



*cash***converters**

**Annual Report
2020**

Our business

est.
1984

 **16**
Countries

 **705**
Stores

83 Corporate stores
622 Franchise stores

 **4**
Business units

Personal finance
Vehicle finance
Store operations
Franchise operations



Meeting the needs of a growing and under-served market



Diversified product range across lending and retail



Unique, integrated, multi-channel store and online network



Over 36 years of operation through various business cycles



Consistent track record of solid earnings



Supportive financier and a strong balance sheet



Significant domestic growth opportunities



Proprietary technology delivering high customer satisfaction and bad debt optimisation

Corporate directory

Directors

Mr Jason Kulas
Non-Executive Chairman

Mr Peter Cumins
Executive Deputy Chairman

Mr Kevin Dundo
Non-Executive Director

Ms Julie Elliott
Non-Executive Director

Mr Lachlan Given
Non-Executive Director

Mr Robert Hines
Non-Executive Director

Company Secretary

Mr Brad Edwards

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Auditors

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Perth WA 6000
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Stock Exchange

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152-158 St Georges Terrace
Perth WA 6000
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ASX code: CCV

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These financial statements have been organised into the following six sections:

1. Basis of preparation
2. Financial performance
3. Assets and liabilities
4. Capital structure and financing costs
5. Group structure
6. Other items

Each section sets out the accounting policies applied in producing the relevant notes, along with details of any key judgements and estimates used or information required to understand the note. The purpose of this format is to provide readers with a clearer understanding of what drives the financial performance and financial position of the Group.

Chairman's report

At the outset I wish to thank Stuart Grimshaw for his nearly six years of service on the Board of Cash Converters, most of that as Chairman.



During that time, Stuart was instrumental in providing the Board with the leadership and commercial judgement necessary to oversee and resolve a number of significant challenges, including class actions, regulatory matters and most recently, the business impact of COVID-19. Stuart continued the Board's focus on rebasing the Company's approach to sound fundamentals around customer service, responsible lending, and appropriate risk-based parameters, with a view to rewarding shareholders in a sustainable manner in the long term. We thank Stuart for his valuable contribution.

I would also like to convey the Board's gratitude to Kevin Dundo, who retires from the Board after this year's Annual General Meeting.

Kevin served on the Board for six years and made a valuable contribution as an Independent Non-Executive Director, having served as Chair of the Audit and Risk Committee and as a member of the Remuneration and Nomination Committee.

As nominee Director of the Company's largest shareholder, EZCORP, I have the privilege of leading the Board and providing Cash Converters with insights from an international perspective. While only recently stepping into the Chief Executive role at EZCORP and becoming Non-Executive Chairman of Cash Converters, I note there are clear similarities between aspects of each business.

The importance of the customer and providing them with the best possible and most responsible financial options to suit their circumstances is the most obvious and important similarity between each business.

While it was a challenging year for most businesses Cash Converters performed well, evidenced by its financial results for the period ended 30 June 2020. It is a credit to the management team who delivered a solid result while having to flexibly restructure business areas to cater for the volatility caused by COVID-19.

The Board is optimistic about the future of Cash Converters but remains cautious and conservative about the wider domestic and global business environment. The ability for businesses to remain nimble and pivot with new challenges and opportunities as they arise remains key to future success – an ability Cash Converters has demonstrated in the most recent financial year.

The Board has endorsed management's strategy led by Chief Executive Officer, Sam Budiselik, who has outlined a simple but effective plan to build upon the Company's already strong domestic operations, optimise its current product and service offerings, and identify new opportunities for expansion. These three strategic pillars of *Operational Excellence*, *Product Development* and *Network Expansion* will allow Cash Converters to consolidate and grow its position as the lender and retailer of choice for its customers now and into the future.

During the year, the Company settled the remaining class action and looks forward to focusing on delivery of its strategic objectives.

I look forward with confidence to Cash Converters growing sustainably into the future to the benefit of its customers, employees, and shareholders.

A handwritten signature in black ink, appearing to read 'Jason Kulas'. The signature is stylized with a large loop at the end.

Jason Kulas
Chairman

“

These three strategic pillars of *Operational Excellence, Product Development and Network Expansion* will allow Cash Converters to consolidate and grow its position as the lender and retailer of choice for its customers now and into the future.”

Jason Kulas, Chairman

Chief Executive Officer's report



My appointment as Chief Executive Officer of Cash Converters in February this year coincided with the commencement of restrictions to combat the spread of COVID-19 in Australia. Like so many other companies, we were challenged as these restrictions rightly expanded across the nation.

Had Cash Converters been less established, well-funded and supportive of its Customers we could have been more severely impacted. We continued trading through all corporate stores across Australia during this period while maintaining exemplary hygiene and distancing measures. Continuity across the broader business was enabled through the strength of our digital assets, facilitating record online retail sales among other achievements.

We did not require the support of Job Keeper and true to the spirit of the Company I am proud say that we were there for our Customers when they needed us most.

Although our underlying result for the year ended 30 June 2020 (FY 2020) was strong, the previous six months have been arguably the most challenging period in Cash Converters' 36-year history. It is during these periods when team capability is truly tested. Observing the way the team came together and the effort of our front-line colleagues to ensure a COVID-19-free environment in stores makes me so proud to work for Cash Converters. It is a privilege to lead such a passionate group of individuals.

Although it occurred after FY 2020 it would be remiss of me not to acknowledge the departure of our previous chairman Stuart Grimshaw. Stuart has – and continues to be – a valuable source of guidance and counsel to the Company. His ability to consider both the strategic and tactical implications of complex issues while remaining focused on what matters most – the Customer – will have a lasting impact upon me and Cash Converters.

At the same time, we are excited to welcome our new Chairman Jason Kulas and I look forward to leveraging Jason's retail and consumer finance experience.

Operational Performance

Our Customer-centricity enabled Cash Converters to report a pleasing set of full-year results. While our revenue (\$279.0 million) was down 0.9% on the previous corresponding period, on an underlying basis the Company outperformed across many of our key metrics.

Adjusted for the final class action settlement, Cash Converters reported an Operating NPAT of \$19.6 million and Operating EBITDA of \$62.1 million, up 63.2% and 51.5% respectively on the previous corresponding period. These headline results were driven by earnings improvements across each of the Company's segments – most notably a reduction in Net Bad Debt Expense as a proportion of personal finance revenue and a year-on-year increase in retail profit margin. While we experienced a temporary reduction in lending demand, our stores demonstrated counter-cyclical retail behaviour complemented by particularly strong online sales of home entertainment and technology items. This strong in-store retail turnover was facilitated, in part, by all Australian corporate Cash Converters stores remaining open throughout the financial year ensuring that we maintained a vital presence within the community in their time of greatest need. Our stores demonstrated the strategic importance of our physical network complementing our digital assets, and we remain committed to expanding the physical store network as a result.



With the necessary leadership team now in place, Cash Converters is confident in its ability to deliver upon and beyond its strategic objectives.”

Our loan books, the engine room of the Company, finished a combined 24.2% below 30 June 2019 levels on a gross basis – as Cash Converters took prudent steps to tighten its credit criteria in the face of a rapidly declining local economy in March of this calendar year. This was coupled with the equally sensible decision by many of our customers to use money received through Government Stimulus or early access of Superannuation to repay debt. Loan settlement rates rose in the last quarter of FY 2020 and remain above average but have since reversed in recent months as some sense of ‘normality’ returns. The maturation of our vehicle finance loan book continued despite significantly impacted outgoings, resulting in increased interest revenue which contributed positively to this segments’ EBITDA.

Our current trajectory and economic environment indicate that reduced gross loan book balances will likely remain in FY 2021, but we anticipate a full recovery towards the end of next calendar year. The first half of the current financial year (H1 FY 2021) is forecast to be challenging as the reduction in lending volumes from the previous quarter manifests in our earnings. This impact is viewed by the Company as temporary and the expectation is that by H2 FY 2021 borrowing behaviours will have returned to what would historically be considered normal. While we do expect Australia to recover in the short to medium term, we have added an appropriate economic risk reserve to our allowance for impairment losses. The overall provision as a percentage of the gross loan book has increased to 19.0% from 17.5% the year prior.

Strategy

The advantage of a diversified in-store and online offering has been demonstrated, particularly in the current economic climate, and a key pillar of Cash Converters’ strategy over the following 12 months is to consolidate its position domestically as a lender and retailer of choice. In defining this strategy, the Executive Leadership Team were very clear about what is ‘core’ and ‘non-core’ to the ongoing success of Cash Converters. This decision will manifest itself in a variety of ways, including a renewed focus on operational excellence across all aspects of the business, new ways of meeting our customers’ needs, and the expansion of our store network in Australia.

Underpinning the execution of our strategy is our ability to attract and retain team members who share this vision and have the requisite skills to bring it to fruition. With the necessary leadership team now in place, Cash Converters is confident in its ability to deliver, meet and exceed its strategic objectives.

Outlook

We enter the new financial year with a strategy for growth that will see us continue to innovate, win new customers, and support existing customers both in-store and online. Our unique, integrated, multi-channel store and online network and strong balance sheet will allow us to meet whatever challenges await us.

As mentioned above, growing our corporate store network by acquiring franchise outlets and developing new sites, particularly on the east coast of Australia where we remain underrepresented, is a key strategic priority. Work is already underway to deliver on this outcome.

With a renewed securitisation facility running to December 2022 and adequate available cash, we are well-positioned to benefit from the inevitable economic recovery ahead.

Sam Budiselik
Chief Executive Officer

51.5%

\$62.1m
Normalised
Operating
EBITDA

GEM

“Application process was extremely quick and repayments are affordable. The ability to apply for smaller loans through the app, especially if you’ve already had a loan before, is great as not everyone has the ability to be able to go in store.”

Online personal finance customer

Our Voice of Customer program (GEM) provides us with significant insights into areas of opportunity to improve the experience with our customers online and in-store.

The program continues to evolve, with the introduction of new surveys and functionality to support the extraction of data and insights that are shared with relevant business units to assist in pinpointing the opportunity and have a direct impact on the customer. The goal is to create seamless experiences for our customers no matter which touchpoint they are interacting with us.

62.0 Net promoter score



58.0 Net sentiment score



72.4 % Promoters



84.0 % Positive customer feedback



- Customer experience results for FY 2020 finished higher than FY 2019 despite the pandemic
- The number of people passive to the Cash Converters brand fell 0.9%, and promoters rose by 0.7%
- 84% of our customer feedback has positive sentiment
- Of all surveys completed, 97% had positive sentiments regarding our people and their service.

