australia and New Zealand Commercial lending and the discontinued Consumer Leasing product).

The Group operates in Australia, New Zealand, Ireland, UK and Canada. 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.

Comparative financial information has been restated in order to enhance comparability of current period results with pcp. This relates to costs incurred in relation to the development of **humm**pro in the pcp of $1.0m, which have been reclassified from Commercial Leasing and recognised in BNPL. As a result Cash NPAT reduced in BNPL by $0.7m and increased in Commercial.

The segment information provided to the Directors for the reportable segments for the half-year ended 31 December 2021 is as below:

Half-year ended 31 December 2021

A$m	BNPL	AU Cards	NZ Cards	Commercial & Leasing	Total
Interest income	44.5	29.6	53.4	42.3	169.8
Fee and other income	17.1	8.3	10.7	14.8	50.9
Gross income	**61.6**	**37.9**	**64.1**	**57.1**	**220.7**
Cost of origination	(4.9)	(5.2)	(3.6)	–	(13.7)
Interest expense	(8.0)	(8.2)	(9.7)	(11.7)	(37.6)
Net operating income	**48.7**	**24.5**	**50.8**	**45.4**	**169.4**
Marketing expense	(9.3)	(2.4)	(4.9)	(0.2)	(16.8)
Operating expenses	(38.6)	(19.9)	(21.9)	(30.5)	(110.9)
Credit impairment (charge)/benefits	(16.6)	3.0	(4.2)	(5.8)	(23.6)
Impairment of intangibles	(63.9)	(31.5)	(85.8)	–	(181.2)
Statutory (loss)/profit before income tax	**(79.7)**	**(26.3)**	**(66.0)**	**8.9**	**(163.1)**
Income benefit/(tax expense)	4.3	(1.5)	(5.0)	(3.0)	(5.2)
Statutory profit/(loss) for the year	**(75.4)**	**(27.8)**	**(71.0)**	**5.9**	**(168.3)**
Non-cash adjustments:					
Amortisation of acquired intangible assets	–	–	0.9	–	0.9
Impairment of intangibles	63.9	31.5	85.8	–	181.2
Redundancy and restructure	0.1	0.2	0.1	0.1	0.5
Other[1]	1.7	0.8	1.7	9.3	13.5
Cash net profit/(loss) after tax	**(9.7)**	**4.7**	**17.5**	**15.3**	**27.8**
Total segment receivables at 31 December 2021	**799.2**	**428.0**	**628.9**	**1,122.5**	**2,978.6**
ECL provision, unamortised direct transaction costs, contract liabilities and other debtors					(58.6)
Total receivables, chattel loans and customer loans per the Statement of Financial Position					**2,920.0**
Fee and other income:					
Account service fees	14.3	3.3	5.4	1.1	24.1
Transaction processing fees	2.8	4.7	3.6	0.9	12.0
Leasing related income	–	–	–	12.8	12.8
Other fees and income	–	0.3	1.7	–	2.0
Total fee and other income	**17.1**	**8.3**	**10.7**	**14.8**	**50.9**

1. Other includes costs associated with LFS advisory, consultancy costs and Forum Finance provision.

Half-year ended 31 December 2020 (Restated)