Additionally, through GEM feedback, we were able to improve customer experience on our Webshop by prioritising some software functionality upgrades. This reduced negative sentiment regarding the website from a high of 83.8% in July 2019 to a low of 57.8% in June 2020.

Cashies Online



How you select your staff; wouldn't change a thing. During the past few months I have been purchasing items online from stores all over Australia.

All of them have been fantastic – very helpful. Kind and friendly staff, even though I didn't go into the store. Their phone manner was perfect and I got the sense of the listed points.”

NSW customer

The growth of Cashies Online

COVID-19 had a significant impact on the growth of Webshop in FY 2020, in terms of transaction volume, revenue and new customer numbers. This growth was attributable, in part, to a new marketing strategy using Google Smart Shopping which allows customers to compare and shop for advertised products. This strategy, combined with increasing demand contributed to a 113% increase in new Webshop customers from March (1,666) to April (3,541).

Online sales – franchise and corporate	March	April	May	June
2020	\$925,613	\$1,559,239	\$1,427,936	\$1,144,194
2019 increase	+50%	+142%	+72%	+62%

113% increase in New Webshop Customers between March and April

85.4% increase in New to Business Customers on previous corresponding period

In December, the new Wishlist was launched contributing to an uplift in revenue and NPS by 1.6 points from 54.7 in November to 56.3 in December. Upcoming new features planned for Webshop include Free Postage and Saved Search.



147%

\$11.5m

FY 2020 total
Webshop
sales

FY 2020 Company highlights

 **Significant growth** **42.6%** 
in online corporate retail sales

 **Online lending increased to** **54.9%**
of total principal advanced

 **\$150m**
Securitisation Facility
renewed until December 2022

 **\$0.289**
Net tangible assets per share

 **All Australian corporate stores**
remained open (despite COVID-19)

 **\$106.5m** **31.4%** 
Cash (and cash equivalents)



“

Not only were all the staff we dealt with friendly, courteous and professional in their standards of business, but were also very fair in their valuation of the item we showed to them, and ultimately exchanged for cash.”

QLD customer



“

Friendly and professional staff are always helpful and knowledgeable about the products and services. My experience with Cash Converters has always been of excellent quality.”

NSW customer

FY 2020

Financial highlights

 **\$19.6m** **63.2%** 
Normalised Group Operating[^] NPAT

 **\$62.1m** **51.5%** 
Normalised Group Operating[^] EBITDA

 **\$49.2m** **27.6%** 
Personal finance EBITDA

 **\$2.9m** **210.7%** 
Vehicle finance EBITDA

 **\$25.7m** **85.3%** 
Corporate stores EBITDA

 **SACC** net bad debt decreased to
25.1% of revenue from **39.1%**

 **MACC** net bad debt decreased to
28.6% of revenue from **39.3%**

[^] The operating results are presented net of the significant expense items directly associated with the settlement of class action litigation claims, to aid the comparability and usefulness of the financial information reflecting the underlying performance of the business. This information should be considered in addition to, but not instead of or superior to, the Company's financial statements prepared in accordance with IFRS. The Operating results presented may be determined or calculated differently by other companies, limiting the usefulness of those measures for external comparative purposes.

All comparisons are against previous corresponding period, unless otherwise stated



Operating and financial review

Cash Converters International Limited (“Cash Converters” or “the Company”) and entities controlled by the Company and its subsidiaries (“the Group”) is diverse, generating revenues from franchising, consumer retail store operations, personal finance and vehicle finance and is supported by a corporate head office in Perth, Western Australia. The Company operates in Australia and the United Kingdom and has an equity interest of 25% in Cash Converters New Zealand. There is a franchise presence in a further 13 countries around the world.

Impact of COVID-19

The Group has continued to focus on the health and wellbeing of its employees and customers. The ability to service customers while doing so and remain profitable demonstrates resilience and an ability to operate effectively during periods of significant uncertainty and change. This operating and financial review reflects what has been an incredibly difficult operating period and details how Cash Converters has rapidly adapted to ensure that customers are supported in their time of greatest need. The outcomes experienced include the impacts of government fiscal support and stimulus measures.

The impact of COVID-19 on operations was experienced from mid-March when the closure of non-essential businesses and the implementation of stay-at-home requirements began.

All Australian Corporate stores remained open for business throughout the financial year while observing the necessary hygiene and social distancing measures. This outcome was possible through the tremendous care and effort shown by every member of the team. However, as an international franchisor the impact of COVID-19 was felt differently across the many regions in which the Group operates. Most significantly, all franchise stores in the United Kingdom were closed by Government mandate between 23 March 2020 to 1 June 2020. The Group’s equity accounted associate in New Zealand was similarly impacted by lockdown restrictions starting on 25 March 2020, returning progressively to the lowest level of restrictions by 8 June 2020.

Revenue from these segments were impacted as a result, but the quantum is immaterial relative to the Group’s earnings profile.

It is worth noting that Cash Converters was not eligible for and made no direct claims under the JobKeeper Payment scheme allowances. Economic support packages provided to affected workers, businesses and the broader community had a noticeable impact on business.

As mentioned in its 1 July 2020 Business Update to the market, Cash Converters has experienced a significant decline in personal and vehicle loan outgoings and associated loan book balances since mid-March 2020 due to changes in customer demand and the Company’s own prudent approach to eligibility refinement. These declines continued into June 2020, and while still below pre-COVID forecasts the Company has reported an increase in lending activity in the first months of the new financial year (FY 2021). The associated reduction in revenue from this business line was partially offset by a counter-cyclical increase in retail sales during the same period.

Despite the progress made domestically and abroad towards limiting the spread of COVID-19, significant uncertainty remains. There is prevailing uncertainty with respect to forward-looking statements and there has been a focus on presenting appropriate disclosure with respect to business impacts, risks and uncertainties and key assumptions.



The staff were polite and friendly, they explained everything to me and made everything so easy, and were extremely kind and caring. Honestly I'd change nothing, they were the most polite, considerate young people I had the pleasure of interacting with."

VIC customer

Key financial performance highlights

	As reported		Operating ¹	
	2020	2019	2020	2019
	\$'000	\$'000	\$'000	\$'000
Total revenue	279,008	281,565	279,008	281,565
(Loss) / profit for the year	(10,491)	(1,692)	19,573	11,993
EBIT ²	(693)	8,232	42,255	27,783
EBITDA ²	19,168	21,454	62,116	41,005

¹ The operating results are presented net of the significant expense items outlined below that were directly associated with the settlement of class action litigation claims, to aid the comparability and usefulness of the financial information reflecting the underlying performance of the business. This information should be considered in addition to, but not instead of or superior to, the Group's financial statements prepared in accordance with IFRS. The operating results presented may be determined or calculated differently by other companies, limiting the usefulness of those measures for external comparative purposes.

² The Company reports EBIT calculated as earnings before interest expense and tax and EBITDA calculated as EBIT before depreciation and amortisation. EBIT and EBITDA are non-IFRS measures and are alternative performance measures reported in addition to but not as a substitute for the performance measures reported in accordance with IFRS. These measures focus directly on operating earnings and enhance comparability between periods. A reconciliation of the impact to EBITDA of first time adoption of AASB 16 Leases is included in this report.

Cash Converters reported strong in-store and online retail sales. Conversely, customers' need for short term credit was temporarily subdued interrupting what had been an above forecast first nine months to the financial year for this business line.

(Loss) / profit for the year, EBIT and EBITDA are presented in the table above as reported and on an operating basis to illustrate the impact of the significant expense inclusive of legal costs incurred on class action litigation claims.

In October 2019 the Group agreed to a settlement payment of \$42.500 million (\$32.500 million payable upfront and \$10.000 million payable by September 2020) on the sole remaining Lynch class action lawsuit. This action had been previously lodged on behalf of borrowers residing in Queensland who took out personal loans between July 2009 and June 2013.

The settlement received Federal Court approval on 24 March 2020 and upon payment of the balance \$10.000 million by 30 September 2020, the matter will be finalised.

The prior year comparative is presented to illustrate the settlement inclusive of legal costs of the separate McKenzie class action in November 2018.

These costs are reported in the Head Office segment.

EBITDA is reconciled and presented below on what is considered a comparable basis in this transition year of the new lease standard:

	2020	2019
	\$'000	\$'000
EBITDA	19,168	21,454
Class Action litigation claim and costs	42,948	19,551
EBITDA – operating basis	62,116	41,005
Rental lease payments	(11,055)	-
EBITDA – comparable basis	51,061	41,005

The Group has applied AASB 16 Leases retrospectively from 1 July 2019 with no restatement of comparatives. FY 2020 reported EBITDA no longer includes an expense amounting to \$11.055 million for rental lease payments made under leases that would have previously been classified as operating leases.

Consolidated revenues and results by significant segment as reported are set out below:

	Segment revenues		Segment EBITDA ¹	
	2020	2019	2020	2019
	\$'000	\$'000	\$'000	\$'000
Personal finance	115,395	125,136	49,171	38,524
Vehicle financing	20,961	18,160	2,882	928
Store operations	125,449	118,216	25,749	13,897
Franchise operations	16,874	19,124	10,118	11,420
Totals before head office costs	278,679	280,636	87,920	64,769
Head office	329	929	(68,752)	(43,315)
Totals after head office costs	279,008	281,565	19,168	21,454
Depreciation, amortisation and impairment			(19,861)	(13,222)
Finance costs			(12,607)	(10,598)
(Loss) before income tax			(13,300)	(2,366)
Income tax benefit			2,809	674
(Loss) for the year			(10,491)	(1,692)

¹ The Company reports EBIT calculated as earnings before interest expense and tax and EBITDA calculated as EBIT before depreciation and amortisation. EBIT and EBITDA are non-IFRS measures and are alternative performance measures reported in addition to but not as a substitute for the performance measures reported in accordance with IFRS. These measures focus directly on operating earnings and enhance comparability between periods.

EBITDA on an operating basis and a comparable basis is set out below:

	Operating basis ²		Comparable basis ³	
	2020	2019	2020	2019
	\$'000	\$'000	\$'000	\$'000
Personal finance	49,171	38,524	48,729	38,524
Vehicle financing	2,882	928	2,882	928
Store operations	25,749	13,897	16,446	13,897
Franchise operations	10,118	11,420	9,686	11,420
Totals before head office costs	87,920	64,769	77,743	64,769
Head office	(25,804)	(23,764)	(26,7682)	(23,764)
Total EBITDA ¹	62,116	41,005	51,061	41,005

1 The Company reports EBIT calculated as earnings before interest expense and tax and EBITDA calculated as EBIT before depreciation and amortisation. EBIT and EBITDA are non-IFRS measures and are alternative performance measures reported in addition to but not as a substitute for the performance measures reported in accordance with IFRS. These measures focus directly on operating earnings and enhance comparability between periods.

2 The operating results are presented net of the significant expense items outlined above that were directly associated with the settlement of class action litigation claims, to aid the comparability and usefulness of the financial information reflecting the underlying performance of the business. This information should be considered in addition to, but not instead of or superior to, the Group's financial statements prepared in accordance with IFRS. The operating results presented may be determined or calculated differently by other companies, limiting the usefulness of those measures for external comparative purposes.

3 The Company presents here EBITDA calculated on a basis comparable in FY 2020 to FY 2019 with rental lease payments of \$11.055 million deducted as it would have been without the implementation of AASB 16 Leases.

The most significant impact to revenue and earnings has been in the last quarter of the financial year and in personal and vehicle finance as demand reduced from customers that benefited from government stimulus, and eligibility was impacted including for customers who experienced job losses. The Group experienced early settlements on all lending products and a decline in demand and eligibility impacted origination with a year on year reduction reported in principal advanced.

The decline in vehicle finance outgoings during the last quarter of the year was significant with earlier than reforecast loan settlements due to customer refinancing patterns and tightened lending criteria. For illustration purposes in the tables below pawnbroking and Cash Advance services are included in personal finance.





	2020	2019	
	\$'000	\$'000	Variance
Principal advanced			
Personal finance	230,948	282,567	-18.3%
Vehicle finance	18,839	38,648	-51.3%
Total	249,787	321,215	-22.2%

Based on the current trajectory and economic environment the year-on-year reduction in gross loan book balances will likely remain in FY 2021 while the Company invests heavily in replenishing these books. This is expected to have a relatively negative effect on revenue and earnings. The first half of the current financial year (H1 FY 2021) is forecast to be challenging as the reduction in lending volume experienced in the previous quarter manifests. However, this impact is viewed by the Company as temporary and the expectation is that by H2 FY 2021 borrowing behaviours will have returned to what would historically be considered normal.

	2020	2019	
	\$'000	\$'000	Variance
Gross loan books			
Personal finance	101,690	148,307	-31.4%
Vehicle finance	58,307	62,881	-7.3%
Total	159,997	211,188	-24.2%

Store operations demonstrated counter-cyclical retail behaviour and particularly strong online sales of home entertainment and technology items – the assumption being that many households were spending increasing amounts of time at home or working remotely. Store sales trended lower in the final months of FY 2020 as inventory levels decreased, although this has remained above the monthly average experienced in prior years. Retail gross profit margins have held strong through the year.

The New Zealand operations responded during the year to changes in consumer credit legislation with the introduction of an alternative complying personal loan product. The legislative change and the impact of COVID-19 necessitated a review by the Company of the carrying value of the 25% equity investment in this operation. The application of judgement was required due to the absence of deep historical evidence on product performance and the uncertainties associated with COVID-19 impacts. Included in the reported value is an impairment loss provision of \$2.300 million.

Key financial position highlights

	2020	2019	Variance
	\$'000	\$'000	
Cash and cash equivalents	106,548	81,101	31.4%
Net loan receivables	129,616	174,600	-25.8%
Trade and other receivables	11,630	14,087	-17.4%
Inventories	15,221	20,370	-25.3%
Intangible assets	128,338	133,891	-4.1%
Other assets	88,481	40,191	120.2%
Total assets	479,834	464,240	3.4%
Borrowings	87,792	123,336	-28.8%
Other liabilities	85,671	24,052	256.2%
Total liabilities	173,463	147,388	17.7%
Total equity	306,371	316,852	-3.3%
Gearing (net debt / equity)	-6.1%	13.3%	

The Group closed the year with a strong balance sheet. Operational cash flow generated was \$70.111 million (2019: \$31.788 million used) with net repayment of borrowings of \$43.560 million (2019: \$35.000 million). After cash flows used in investing activities of \$1.776 million (2019: \$7.772 million provided) the Company generated a net cash surplus of \$24.775 million (2019: \$59.066 million net cash outflow). Operational cash flow generated in the current year includes the settlements on loan books and decreased outgoings experienced, particularly in the last quarter.

The Group determined to fund the class action settlement of \$42.500 million (and the associated legal costs) with cash on hand generated from operations. Of this amount, \$32.500 million was paid during the year with the final settlement payment due and payable on 30 September 2020 and provided for in other liabilities.

Cash and cash equivalents include restricted cash of \$4.839 million (2019: \$6.592 million) to operate the Group's securitisation facility with Fortress Finance and \$6.270 million (2019: \$5.730 million) on deposit as security for banking facilities. The Group closed the year with undrawn securitisation facility funding lines of \$60.750 million.

Net loan receivables reflect reduced demand experienced during the last quarter of the year and the Group has responded in the assessment of expected credit loss provisioning to the potential impact of COVID-19. In addition to the usual considerations applied, the assessment has required the application of judgement in anticipation of relatively high levels of unemployment persisting. A suitable economic risk reserve assessed within the reasonable range of possible outcomes based on this judgement has been incorporated into the impairment loss provision.

The overall provision as a percentage of the gross loan book has increased from the prior year at 17.5% to 19.0%.

Inventories reduced year-on-year due to above forecast retail demand and includes an appropriate assessment of obsolescence provision.

Consistent with previous financial years, the carrying value of intangible assets has been assessed for and recorded net of any required impairment charge. Included in the assessment of the carrying value of goodwill is the application of judgement with respect the likelihood of scope and form as well as timing of any future possible regulatory changes on which there remains uncertainty, as well as the potential impact of COVID-19.

Included in other assets is a right-of-use asset generated with the introduction of AASB 16 Leases, with recognition of a corresponding lease liability, and the carrying value of the investment in the New Zealand operation inclusive of the provision impairment.

On 30 June 2020, the Group finalised an agreement with Fortress Investment Group ("Fortress") to extend the term of the securitisation funding facility through to 18 December 2022. The reduction in balance year on year reflects the impact of reduced lending activity during the financial year, and the gearing ratio presenting as a negative ratio due to the available cash exceeding the borrowings drawn down amount.



Culture and people

The values and culture of Cash Converters are the foundation of its success and the reason it has continued to operate for over 36 years. Its people are passionate and proud to help others. With care and respect, their focus is to provide customers with solutions through a reliable and convenient supply of retail and personal finance products.

The Net Promoter Score (NPS) system is used to measure customer engagement. NPS is measured on a customer's willingness to recommend Cash Converters to a friend or family member. Customers are surveyed at multiple stages of the journey and this data is referenced daily to improve service and celebrate team members.

With a positive NPS score of 62 (2019: 61) Cash Converters demonstrates the significant value it adds to its customers and the wider community.

Business Risk Assessment

Like all businesses, Cash Converters faces uncertainty and the ability to understand, manage and mitigate risk provides a competitive advantage.

For example, as a provider of personal finance products there is an inherent risk that customers may not meet their expected repayments as they manage their financial commitments. Cash Converters' success in working with these customers over time is based on many factors that mitigate compliance risk and risk of default with those who may subsequently experience financial difficulty. These include:

- Treating customers with empathy, care, and respect
- A high investment in engagement methods to provide customers with freedom of choice
- Efficient and thorough understanding and assessment of customer eligibility prior to origination
- A value-driven culture where a premium is placed on customer service and unlocking possibilities together.

While responsible lending policies and a customer-first approach aims to minimise risk, credit risk is influenced by factors outside the control of Cash Converters such as unemployment, relative income growth, consumer confidence and interest rates. The risk of default is ever-present. Cash Converters often has the advantage in offering credit products to customers that it has served over many years and knows well, affording a unique opportunity to provide a high level of service.

The Company's ability to accurately assess value, purchase and sell quality consumer goods at appropriate prices is influenced by many factors. Again, while acknowledging these risks, the depth of skill and experience in this specialist area is a source of competitive advantage for Cash Converters.

Cash Converters welcomes the industry emphasis towards non-financial risk, including conduct and culture as well as detecting, deterring and disrupting criminal abuse of the

financial system. The Company views these commitments as an area of continuous improvement and continues to strengthen its risk management and compliance capabilities while engaging transparently with regulators (ASIC and AUSTRAC).

Outside of these exists the accepted risks of regulatory change, poorly executed strategy, failure to respond appropriately to changes in technology and the threat posed through competitor behaviours, all of which are a source of constant consideration and review by the Company's management team and Board of Directors.

Outlook

Revenue and earnings for the first half of FY 2021 are expected to be significantly lower than previous periods as the impact of COVID-19 manifests itself more fully. Since the end of the financial year, Victoria has entered "Stage 4" pandemic restrictions impacting 19 metropolitan corporate stores and 9 franchise stores with effect from Thursday 6 August 2020 for a minimum six-week period. Online retail, pawnbroking and personal finance services have been maintained and embraced by affected customers.

The extent of the COVID-19 impact is dependent upon the longevity and severity of the pandemic, the pace of business re-openings and rebound, the impact of government responses and the degree to which customer behaviours return to historical norms. The full impacts of the COVID-19 pandemic have yet to result in anticipated increases in loan repayment delinquencies due to the government stimulus package supporting consumers. Cash Converters' proven ability to respond effectively to these changes provides a competitive advantage.

The Company is of the view that it is well positioned to respond to the eventual increase in demand for personal and vehicle financing.

The advantage of a diversified in-store and online customer offering has been demonstrated, particularly in the current economic climate, and a key pillar of Cash Converters' strategy over the following 12 months is to consolidate its position domestically as a lender and retailer of choice.

The strength of the balance sheet provides the Company with greater resources to better serve its customers at a time when they need it most. To deliver on its strategy the Company is investing in its critical capabilities of risk and compliance, technological innovation and product development. These capabilities will be deployed to capitalise upon any near-term opportunities with the intention of generating long-term value for customers and shareholders.

Directors' report

For the year ended 30 June 2020

The Directors of Cash Converters International Limited submit the following report of the Company for the financial year ended 30 June 2020. In order to comply with the provisions of the Corporations Act 2001, the Directors' Report as follows:

Information about directors

The following persons held office as Directors of the Company during the whole of the financial year and until the date of this report unless otherwise stated:



Mr Stuart Grimshaw

Non-Executive Chairman

During the financial year Mr Grimshaw held the role of Chief Executive Officer of EZCORP Inc (a major shareholder in the Company). Prior to joining EZCORP in November 2014, Mr Grimshaw was the Managing Director and Chief Executive Officer of Bank of Queensland Limited (BOQ).