A$m	BNPL	AU Cards	NZ Cards	Commercial & Leasing	Total
Interest income	45.2	35.7	57.8	32.8	171.5
Fee and other income	13.6	11.5	11.4	15.8	52.3
Gross income	**58.8**	**47.2**	**69.2**	**48.6**	**223.8**
Cost of origination	(3.8)	(3.0)	(3.5)	(0.0)	(10.3)
Interest expense	(9.5)	(6.7)	(11.0)	(9.6)	(36.8)
Net operating income	**45.5**	**37.5**	**54.7**	**39.0**	**176.7**
Marketing expense	(8.5)	(2.4)	(4.4)	(0.1)	(15.4)
Operating expenses	(20.2)	(19.1)	(21.1)	(18.2)	(78.6)
Credit impairment (charge)/benefits	(13.1)	0.2	(11.2)	(0.9)	(25.0)
Statutory profit before income tax	**3.7**	**16.2**	**18.0**	**19.8**	**57.7**
Income tax expense	(2.0)	(4.6)	(5.0)	(6.7)	(18.3)
Statutory profit before income tax	**1.7**	**11.6**	**13.0**	**13.1**	**39.4**
Non-cash adjustments:					
Amortisation of acquired intangible assets	–	–	1.1	–	1.1
Redundancy and other restructuring costs	0.5	0.3	–	0.1	0.9
Sale of Think Office Technology	–	–	–	1.2	1.2
Other	0.4	0.3	0.4	0.5	1.6
Cash net profit after tax	**2.6**	**12.2**	**14.5**	**14.9**	**44.2**
Total segment receivables at 31 December 2020	**699.4**	**475.1**	**677.6**	**719.6**	**2,571.7**
ECL provision, unamortised direct transaction costs, contract liabilities and other debtors					(105.8)
Total receivables, chattel loans and customer loans per the Statement of Financial Position					**2,465.9**
Fee and other income:					
Account service fees	9.8	5.7	5.8	1.3	22.6
Transaction processing fees	2.9	5.4	3.4	1.3	13.0
Leasing related income	–	–	–	13.6	13.6
Share of profit after tax from investment in associate	–	–	–	(0.8)	(0.8)
Other fees and income	0.9	0.4	2.3	0.3	3.9
Total fee and other income	**13.6**	**11.5**	**11.5**	**15.7**	**52.3**

NOTE 3. FEE AND OTHER INCOME

A$m	Half-year ended 31 Dec 21	Half-year ended 31 Dec 20
Account servicing fees	24.1	22.6
Transaction processing fees	12.0	13.0
Leasing related income	12.8	13.6
Share of loss after tax from investment in associate	–	(0.8)
Other income	2.0	3.9
Total fee and other income	**50.9**	**52.3**

NOTE 4. EXPENSES

A$m	Half-year ended 31 Dec 21	Half-year ended 31 Dec 20 (restated)
a. Impairment of intangibles		
Impairment of goodwill	135.4	–
Impairment of other intangible assets	45.8	–
Total impairment of goodwill and other intangible assets	**181.2**	**–**
b. Depreciation and amortisation expenses		
Depreciation of plant and equipment	2.8	1.1
Depreciation of right-of-use-asset	1.5	1.5
Amortisation of other intangible assets	12.1	9.5
Total depreciation and amortisation expenses	**16.4**	**12.1**
Other operating expenses		
Customer remediation programme	0.6	–
Information technology and communication	14.0	10.9
Other occupancy, equipment and related costs	3.4	2.5
Legal provision[1]	12.0	–
Outsourced operation costs	2.4	–
Professional, consulting and other service provider costs	8.4	9.7
Insurance claims	0.9	2.9
Other	7.1	2.5
Total other operating expenses	**48.8**	**28.5**

1. On 1 September 2021, FlexiRent Capital Pty Ltd, a subsidiary of humm group limited received a claim from a third party in relation to the investigation relating to equipment leases arranged by Forum Finance. Records indicate that the decommissioned managed services business of the Group generated business linked to Forum Finance between 2016-2018. The business no longer operates and closed in 2018.

   The Group has been advised by its legal counsel that the Group's current exposure to this matter is in line with what was announced to the market on 9 July 2021. As a result, $12.0m has been provided in the period.

NOTE 5. CASH AND CASH EQUIVALENTS

A$m	31 Dec 21	30 Jun 21
Restricted[1]	140.2	110.6
Unrestricted	131.9	107.6
Cash at bank and on hand	**272.1**	**218.2**

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

NOTE 6. RECEIVABLES, CHATTEL LOANS AND CUSTOMER LOANS

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

	As at 31 Dec 2021			As at 30 Jun 2021		
A$m	Gross[1]	ECL Allowance	Net[2]	Gross[1]	ECL Allowance	Net
Receivables	80.1	(2.5)	77.6	231.8	(8.7)	223.1
Customer loans	1,853.1	(61.5)	1,791.6	1,865.1	(82.0)	1,783.1
Chattel loans	1,054.8	(33.8)	1,021.0	660.1	(24.8)	635.3
Total receivables excluding other debtors	**2,988.0**	**(97.8)**	**2,890.2**	**2,757.0**	**(115.5)**	**2,641.5**
Undrawn credit commitments	–	(13.8)	(13.8)	–	(12.5)	(12.5)
Total	**2,988.0**	**(111.6)**	**2,876.4**	**2,757.0**	**(128.0)**	**2,629.0**

1. Gross exposure represents the carrying value of assets subject to AASB 9's impairment requirements.
2. Receivables, chattel loans and customer loans excludes other debtors of $29.8m (30 June 2021: $11.6m) and as a result does not reconcile to the face of the balance sheet.