During his tenure at BOQ he initiated fundamental changes to BOQ's culture, operating model and strategic direction and established a strong track record of execution. In addition, a strong capital and provisioning strategy resulted in two credit rating upgrades to A-, and BOQ has been well supported by the equity markets with two global equity offerings successfully raising close to \$800 million. In Mr Grimshaw's time at the bank, BOQ attracted and developed exceptional talent across the top four management levels and a unique culture and brand that is now well recognised by the market.

During his 30-year career in financial services, Mr Grimshaw has held a wide variety of other roles across many functions of banking and finance, including eight years at the Commonwealth Bank of Australia (CBA). At CBA, he started as Chief Financial Officer and over time became Group Executive, responsible for core business lines including Institutional and Business Banking as well as Wealth Management (Asset Management and Insurance). Prior to joining CBA, he worked for the National Australia Bank and was the Chief Executive Officer of Great Britain, with responsibility for large UK consumer banks Yorkshire Bank and Clydesdale Bank.

Appointed Director
1 November 2014

Appointed Chairman
10 September 2015

Mr Grimshaw represented New Zealand at the 1984 Olympics in Field Hockey and has a Bachelor of Commerce and Administration (Victoria University, Wellington, New Zealand) and an MBA (Melbourne University, Australia). He has also completed the Program for Management Development at Harvard Business School.

Over the past three years Mr Grimshaw has held a directorship with the following listed companies:

Company	Commenced	Ceased
EZCORP Inc	3 November 2014	6 July 2020



Mr Peter Cumins

Executive Deputy Chairman

Mr Cumins joined the Company in August 1990 as Finance and Administration Manager when the Company had just 23 stores, becoming General Manager in March 1992. He became Managing Director in April 1995. Mr Cumins moved from this role to the role of Executive Deputy Chairman on 23 January 2017.

Mr Cumins is a qualified accountant and has overseen the major growth in the number of franchisees in Australia as well as the international development of the Cash Converters franchise system. His experience in the management of large organisations has included senior executive positions in the government health sector, specifically with the Fremantle Hospital Group, where he was Finance and Human Resources Manager.

Over the past three years Mr Cumins has held a directorship with the following listed company:

Company	Commenced	Ceased
EZCORP Inc	28 July 2014	9 April 2019

Appointed Director
April 1995

**Appointed Executive
Deputy Chairman**
23 January 2017



Mr Kevin Dundo

Non-Executive Director

Mr Dundo practises as a lawyer and specialises in the commercial and corporate field, with experience in the mining sector, the service industry and the financial services industry. He is a member of the Law Society of Western Australia, Law Council of Australia, Australian Institute of Company Directors and a Fellow of the Australian Society of Certified Practising Accountants.

Mr Dundo is currently a Non-Executive Director of Imdex Limited (ASX: IMD) and Avenira Limited (ASX: AEV) and Non-Executive Chairman of Red 5 Limited (ASX: RED).

Mr Dundo is a member of the Company's Audit and Risk Committee and Remuneration and Nomination Committee, and from 14 December 2018 to 9 June 2020 was the Chair of the Audit and Risk Committee.

Over the past three years Mr Dundo has held directorships with the following listed companies:

Company	Commenced	Ceased
Imdex Limited	14 January 2004	-
Red 5 Limited	29 March 2010	-
Avenira Limited	22 October 2019	-

Appointed Director
20 February 2015



Appointed Director
14 April 2020

Ms Julie Elliott

Non-Executive Director

Ms Elliott is currently a Company Director and Consultant and has over 30 years' experience in both executive and director roles across banking, financial services and government. Her previous positions include Chief Executive Officer at Bank of Sydney, Chair of State Trustees Limited and senior management roles with major banks. In addition to various advisory and consulting roles, Ms Elliott is currently a Director and Chair of the Governance and Remuneration Committee at P&N Bank, and a Director of Asia Pacific Capital Ltd and Australian Invoice Finance Limited. She is a Fellow and Graduate of the Australian Institute of Company Directors and a Fellow of Chartered Accountants Australia & New Zealand and FINSIA.

Ms Elliott is the Chair of the Company's Remuneration and Nomination Committee, and a member of the Audit and Risk Committee.

Over the past three years Ms Elliott has not held any directorships with other listed companies.



Appointed Director
22 August 2014

Mr Lachlan Given

Non-Executive Director

Until 18 September 2019 Mr Given held the role of Executive Chairman of EZCORP Inc and is now Head of M&A and Funding. He is also a Director of The Farm Journal Corporation, a 138 year old pre-eminent US agricultural media company; Senetas Corporation Limited (ASX: SEN), the world's leading developer and manufacturer of certified, defence-grade encryption solutions; CANSTAR Pty Ltd, the leading Australian financial services ratings and research firm.

Mr Given began his career working in the investment banking and equity capital markets divisions of Merrill Lynch in Hong Kong and Sydney where he specialised in the origination and execution of a variety of M&A, equity and equity-linked and fixed income transactions.

Mr Given graduated from the Queensland University of Technology with a Bachelor of Business majoring in Banking and Finance (with distinction).

Over the past three years Mr Given has held directorships with the following listed companies:

Company	Commenced	Ceased
Senetas Corporation Limited	20 March 2013	-
EZCORP Inc	18 July 2014	18 September 2019



Appointed Director
14 April 2020

Mr Robert Hines

Non-Executive Director

Mr Hines is a qualified accountant and has over 30 years' experience across the energy, agriculture and banking and finance sectors with senior executive roles focusing on retail, operations and finance. Prior to commencing his current role as Chief Operating Officer at Queensland Sugar Ltd, Mr Hines held senior executive roles including Chief Financial Officer at each of Bank of Queensland (ASX: BOQ), Suncorp (ASX: SUN) and QIC. Mr Hines is a Fellow of the Australian Institute of Company Directors, Chartered Accountants Australia & New Zealand and CPA Australia and a Senior Fellow of FINSIA.

Mr Hines is the Chair of the Company's Audit and Risk Committee, and a member of the Remuneration and Nomination Committee.

Over the past three years Mr Hines has not held any directorships with other listed companies.

Directors' shareholdings

The following table sets out each director's relevant interest in shares and options of Cash Converters International Limited as at the date of this report:

Directors	Fully paid ordinary shares	Share options
	Number	Number
Mr S Grimshaw	-	-
Mr P Cumins	8,175,694	-
Mr K Dundo	-	-
Ms J Elliott	-	-
Mr L Given	-	-
Mr R Hines	422,000	-



Appointed
30 June 2017

Mr Brad Edwards

Company Secretary

With a background in law, Mr Edwards has extensive private practice and corporate experience, most notably with the Bank of Queensland Limited (ASX: BOQ) for 15 years, where he held the roles of Company Secretary and Group General Counsel. His career encompasses banking and financial services, retail franchising, regulatory matters, dispute resolution and class action litigation, capital markets and mergers and acquisitions.

Principal activities

The principal activity of Cash Converters International Limited and its subsidiaries (the Group) is that of a franchisor of second-hand goods and financial services stores, a provider of secured and unsecured loans and the operator of a number of corporate stores in Australia, all of which trade under the Cash Converters name.

Country master franchise licences are also sold to licensees to allow the development of the Cash Converters brand but without the need for support from Cash Converters International Limited.

Review of operations

The Group's net loss attributable to members of the parent entity for the year ended 30 June 2020 was \$10.491 million (2019: \$1.692 million) after an income tax benefit of \$2.809 million (2019: \$674 thousand).

A review of the Group's operations and financial performance has been provided on pages 12 to 19.

Changes in state of affairs

During the financial year there were no significant changes in the state of affairs of the Company other than those referred to elsewhere in this financial report and the notes thereto.

Subsequent events

Victoria entered Stage 4 pandemic restrictions with effect from Thursday 6 August 2020 for a minimum six-week period, impacting 19 metropolitan corporate stores and 9 franchise stores. The ongoing impact is not able to be estimated by the directors at this point in time.

There have been no other events subsequent to the reporting date requiring disclosure in this report.

Future developments

Likely developments in expected results of the Group's operations in subsequent years and the Group's business strategies are referred to elsewhere in this report. In the opinion of the directors, any further information on those matters could prejudice the interest of the Company and has therefore not been included in this report.

Dividends

On 27 August 2020 the Company resolved that there would be no final dividend in respect of the financial year ended 30 June 2020.

No final dividend was paid in respect of the financial year ended 30 June 2019.

Shares under option or issued on exercise of options

Details of unissued shares or interests under option as at the date of this report are:

Issuing entity	Number of shares under option	Class of shares	Exercise price of option	Vesting determination date
Cash Converters International Limited	3,909,058	Ordinary	Nil	30 Jun 2021
Cash Converters International Limited	10,201,088	Ordinary	Nil	30 Jun 2022

The performance rights above are in substance share options with an exercise price of nil, which vest and may potentially be exercised into ordinary shares once certain performance / vesting conditions are met.

The holders of these performance rights do not have the right, by virtue of the performance right, to participate in any share or other interest issue other than bonus share issues of the Company or of any other body corporate.

No shares have been issued as a result of the exercise of share options or performance rights during or since the end of the financial year.

Indemnification and insurance of directors and officers

During the financial year, the Company paid a premium in respect of a contract insuring the directors of the Company, the Company Secretary and all executive officers of the Company and of any related body corporate against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

Directors' meetings

The number of meetings of directors and meetings of committees of directors held during the year and the number of meetings attended by each director were as follows:

Directors	Board of Directors		Audit and Risk Committee		Remuneration and Nomination Committee	
	Held	Attended	Held	Attended	Held	Attended
Mr S Grimshaw	8	8	5	5	4	4
Mr P Cumins	8	8	5*	5*	4*	4*
Mr K Dundo	8	8	5	5	4	4
Ms J Elliott	3	3	2	2	1	1
Mr L Given	8	8	5*	5*	4*	4*
Mr R Hines	3	3	2	2	1	1

* Denotes directors who were not a member of the Committee but attended meetings by invitation.

Non-audit services

The directors are satisfied that the provision of non-audit services, during the year, by the auditor 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 during the year by the auditor did not compromise the auditor independence requirements of the Corporations Act 2001, as the nature of the services was limited to income tax and indirect tax compliance, transaction/compliance related matters and generic accounting advice. All non-audit services have been reviewed and approved to ensure they do not impact the integrity and objectivity of the auditor, and none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Details of the amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 6.6 to the financial statements.

Rounding off of amounts

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financials / Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument, amounts in the Directors' Report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

Auditor's independence declaration

The auditor's independence declaration is included on page 92.

Remuneration report (audited)

1. Persons addressed and scope of the Remuneration Report
2. Performance and reward summary, key context and changes
3. Overview of Cash Converters' Remuneration Governance Framework and Strategy
4. Performance outcomes for FY 2020 including STI and LTI assessment
5. Changes in KMP-held equity
6. Non-Executive Director fee policy rates for FY 2020 and FY 2021 and fee limit
7. Remuneration records for FY 2020 (statutory disclosures)
8. Employment terms for KMP
9. Loans to KMP
10. Other remuneration-related matters

1 Persons addressed and scope of the Remuneration Report

This Remuneration Report forms part of the Directors' Report for the year ended 30 June 2020 and has been prepared in accordance with the Corporations Act, applicable regulations and the Company's policies regarding key management personnel (KMP) remuneration governance.

KMP includes all directors and executives who have authority and responsibility for planning, directing and controlling the activities of the Company. On that basis, the following roles / individuals are addressed in this report:

Non-Executive Directors	Position
Mr Stuart Grimshaw	Chairman and non-executive director Audit and Risk Committee member Remuneration and Nomination Committee member Chair of Remuneration and Nomination Committee (to 9 June 2020)
Mr Kevin Dundo	Audit and Risk Committee member Chair of Audit and Risk Committee (to 9 June 2020) Remuneration and Nomination Committee member
Ms Julie Elliott	Non-Executive Director (from 14 April 2020) Audit and Risk Committee member (from 14 April 2020) Remuneration and Nomination Committee member (from 14 April 2020) Chair of Remuneration and Nomination Committee (from 9 June 2020)
Mr Lachlan Given	Non-Executive Director
Mr Robert Hines	Non-Executive Director (from 14 April 2020) Audit and Risk Committee member (from 14 April 2020) Chair of Audit and Risk Committee (from 9 June 2020) Remuneration and Nomination Committee member (from 14 April 2020)
Executive Director	
Mr Peter Cumins	Executive Deputy Chairman

Remuneration report (continued)

Senior Executives classified as KMP

Mr Sam Budiselik	Chief Executive Officer (from 26 February 2020) Chief Operating Officer (to 26 February 2020)
Mr Leslie Crockett	Chief Financial Officer (from 2 June 2020)
Mr Brad Edwards	General Counsel and Company Secretary
Mr Peter Egan	Chief Risk Officer (from 3 February 2020)
Mr Ben Cox	General Manager Corporate Distribution (to 13 September 2019)
Mr Martyn Jenkins	Chief Financial Officer (to 2 September 2019)
Mr Brendan White	Chief Executive Officer (to 26 February 2020)

2 Performance and reward summary, key context and changes

2.1 Remuneration policy and relationship to performance

In setting the Company's remuneration strategy, the Remuneration Committee makes recommendations which:

- attract, retain and motivate senior executives to deliver long-term sustainable growth within an appropriate control framework;
- demonstrate a clear and strong correlation between performance and reward; and
- align the interests of senior executives with those of the Company's shareholders.

The following table shows the statutory key performance indicators of the Group over the last five years:

	Year ended 30 June				
	2020	2019	2018	2017	2016
	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue from continuing operations	279,008	281,565	260,345	271,241	311,599
Net profit / (loss) before tax from continuing operations	(13,300)	(2,366)	31,271	28,198	31,171
Net profit / (loss) after tax					
- continuing operations	(10,491)	(1,692)	22,503	20,618	25,894
- discontinued operations		-	-	-	(31,166)
Profit/(loss) after tax	(10,491)	(1,692)	22,503	20,618	(5,272)
Share price	cents	cents	cents	cents	cents
- beginning of year	16.0	31.0	31.5	43.5	70.0
- end of year	17.5	16.0	31.0	31.5	43.5
Dividend ⁽ⁱ⁾					
- interim	-	-	-	-	2.00
- final dividend	-	-	-	-	1.00
Earnings per share from continuing and discontinued operations					
- basic	(1.70)	(0.27)	4.55	4.21	(1.09)
- diluted	(1.70)	(0.27)	4.43	4.12	(1.09)

(i) Franked to 100% at 30% corporate income tax rate.

Remuneration report (continued)

3 Overview of Cash Converters' Remuneration Governance Framework and Strategy

The Remuneration Committee is a committee of the Board responsible for making recommendations to the Board on:

- a) Base salaries for executives and Board and Committee fees for non-executive Directors;
- b) Short term incentives for senior executives; and
- c) Incentive and equity-based remuneration plans.

The Corporate Governance Statement and the Remuneration Committee Charter provide further information on the role of this Committee. These documents and related policies and practices are available on the Company website at www.cashconverters.com/governance/remuneration-nomination.

Executive KMP

The Remuneration Policies are designed to ensure that remuneration outcomes are aligned with the long-term success of the Group. Incentives are based on the achievement of sustained growth in earnings as well as relative shareholder return. These measures provide a clear and strong correlation between performance and reward and align the interests of senior executives with those of the Company's shareholders.

The overall remuneration structure remains similar to the prior year comprising:

- a) Executive KMP fixed remuneration packages, consisting of base salary and superannuation as per the Superannuation Guarantee (Administration) Act 1992, in line with those paid for roles with equivalent responsibilities by companies of a similar market capitalisation.
- b) A Short-Term Incentive (STI), payable only on achievement of annual financial and non-financial strategic targets.
- c) A Long-Term Incentive (LTI), paid in the form of performance rights potentially converting to shares after a three-year performance period, based on the following:
 - 50 per cent dependent on earnings per share compound annual growth rate over a three-year performance period; and
 - 50 per cent dependent on total shareholder return (TSR) relative to the S&P ASX Small Industrials TR Index over the same three-year performance period.

Eligibility to participate in the STI and/or LTI is at the recommendation of the Remuneration Committee and approval of the Board. The participation level in terms of percentage of fixed remuneration to set STI target awards and the grant of performance rights which may vest over the three-year performance period outlined above is determined annually as part of the remuneration review process. The assessment is based on benchmarked relevant market practice in similar companies with similar characteristics.

The remuneration structure ensures that if the Group under-performs on its earnings and / or return targets, no STI will be payable to executive KMP. Under-performance over the longer-term will also result in no vesting of performance rights.

Remuneration for all executives is reviewed at least annually. There is no guaranteed increase in any executive's employment contract.

Executive Director: Executive Deputy Chairman Arrangements

The overall remuneration structure remains similar to the prior year.

A fixed remuneration package is contracted comprising base salary of \$371,597 per annum, superannuation as per the Superannuation Guarantee (Administration) Act 1992 and usage of a fully maintained company car.

The Executive Director does not participate in any Incentive Plan.

Non-Executive Director arrangements

The Remuneration Policy is designed to ensure that remuneration outcomes enable the Company to attract, retain and motivate the high calibre of Non-Executive Directors required for it to meet its objectives.

A Non-Executive Director is not entitled to receive performance-based remuneration. They may be entitled to fees or other amounts, as the Board determines, where they perform duties outside the scope of the ordinary duties of a Director. They may also be reimbursed for out of pocket expenses incurred.

Remuneration report (continued)

Securities Trading Policy

The Securities Trading Policy imposes trading restrictions on all employees, contractors and consultants who are considered to be in possession of market sensitive information. In addition are restrictions in the form of closed periods for KMP who are prohibited from trading in the Company's securities, except:

- in a six-week trading window period commencing 24 hours after the release of the final and half-yearly financial results;
- after release of a disclosure document offering equity Securities in the Company; or
- dates as declared by the Board in the circumstances that the Board is of the view that the market can reasonably be expected to be fully informed on those dates.

KMP are prohibited from entering into contracts to hedge their exposure to any securities held in the Company.

4 Performance outcomes for FY 2020 including STI and LTI assessment

Short-Term Incentives (STI)

The STI component of remuneration currently consists of a cash bonus that is focused on a balanced scorecard approach, with financial and non-financial measures. Awards under the STI required that the target profit threshold set as part of the annual budgeting process was met. The STI achieved in relation to the FY 2020 period has been accrued in the FY 2020 results and will be paid after the end of the period.

In considering the award of STI remuneration the Board has been cognisant of the challenging economic environment, including the effect of COVID-19. Consistent with performance incentives as awarded across the broader business the Board has recognised Executive performance and delivery of the operating profit in a year of unprecedented challenges and the need to attract and retain an executive KMP team in a period of abnormal economic uncertainty and ongoing regulatory scrutiny.

The key performance indicators (KPIs) are selected based on what needs to be achieved over the performance period to achieve the business strategy over the longer term, varied to reflect individual executive roles and responsibilities.

The average amount awarded to KMP in STI as a percentage of target STI for FY 2020 was 100%. In relation to the completed FY 2020 period the following KPIs and weightings applied to Participants:

Feature	Description																				
Maximum opportunity	Range from 21% to 100% depending on nature of role and service periods																				
Performance metrics	KPIs are aligned to the strategic priorities of sustained growth in earnings and relative shareholder return																				
	<table border="1"> <thead> <tr> <th>Metric</th> <th>Weighting Impact</th> <th>Target</th> <th>Rationale for selection</th> </tr> </thead> <tbody> <tr> <td>Achievement of earnings</td> <td>Mandatory threshold</td> <td>Management of value measured using operating profit</td> <td>Delivery of optimal financial performance</td> </tr> <tr> <td>Risk and Compliance</td> <td>Mandatory threshold</td> <td>Regulatory compliance</td> <td>Appropriate management of risk</td> </tr> <tr> <td>Leadership and growth initiatives</td> <td>Assessed on an individual basis</td> <td>Board's assessment of leadership and strategy delivery</td> <td>Long-term strategy development for delivery of shareholder return</td> </tr> <tr> <td>Project performance</td> <td>Assessed on an individual basis</td> <td>Achievement of milestones</td> <td>Milestones to long-term strategy development</td> </tr> </tbody> </table>	Metric	Weighting Impact	Target	Rationale for selection	Achievement of earnings	Mandatory threshold	Management of value measured using operating profit	Delivery of optimal financial performance	Risk and Compliance	Mandatory threshold	Regulatory compliance	Appropriate management of risk	Leadership and growth initiatives	Assessed on an individual basis	Board's assessment of leadership and strategy delivery	Long-term strategy development for delivery of shareholder return	Project performance	Assessed on an individual basis	Achievement of milestones	Milestones to long-term strategy development
Metric	Weighting Impact	Target	Rationale for selection																		
Achievement of earnings	Mandatory threshold	Management of value measured using operating profit	Delivery of optimal financial performance																		
Risk and Compliance	Mandatory threshold	Regulatory compliance	Appropriate management of risk																		
Leadership and growth initiatives	Assessed on an individual basis	Board's assessment of leadership and strategy delivery	Long-term strategy development for delivery of shareholder return																		
Project performance	Assessed on an individual basis	Achievement of milestones	Milestones to long-term strategy development																		
Delivery of STI	The STI is payable on release of the audited financial results and has been accrued in the FY 2020 results based on Board approval																				
Board discretion	The Board reserves the right to amend, vary or revoke the terms of any incentive plan from time to time, at its sole and absolute discretion																				

Remuneration report (continued)

Following the end of the Measurement Period (the financial year) the Board assessed the extent to which target levels of performance had been achieved in relation to each KPI and determined the total award payable.