The table below presents the movement in the Group's total impairment provisions on receivables, chattel loans and customer loans as at 30 June 2021 and 31 December 2021:

A$m	Dec-21	Jun-21
Balance at beginning of period	**128.0**	**157.9**
Net change in provision	17.5	25.6
Amounts written off, previously provided for	(34.2)	(55.4)
FX movements	0.3	(0.1)
Balance at end of the period	**111.6**	**128.0**
Total provision on:		
Receivables	2.5	9.0
Customer loans	75.3	94.5
Chattel loans	33.8	24.5
Total	**111.6**	**128.0**

ECL provision reduced by $16.4m when compared to 30 June 2021. The decline was mainly driven by the release in macro-economic overlay of $6.7m, a reduction in the baseline provision by $9.3m as customers paid down debts, loan loss arrears declined, as well as upside in recoveries.

Forward looking macro-economic overlays, including scenario weightings, have been determined in a more optimistic basis compared to those applied at 30 June 2021 given that the unemployment forecasts have significantly improved in both Australia and New Zealand.

NOTE 7. GOODWILL AND OTHER INTANGIBLE ASSETS

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually as at 30 June or when indicators of impairment exist. As at 31 December 2021, giving consideration to the offer from Latitude for the HCF of $335.0m, management determined that an indicator of impairment existed.

After assessing the Latitude offer together with the structural shift from credit cards to debit cards, the decline in market capitalisation of comparable fintech and BNPL companies and the reduction of interest bearing balances caused by COVID-19, management determined that the carrying amount should be reduced to the fair value less costs of disposal. As a result, the Group recognised an impairment expense of intangibles assets of $181.2m, including $135.4m of goodwill and $45.8m of software. The breakdown of impairment by CGU is detailed below:

Goodwill

A$m	BNPL	AU Cards	NZ Commercial	NZ Cards	Total
Balance at 30 June 2021	**30.7**	**18.9**	**17.9**	**171.7**	**239.2**
Effect of movements in exchange rates	–	–	0.2	1.9	2.1
Impairment	(30.7)	(18.9)	–	(85.8)	(135.4)
Balance at 31 December 2021	**–**	**–**	**18.1**	**87.8**	**105.9**

Software impairment includes $33.2m relating to BNPL and $12.6m relating to AU Cards.

Fair Value Less Cost of Disposal

The recoverable amount of each CGU to which goodwill is allocated is estimated on a FVLCD basis, calculated using a market multiple approach.

Under this approach, we determine the estimated fair value of each of our CGUs by applying observable price earnings multiples of appropriate comparator companies to the estimated future maintainable earnings of each CGU. A deduction is then made for estimated costs of disposal. The valuation is considered to be Level 3 in the fair value hierarchy due to unobservable inputs used in the valuation.

KEY ASSUMPTION	APPROACH TO DETERMINE THE VALUE (OR VALUES) FOR EACH KEY ASSUMPTION
Future maintainable earnings	Future maintainable earnings for each CGU have been estimated based on the 2022 year financial forecast for each CGU, which incorporates estimates of the impacts of COVID-19, an allocation of the central costs recorded outside of the CGUs to which goodwill is allocated and other relevant adjustments such as long term expected credit losses and planned expenditure exceeding longer term maintainable levels with the higher operating expenditure treated as a one-off adjustment in the valuations. Future maintainable earnings are highly sensitive to changes in assumptions particularly with respect to credit losses and interest rates. A 10% increase or decrease in future maintainable earnings results in a corresponding 10% increase or decrease in the value.
Price/Earnings (“P/E”) multiple applied (including control premium)	**Trading multiples** Management has applied similar P/E multiples to comparator company’s multiples to address specific factors relevant to each of the CGUs for impairment testing. A 10% increase or decrease in P/E multiples results in a corresponding 10% increase or decrease in the value. **Control premium** A control premium has been applied which recognises the increased consideration a potential acquirer would be willing to pay in order to gain sufficient ownership to achieve control over the relevant activities. For each CGU the control premium has been estimated as 30% of the comparator group P/E of the CGU.
Cost of disposal	Costs of disposal have been estimated at 1.5% of the fair value of the CGU which reflects the transaction costs.