Executive	Target STI opportunity	% of fixed remuneration	STI outcome	% achieved	% forfeited
Mr S Budiselik	\$525,000	100%	100%	100%	-
Mr B Edwards	\$150,000	50%	50%	100%	-
Mr P Egan *	\$62,500	50%*	21%	100%	-

* Mr Egan's target STI opportunity was a pro rata portion of his full year entitlement based on his period of employment during FY 2020.

Long-Term Incentives (LTI)

At the Annual General Meeting held on 18 November 2015, shareholders approved the Cash Converters Rights Plan (Plan). The Plan was reapproved by shareholders at the Annual General Meeting on 29 November 2018.

The Plan provides eligible participants with an incentive plan that recognises ongoing contribution to the achievement by the Company of its strategic goals, and to provide a means of attracting and retaining skilled and experienced employees. Participation in the LTI Plan is at the discretion of the Board.

Subject to the achievement of performance conditions, participants may be entitled to be granted Performance Rights and / or Indeterminate Rights as approved by the Board.

LTI payments are delivered in Performance Rights which vest into Shares on the achievement of certain performance criteria or, Indeterminate Rights, where the Board, in their absolute and unfettered discretion, make a cash payment equivalent to the number of vested Indeterminate Rights multiplied by the then value of the Company's share price.

5 Changes in KMP-held equity

The following tables outline the changes in equity held by KMP over the financial year.

Fully paid ordinary shares of Cash Converters International Limited.

	Balance at 1 July 2019	Granted as remuneration	Received on exercise of rights	Net other change	Balance at 30 June 2020
	Number	Number	Number	Number	Number
Directors					
Mr S Grimshaw	-	-	-	-	-
Mr P Cumins	7,575,694	-	-	600,000	8,175,694
Mr K Dundo	-	-	-	-	-
Ms J Elliott ⁽¹⁾	-	-	-	-	-
Mr L Given	-	-	-	-	-
Mr R Hines ⁽¹⁾	422,000	-	-	-	422,000
Other key management personnel					
Mr S Budiselik	116,875	-	-	131,500	248,375
Mr L Crocket ⁽¹⁾	-	-	-	-	-
Mr B Edwards	166,203	-	-	680,476	846,679
Mr P Egan ⁽¹⁾	-	-	-	-	-
Mr B Cox ⁽²⁾	-	-	-	-	-
Mr M Jenkins ⁽²⁾	3,375	-	-	-	3,375
Mr B White ⁽²⁾	-	-	-	-	-
	8,284,147	-	-	1,411,976	9,696,123

(1) Opening balance at date of becoming KMP.

(2) Closing balance at date of ceasing to be KMP.

Remuneration report (continued)

	Balance at 1 July 2018	Granted as remuneration	Received on exercise of rights	Net other change	Balance at 30 June 2019
	Number	Number	Number	Number	Number
Directors					
Mr S Grimshaw	-	-	-	-	-
Mr P Cumins	7,575,694	-	-	-	7,575,694
Ms E Comerford ⁽²⁾	-	-	-	-	-
Mr K Dundo	-	-	-	-	-
Mr L Given	-	-	-	-	-
Ms A Waters ⁽²⁾	68,750	-	-	-	68,750
Other key management personnel					
Mr M Reid ⁽²⁾	-	-	-	-	-
Mr S Budiselik	116,875	-	-	-	116,875
Mr N Carbone ⁽²⁾	-	-	-	-	-
Mr B Cox	-	-	-	-	-
Ms M Cutten ⁽²⁾	-	-	-	-	-
Mr B Edwards	166,203	-	-	-	166,203
Mr M Jenkins	3,375	-	-	-	3,375
Total	7,930,897	-	-	-	7,930,897

(1) Opening balance at date of becoming KMP.

(2) Closing balance at date of ceasing to be KMP.

Performance rights of Cash Converters International Limited.

	Balance at 1 July 2019	Granted as remuneration	Rights exercised	Rights lapsed / forfeited ⁽³⁾	Balance at 30 June 2020	Balance vested at 30 June 2020
	Number	Number	Number	Number	Number	Number
Directors						
Mr S Grimshaw	-	-	-	-	-	-
Mr P Cumins	-	-	-	-	-	-
Mr K Dundo	-	-	-	-	-	-
Ms J Elliott ⁽¹⁾	-	-	-	-	-	-
Mr L Given	-	-	-	-	-	-
Mr R Hines ⁽¹⁾	-	-	-	-	-	-
Other key management personnel						
Mr S Budiselik	1,513,760	5,379,098	-	(387,096)	6,505,762	-
Mr L Crockett ⁽¹⁾	-	-	-	-	-	-
Mr B Edwards	1,411,336	2,049,180	-	(387,096)	3,073,420	-
Mr P Egan ⁽¹⁾	-	1,639,344	-	-	1,639,344	-
Mr B Cox ⁽²⁾	682,826	-	-	(409,072)	273,754	-
Mr M Jenkins ⁽²⁾	1,206,488	-	-	(1,206,488)	-	-
Mr B White ⁽²⁾	3,687,266	-	-	(3,687,266)	-	-
Total	8,501,676	9,067,622	-	(6,077,018)	11,492,280	-

(1) Opening balance at date of becoming KMP.

(2) Closing balance at date of ceasing to be KMP.

(3) Rights that were issued in FY 2018 relating to Mr Budiselik and Mr Edwards lapsed as a result of not meeting the required vesting measurement thresholds during the period. A total of 409,072 rights issued to Mr Cox and 3,687,266 rights issued to Mr White in FY 2019, and 1,206,488 rights issued to Mr Jenkins in FY 2018 and FY 2019 were forfeited during the period.

Remuneration report (continued)

	Balance at 1 July 2018	Granted as remuneration	Rights exercised	Rights lapsed / forfeited ⁽³⁾	Balance at 30 June 2020	Balance vested at 30 June 2019
	Number	Number	Number	Number	Number	Number
Directors						
Mr S Grimshaw	-	-	-	-	-	-
Mr P Cumins	4,572,920	-	-	(4,572,920)	-	-
Mr K Dundo	-	-	-	-	-	-
Mr L Given	-	-	-	-	-	-
Ms A Waters ⁽²⁾	-	-	-	-	-	-
Ms E Comerford ⁽²⁾	-	-	-	-	-	-
Other key management personnel						
Mr B White ⁽¹⁾	-	3,687,266	-	-	3,687,266	-
Mr S Budiselik	387,096	1,126,664	-	-	1,513,760	-
Mr B Cox	-	682,826	-	-	682,826	-
Mr B Edwards	387,096	1,024,240	-	-	1,411,336	-
Mr M Jenkins	494,000	819,392	-	(106,904)	1,206,488	-
Ms M Cutten ⁽²⁾	106,452	300,444	-	(293,852)	113,044	-
Mr N Carbone ⁽²⁾	387,096	-	-	(387,096)	-	-
Mr M Reid ⁽²⁾	2,412,640	-	-	(1,263,354)	1,149,286	-
Total	8,747,300	7,640,832	-	(6,624,126)	9,764,006	-

(1) Opening balance at date of becoming KMP.

(2) Closing balance at date of ceasing to be KMP.

(3) Rights relating to Mr Cumins and Mr Jenkins that lapsed during the period were issued in FY 2017. In addition to 690,146 rights issued in FY 2017 granted to Mr Reid that lapsed during the period, 573,208 rights issued to Mr Reid and 387,096 rights issued to Mr Carbone in FY 2017 and FY 2018, and 293,852 rights issued to Ms Cutten in FY 2018 and FY 2019 were forfeited during the period.

Terms and conditions of share-based payment arrangements affecting remuneration of KMP in the current or future financial years are set out below:

Tranche	Grant date	Grant date fair value ⁽ⁱ⁾	Exercise price	Expiry date	Vesting date
		\$	\$		
Tranche 21	14 Feb 2018	0.22	-	30 Jun 2020	30 Jun 2020
Tranche 22	14 Feb 2018	0.33	-	30 Jun 2020	30 Jun 2020
Tranche 23	19 Dec 2018	0.15	-	30 Jun 2021	30 Jun 2021
Tranche 24	19 Dec 2018	0.24	-	30 Jun 2021	30 Jun 2021
Tranche 25	26 Mar 2019	0.06	-	30 Jun 2021	30 Jun 2021
Tranche 26	26 Mar 2019	0.19	-	30 Jun 2021	30 Jun 2021
Tranche 27	9 Jun 2020	0.17	-	30 Jun 2022	30 Jun 2022
Tranche 28	9 Jun 2020	0.19	-	30 Jun 2022	30 Jun 2022

(i) The grant date fair value is calculated as at the grant date using a Monte Carlo pricing model for tranches 21, 23, 25 and 27 and a binomial pricing model for other tranches.

There has been no alteration of the terms and conditions of the above share-based payment arrangements since the grant date.

Remuneration report (continued)

The following table outlines the value of equity granted to KMP during the year that may be realised in the future:

Name	Tranche	Number of rights	Value at grant		Value expensed in current year	Value to be expensed in future years
			Per right	Total		
			\$	\$		
Mr S Budiselik	27	2,689,549	0.171	459,913	12,861	447,052
	28	2,689,549	0.195	524,462	14,665	509,797
Mr B Edwards	27	1,024,590	0.171	175,205	4,899	170,306
	28	1,024,590	0.195	199,795	5,587	194,208
Mr P Egan	27	819,672	0.171	140,164	3,919	136,245
	28	819,672	0.195	159,836	4,470	155,366
Total		9,067,622		1,659,375	46,401	1,612,974

6 Non-Executive Director fee policy rates for FY 2020 and FY 2021 and fee limit

Non-Executive Director fees are managed within the current annual fees limit (AFL or fee pool) of \$800,000 which was approved by shareholders on 18 November 2015 and it is anticipated that there will be no requirement for an increase of the AFL in FY 2021.

The following table outlines the Non-Executive Director Remuneration policy rates that were applicable as at the end of FY 2020.

The Non-Executive Director Remuneration policy is designed to ensure that remuneration is reasonable, appropriate, and produces outcomes that fall within the fee limit, at each point of being assessed. The Board assessed the current level of NED fees for FY 2020 and determined that no change would be applicable to main Board and existing committee fees.

Function	Role	Fee including superannuation
Main Board	Chair	\$170,000
	Member	\$95,000
Audit and Risk Committee	Chair	\$15,000
	Member	\$0
Remuneration Committee	Chair	\$15,000
	Member	\$0
Special Purpose Committee	Chair	\$7,500
	Member	\$0

Remuneration report (continued)

7 Remuneration records for FY 2020 (statutory disclosures)

The following table outlines the remuneration received by directors and senior executives who are classified as KMP of the Company during the years ended 30 June 2020 and 2019, prepared according to statutory disclosure requirements and applicable accounting standards:

	Short-term employee benefits				Post-employment benefits	Other long-term benefits	Share-based payments	Total
	Salary and fees	Cash bonus	Non-monetary benefits	Termination benefits	Superannuation			
2020	\$	\$	\$	\$	\$	\$	\$	\$
Non-Executive Directors								
Mr S Grimshaw	170,000	-	-	-	-	-	-	170,000
Mr K Dundo	109,134	-	-	-	-	-	-	109,134
Ms J Elliott ⁽¹⁾	18,732	-	-	-	1,779	-	-	20,511
Mr L Given	95,000	-	-	-	-	-	-	95,000
Mr R Hines ⁽¹⁾	18,732	-	-	-	1,779	-	-	20,511
Executive Director								
Mr P Cumins	378,027	-	54,905	-	24,691	7,307	-	464,930
Other executives								
Mr S Budiselik ⁽²⁾	457,006	650,000	11,910	-	25,019	1,642	(22,132)	1,123,445
Mr L Crockett ⁽³⁾	31,778	-	992	-	2,771	-	-	35,541
Mr B Edwards	295,922	340,000	2,457	-	21,003	959	(40,310)	620,031
Mr P Egan ⁽⁴⁾	134,724	142,500	824	-	10,001	-	21,466	309,515
Mr B Cox ⁽⁵⁾	56,250	-	1,985	-	4,901	-	(4,258)	58,878
Mr M Jenkins ⁽⁶⁾	44,877	-	1,985	182,500	5,251	(33,927)	(95,208)	105,478
Mr B White ⁽⁷⁾	488,589	-	788,711	120,000	15,752	-	(53,931)	1,359,121
Total	2,298,771	1,132,500	863,769	302,500	112,947	(24,019)	(194,373)	4,492,095

(1) Appointed 14 April 2020.

(2) Appointed CEO 26 February 2020.

(3) Appointed 2 June 2020.

(4) Appointed 3 February 2020.

(5) Resigned 13 September 2019.

(6) Resigned 2 September 2019.

(7) Resigned 26 February 2020.

Remuneration report (continued)

2019	Short-term employee benefits				Post-employment benefits	Other long-term benefits	Share-based payments	Total
	Salary and fees	Cash bonus	Non-monetary benefits	Termination benefits	Superannuation			
	\$	\$	\$	\$	\$	\$	\$	\$
Non-Executive Directors								
Mr S Grimshaw	170,000	-	-	-	-	-	-	170,000
Mr K Dundo	102,500	-	-	-	-	-	-	102,500
Mr L Given	95,000	-	-	-	-	-	-	95,000
Ms E Comerford ⁽⁸⁾	25,114	-	-	-	2,386	-	-	27,500
Ms A Waters ⁽⁹⁾	49,958	-	-	-	-	-	-	49,958
Executive Director								
Mr P Cumins	590,144	-	70,465	-	24,556	10,585	(714,614)	(18,864)
Other executives								
Mr B White ⁽¹⁰⁾	227,372	649,823	-	-	7,847	-	53,931	938,973
Mr S Budiselik	337,720	250,000	11,759	-	24,793	-	90,716	714,988
Mr B Cox	258,379	-	11,759	-	20,531	-	27,527	318,196
Mr B Edwards	320,416	-	-	-	20,531	-	86,587	427,534
Mr M Jenkins	312,253	-	11,759	-	20,531	11,995	63,191	419,729
Mr M Reid ⁽¹¹⁾	91,004	-	1,924	575,154	5,868	-	(79,031)	594,919
Mr N Carbone ⁽¹²⁾	102,286	-	3,849	100,000	10,266	-	(16,878)	199,523
Ms M Cutten ⁽¹³⁾	123,556	-	6,796	71,923	15,399	-	21,913	239,587
Total	2,805,702	899,823	118,311	747,077	152,708	22,580	(466,658)	4,279,543

(8) Resigned 30 September 2018.

(9) Resigned 14 December 2018.

(10) Appointed 18 March 2019.

(11) Resigned 27 August 2018.

(12) Resigned 9 November 2018.

(13) Resigned 25 January 2019.

The cash bonus values reported in this table include the STIs awarded for the performance period described in section 4 above, which will be paid in the financial year following the year to which they relate (i.e. the value shown for 2020 is the value earned and accrued for in FY 2020 and will be paid during FY 2021). In November 2019 retention bonuses of \$125,000 to Mr Budiselik and \$190,000 to Mr Edwards were awarded and paid in addition to these STIs, and contracted compensation was accrued for Mr Egan in relation to incentives foregone with his previous employer, which will be paid in FY 2021.

The LTI value reported in this table is the accounting charge of all grants, amortised over the vesting period. Where a market-based measure of performance is used as a vesting condition, such as iTSR, no adjustments can be made to the profit or loss to reflect rights that lapse unexercised. However, in relation to non-market vesting conditions, such as EPS, adjustments have been made to the profit or loss to reverse amounts previously expensed for rights that have lapsed during the period.

For further detail on non-monetary benefits received by Mr White, refer to section 10 below.

Remuneration report (continued)

The following table shows the relative proportions of remuneration for the year that are linked to performance and those that are fixed, based on the amounts disclosed as statutory remuneration expense:

Name	Year	Fixed remuneration	At risk remuneration	
			STI	LTI
Mr S Budiselik	2020	41%	54%	4%
Mr L Crockett *	2020	100%	-	-
Mr B Edwards	2020	47%	49%	4%
Mr P Egan	2020	49%	48%	3%

* Mr Crockett commenced with the Company on 2 June 2020 and accordingly was ineligible for at risk remuneration in FY 2020.

8 Employment terms for KMP and Senior Executives

The remuneration and other terms of employment for executive KMP are covered in formal employment contracts of an ongoing nature. All KMP are entitled to receive pay in lieu of any accrued but untaken annual and long service leave on cessation of employment. However, amounts payable will be limited to the terms of Part 2D.2 of the Corporations Act.

A summary of contract terms in relation to executive KMP is presented below:

Name	Position held	Period of notice	
		From Company	From KMP
Mr P Cumins	Executive Deputy Chairman	12 months	6 months
Mr S Budiselik	Chief Executive Officer	12 months	12 months
Mr L Crockett	Chief Financial Officer	3 months	3 months
Mr B Edwards	General Counsel and Company Secretary	6 months	6 months
Mr P Egan	Chief Risk Officer	6 months	6 months

Mr Budiselik commenced as Chief Executive Officer on 26 February 2020 on a permanent basis with the termination notice periods as outlined above. A base salary of \$525,000 plus minimum statutory superannuation contribution is payable. Mr Budiselik participates in the incentive programmes outlined at the discretion of the Board with a target STI set as 100% of base salary and LTI set as 75% of base salary.

For all participants, termination of employment will trigger a forfeiture of all unearned incentive entitlements except under certain limited circumstances defined in the Plan. Amounts that are not forfeited will be tested and potentially paid based on actual performance relative to the performance goals, following the end of the Measurement Period. Under the Plan rules the Board retains discretion to trigger or accelerate payment or vesting of incentives, provided that the limitations on termination benefits as outlined in the Corporations Act are not breached (except in the case that shareholder approval has been obtained to do so).

On appointment to the Board, all NEDs enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the Board policies and terms, including compensation relevant to the office of the director and does not include a notice period. NEDs are not eligible to receive termination payments under the terms of the appointments.

Remuneration report (continued)

9 Loan to KMP

Mr Brendan White, former Chief Executive Officer, received unsecured loans from the Company during the year ended 30 June 2019 totalling \$441,216 to assist with the transfer of financial arrangements necessitated from his departure from Bank of Queensland. The loan accrued interest at 5.65% per annum and the outstanding balance at the date of his resignation on 26 February 2020 of \$415,045 was forgiven as part of his agreed exit arrangements. As part of his exit arrangements, Mr White agreed that he would not receive and would forego, any further payments or share allocations pursuant to the Company Incentive Schemes.

Further details are as follows:

	\$
Amounts loaned	441,216
Interest accrued at 5.65% per annum	25,829
Repayments received	(52,000)
Balance forgiven – 26 February 2020	415,045
Balance of loan at 1 July 2019	451,065
Highest amount of indebtedness during the reporting period (26 September 2019)	457,261
Balance of loan at 30 June 2020	-

Included in the remuneration table in section 7 above as a non-monetary benefit is the amount of the loan forgiven as outlined above and related fringe benefits tax of \$373,666.

10 Other remuneration-related matters

The Company appointed Michael Murphy in the role of Chief Financial Officer, commencing on 10 February 2020, and announced on 16 March 2020 that Mr Murphy's contract would cease at the end of a 6 month contractual notice period. From that date Mr Murphy worked only on discrete special-purpose projects, and his service with the Company ceased on 18 May 2020. During the period of his service he was paid \$223,441 in salary, including payment in lieu of notice to September 2020, and superannuation of \$10,238. The Company does not consider that Mr Murphy met the Key Management Personnel definition during this period.

There were no other relevant material transactions involving KMP other than compensation and transactions concerning shares, performance rights/options as discussed in this report.