NOTE 8. DIVIDENDS

A$m	Half-year ended 31 Dec 21	Half-year ended 31 Dec 20
Ordinary shares		
Dividends provided for or paid during the half-year	–	15.2
Preference shares		
Dividends provided for or paid during the half-year	–	–

On 22 February 2022, the Group determined to pay an interim dividend of 1.7 cents per share for the half-year end 31 December 2021.

NOTE 9. CONTRIBUTED EQUITY

(a) Movement in ordinary share capital

	Number of shares	$m
1 July 2021	495,211,065	454.0
Treasury shares purchased on-market	(347,097)	–
31 December 2021	**494,863,968**	**454.0**

(b) Movement in subordinate perpetual notes

	Number of shares	$m
1 July 2021	49,129,075	53.6
31 December 2021	**49,129,075**	**53.6**

(c) Movement in treasury shares

	Number of shares	$m
1 July 2021	57,253	0.3
Treasury shares purchased on-market	347,097	0.3
31 December 2021	**404,350**	**0.6**

NOTE 10. RELATED PARTY TRANSACTIONS

Rental of Melbourne premises

A related company in the Group previously rented premises in Melbourne owned by entities associated with a Director, Mr Andrew Abercrombie. The rental arrangements for the Melbourne premises was based on market terms.

A$	Half-year ended 31 Dec 21	Half-year ended 31 Dec 20
Rental of Melbourne premises[1]	–	72,443

1. Notice of termination of lease was provided by FlexiRent Capital Pty Limited on 6 July 2021, effective 6 October 2021. This was accrued for in the 30 June 2021 result.

NOTE 11. CONTINGENCIES

Commander:

On 10 January 2020 FlexiRent Capital Pty Limited ("FlexiRent") commenced action before the Supreme Court of NSW against M2 Commander Pty Limited ("Commander") in relation to historical alleged breaches by Commander under a commercial program agreement entered between the parties on 17 September 2010. Under the terms of the program agreement, Commander and its dealers were able to request that FlexiRent purchase certain office equipment and lease it to third parties. A defence and counterclaim was filed by Commander on 28 June 2021.

The meditation scheduled in September 2021 was postponed and the potential outcomes and total costs associated with this matter remain uncertain.

Forum Finance:

Liquidators have been appointed by Federal Court for Forum Finance on 9 July 2021. While the investigation focused on the period from 1 July 2018 to 30 June 2021 post the shutdown of the managed services business of the Group, there could be potential exposure which cannot be reliably measured.

Other than the matters outlined above, the Group does not have any further material contingent liabilities.

NOTE 12. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

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

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

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

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

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

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

Cash and cash equivalents

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

Receivables, chattel loans and customer loans

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

Equity investments through OCI

The fair value of equity investments is based on quoted market price as at 31 December 2021.

Set out below is a comparison of the carrying amounts and fair values of financial assets and liabilities as at 31 December 2021 and 30 June 2021:

A$m	Carrying amount 31 Dec 21	Fair value 31 Dec 21	Carrying amount 30 Jun 21	Fair value 30 Jun 21
Financial assets				
Cash and cash equivalents	272.1	272.1	218.2	218.2
Receivables	107.4	107.4	234.7	234.7
Customer loans	1,791.6	1,791.6	1,783.1	1,783.1
Chattel loans	1,021.0	1,021.0	635.3	635.3
Equity investments	0.8	0.8	1.1	1.1
Financial liabilities				
Trade and other payables	54.0	54.0	56.2	56.2
Lease liabilities	17.4	17.4	18.6	18.6
Borrowings				
Floating interest rate	2,698.2	2,698.2	2,404.7	2,404.7
Fixed interest rate	1.1	1.1	1.8	1.8
Total borrowings	**2,699.3**	**2,699.3**	**2,406.5**	**2,406.5**
Derivative financial instruments	(5.4)	(5.4)	18.3	18.3

Fair value hierarchy

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

Receivables, chattel loans 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.

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.

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

NOTE 13. SECURITISATION AND SPECIAL PURPOSE VEHICLES

The Group sells receivables, chattel loans and customer loans to securitisation vehicles through its asset-backed securitisation programs and other special purpose vehicles. The securitisation and special purpose vehicles are consolidated as the Group is exposed or has rights to variable returns and has the ability to affect returns through its power over the securitisation vehicles. The Group may serve as a sponsor, servicer, manager, liquidity provider, purchaser of notes and/or purchaser of residual interest and capital units 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	31 Dec 21	30 Jun 21
Receivables	42.7	214.8
Customer loans	1,582.7	1,724.0
Chattel loans	1,023.9	580.6
Cash held by securitisation vehicles	140.2	110.6
	2,789.5	**2,630.0**
Borrowings related to receivables, chattel loans and customer loans	2,699.3	2,406.5

NOTE 14. EVENTS OCCURRING AFTER BALANCE SHEET DATE

a. Dividend

Dividends are determined after period-end and contained within the announcement of the results for the period. Interim dividends are determined in February and paid in March/April. Final dividends are determined in August and paid in September/October. Dividends determined are not recorded as a liability at the end of the period to which they relate. Subsequent to the half-year, on 22 February 2022, the Group determined an interim ordinary dividend of 1.7 cents per share totalling $8.4m, which will be paid on 6 April 2022.

b. Latitude Group Holdings Limited

On 18 February 2022, the Group entered into a share sale agreement with Latitude Group Holdings Limited for the sale of HCF for approximately $335.0m. The consideration comprises of $35.0m cash and 150 million of Latitude shares with an assumed share price of $2. The share sale agreement is subject to regulatory approval and other conditions precedent.

HCF includes the following segments:

- BNPL (a consolidation of **humm** Australia and New Zealand, UK, Canada, Ireland FlexiFi business, **bundll** and **humm**pro).
- New Zealand Cards (including Farmers, Q Card and Flight Centre Mastercard).
- Australia Cards (including **humm**90, Lombard and Once).

In respect to the Latitude deal, it did not meet the “highly probable” criteria of AASB 5 as at 31 December 2021 and as at the date of this report because:

- Shareholder approval is required.
- Completion of any transaction is anticipated to be conditional upon ATO review and regulatory approvals in multiple jurisdictions.
- There are significant conditions precedents set out in the transaction document.

Apart from the matters above as at the date of this report the directors are not aware of any other matter or circumstance that has arisen since 31 December 2021 that has significantly affected, or may significantly affect:

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

DIRECTORS' DECLARATION.

In accordance with a resolution of Directors of humm group limited, we state that:

In the opinion of the Directors:

a. the financial statements and notes of the Group are in accordance with the *Corporations Act 2001* (Cth), including:

   (i) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and

   (ii) giving a true and fair view of the Group's financial position as at 31 December 2021 and of its performance for the half-year ended on that date; and

b. there are reasonable grounds to believe that humm group limited will be able to pay its debts as and when they become due and payable.

On behalf of the Board

Christine Christian AO
Chairperson
Sydney

22 February 2022

Building a better working world

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Independent auditor's review report to the members of humm group limited

Report on the half-year financial report

Conclusion

We have reviewed the accompanying half-year financial report of humm group limited and its subsidiaries (collectively the Group), which comprises the statement of financial position as at 31 December 2021, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of accounting policies and other explanatory information, and the directors' declaration.

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

a. Giving a true and fair view of the consolidated financial position of the Group as at 31 December 2021 and of its consolidated financial performance for the half-year ended on that date; and

b. Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year financial report* section of our report. 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 annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Directors' responsibilities for the half-year financial report

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

Auditor's responsibilities for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2021 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

Ernst & Young

Ernst & Young

R. Balfour

Richard Balfour
Partner
Sydney

22 February 2022

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