The following summarises the treatment of remuneration in respect of those KMP who are no longer employed by the Company during or since the reporting period:

- Mr M Jenkins – payment in lieu of notice under contract – \$150,000, ex gratia payment – \$32,500
- Mr B White – payment in lieu of notice under contract – \$120,000

Entitlements under the STIP for the FY 2020 year were forfeited upon termination. Performance rights under the LTIP outstanding to Mr Jenkins and Mr White lapsed, and a portion of those outstanding to Mr Cox relating to his uncompleted vesting period lapsed.

This Directors' Report is signed in accordance with a resolution of directors made pursuant to s298(2) of the Corporations Act 2001.

On behalf of the directors



Peter Cumins

Director

Perth, Western Australia

27 August 2020

Corporate governance

For the year ended 30 June 2020

The Company's most recent Corporate Governance Statement can be found on the Company's website at www.cashconverters.com/governance.

The following governance-related documents can also be found in the Corporate Governance section of the Company's website:

- Board Charter
- Code of Conduct
- Continuous Disclosure Policy
- Securities Trading Policy
- Audit and Risk Committee Charter
- Remuneration and Nomination Committee Charter
- Gender Equality Report 2019-20
- Short-Term Incentive Policy and Procedure
- Long-Term Incentive Policy and Procedure
- Engaging External Remuneration Consultants Policy
- Non-Executive Director Remuneration Policy and Procedure
- Senior Executive Remuneration Policy and Procedure
- Diversity and Inclusion Policy



Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2020

	Notes	2020	2019
		\$'000	\$'000
Continuing operations			
Franchise fee revenue		13,215	15,400
Financial services interest revenue	2.1	174,362	186,462
Sale of goods	2.1	88,238	75,807
Other revenues	2.1	3,193	3,896
Total revenue		279,008	281,565
Financial services cost of sales	2.2	(60,116)	(78,104)
Cost of goods sold		(48,759)	(45,992)
Other cost of sales		(2,287)	(2,146)
Total cost of sales		(111,162)	(126,242)
Gross profit		167,846	155,323
Employee expenses	2.2	(72,246)	(71,266)
Administrative expenses	2.2	(8,647)	(9,033)
Advertising expenses		(6,780)	(7,735)
Occupancy expenses	2.2	(4,485)	(15,795)
Class Action settlement expense	2.2	(42,500)	(16,400)
Depreciation and amortisation expense	2.2	(19,861)	(13,222)
Other expenses	2.2	(15,058)	(15,253)
Finance costs	2.2	(12,607)	(10,598)
Share of net profit of equity accounted investments	5.1	1,038	1,613
Loss before income tax		(13,300)	(2,366)
Income tax benefit	2.3	2,809	674
Loss for the year		(10,491)	(1,692)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		376	524
Other comprehensive income for the year		376	524
Total comprehensive loss for the year		(10,115)	(1,168)
(Loss) per share			
Basic (cents per share)	2.4	(1.70)	(0.27)
Diluted (cents per share)	2.4	(1.70)	(0.27)

The accompanying notes form an integral part of the consolidated statement of profit or loss and other comprehensive income.

Consolidated statement of financial position

As at 30 June 2020

	Notes	2020	2019
		\$'000	\$'000
Current assets			
Cash and cash equivalents	4.1	106,548	81,101
Trade and other receivables	3.1	6,700	7,794
Loan receivables	3.2	93,687	128,374
Inventories	3.3	15,221	20,370
Prepayments	3.4	4,959	7,766
Current tax receivable		1,425	1,897
Total current assets		228,540	247,302
Non-current assets			
Trade and other receivables	3.1	4,930	6,293
Loan receivables	3.2	35,929	46,226
Plant and equipment	3.5	4,628	6,173
Right-of-use assets	3.6	50,523	-
Deferred tax assets	2.3	18,181	14,820
Goodwill	3.7	106,967	106,967
Other intangible assets	3.8	21,371	26,924
Prepayments		2,129	3,083
Investments in associates	5.1	6,636	6,452
Total non-current assets		251,294	216,938
Total assets		479,834	464,240
Current liabilities			
Trade and other payables	3.9	23,316	15,296
Lease liabilities	4.2	6,922	-
Borrowings	4.3	60,618	87,826
Provisions	3.10	8,055	7,044
Total current liabilities		98,911	110,166
Non-current liabilities			
Lease liabilities	4.2	46,121	-
Borrowings	4.3	27,174	35,510
Provisions	3.10	1,257	1,712
Total non-current liabilities		74,552	37,222
Total liabilities		173,463	147,388
Net assets		306,371	316,852
Equity			
Issued capital	4.5	248,714	248,714
Reserves		7,068	7,238
Retained earnings		50,589	60,900
Total equity		306,371	316,852

The accompanying notes form an integral part of the consolidated statement of financial position.

Consolidated statement of changes in equity

For the year ended 30 June 2020

	Notes	Issued capital	Foreign currency translation reserve	Share-based payment reserve	Retained earnings	Total
		\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2018		248,714	5,830	1,177	66,687	322,408
AASB 9 adjustment to opening retained earnings	1(b)	-	-	-	(4,669)	(4,669)
Balance at 30 June 2018 after AASB 9 adjustment		248,714	5,830	1,177	62,018	317,739
Loss for the year		-	-	-	(1,692)	(1,692)
Exchange differences arising on translation of foreign operations		-	524	-	-	524
Total comprehensive loss for the year		-	524	-	(1,692)	(1,168)
Share-based payments		-	-	281	-	281
Transfer reserve balance to retained earnings		-	-	(574)	574	-
Balance at 30 June 2019		248,714	6,354	884	60,900	316,852
Loss for the year		-	-	-	(10,491)	(10,491)
Exchange differences arising on translation of foreign operations		-	376	-	-	376
Total comprehensive loss for the year		-	376	-	(10,491)	(10,115)
Share-based payments		-	-	(366)	-	(366)
Transfer reserve balance to retained earnings		-	-	(180)	180	-
Balance at 30 June 2020		248,714	6,730	338	50,589	306,371

The accompanying notes form an integral part of the consolidated statement of changes in equity.

Consolidated statement of cash flows

For the year ended 30 June 2020

	Notes	2020	2019
		\$'000	\$'000
Cash flows from operating activities			
Receipts from customers		199,209	190,041
Payments to suppliers and employees		(165,960)	(188,395)
Payment for Class Action settlement	2.2	(32,500)	(16,400)
Interest received		539	1,169
Interest received from personal loans		67,811	73,973
Net decrease / (increase) in personal loans advanced		13,757	(73,052)
Interest and costs of finance paid		(12,597)	(13,257)
Income tax refunded / (paid)		(148)	(5,867)
Net cash flows provided by / (used in) operating activities	2.7	70,111	(31,788)
Cash flows from investing activities			
Acquisition of intangible assets	3.8	(2,961)	(6,634)
Proceeds on sale of plant and equipment		409	164
Purchase of plant and equipment		(1,212)	(739)
Instalment credit loans repaid by franchisees		1,329	14,251
Return on equity investment	5.1	659	680
Net cash flows provided by / (used in) investing activities		(1,776)	7,722
Cash flows from financing activities			
Proceeds from borrowings		134,500	202,500
Repayment of borrowings		(169,750)	(237,500)
Payment of borrowing costs		(1,500)	-
Repayment of lease liabilities		(6,810)	-
Net cash flows used in financing activities		(43,560)	(35,000)
Net increase / (decrease) in cash and cash equivalents		24,775	(59,066)
Cash and cash equivalents at the beginning of the year		81,101	139,991
Effects of exchange rate changes on the balance of cash held in foreign currencies		672	176
Cash and cash equivalents at the end of the year	4.1	106,548	81,101

The accompanying notes form an integral part of the consolidated statement of cash flows.

Notes to the financial statements

For the year ended 30 June 2020

1 Basis of preparation

In this section

This section sets out the basis upon which the Group's financial statements are prepared as a whole. Specific accounting policies are described in the note to which they relate.

Cash Converters International Limited is a for-profit company limited by shares, incorporated and domiciled in Australia. Its shares are publicly traded on the Australian Securities Exchange.

The financial report of the Company for the year ended 30 June 2020 was authorised for issue in accordance with a resolution of directors dated 27 August 2020.

(a) Statement of compliance

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The financial report is a general-purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has been prepared on a historical cost basis, except where noted. The financial report is presented in Australian dollars.

The financial report comprises the consolidated financial report of Cash Converters International Limited and its subsidiaries (the Group, as outlined in note 5.2). Accounting Standards include Australian Accounting Standards. Compliance with the Australian Accounting Standards ensures that the financial statements and notes of the Group comply with International Financial Reporting Standards ('IFRS').

The financial statements have been prepared on a going concern basis. To assess the appropriateness of the Group's going concern assumption including as a consequence of COVID-19, management have:

- Prepared cash flow forecasts that extend to 30 September 2021 that demonstrate the Group will have access to sufficient liquid resources to meet forecast operational expenditure, working capital and loan originations over that period:
 - The Group has access to unrestricted cash of \$95.439 million as at 30 June 2020;
 - The Group has \$60.750 million in available undrawn securitisation facilities at 30 June 2020;
- Evaluated the net asset position of the group, with the current and non-current classification of loans and receivables and borrowings appropriately disclosed;
- Re-evaluated material areas of judgement and uncertainty;
- Re-evaluated the Group's strategy and the resources required to successfully execute it; and
- Assessed current cash resources and funding sources available to the Group consistent with the expected future cash requirements.

(b) Changes to accounting policies

Adoption of new and revised Accounting Standards

The Group has adopted all of the new and revised Standards and Interpretations, including amendments to the existing standards issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current reporting period.

The adoption of these amendments has not resulted in any significant changes to the Group's accounting policies nor any significant effect on the measurement or disclosure of the amounts reported for the current or prior periods, except as detailed below in relation to AASB 16 Leases.

1 Basis of preparation (continued)

Impact of changes to Australian Accounting Standards and Interpretations

A number of Australian Accounting Standards and Interpretations became effective during the year ended 30 June 2020 or are in issue but are not effective for the current year end. The Company has considered the potential impact of these new standards as outlined below.

AASB 16 'Leases'

The Group has adopted AASB 16 from 1 July 2019. AASB 16 replaced prior leases guidance, including AASB 117 Leases and IFRIC 4 Determining whether an Arrangement contains a Lease.

Under AASB 16, a contract is a lease or contains a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration. Under AASB 117, a lease was either a finance lease (on balance sheet) or an operating lease (off balance sheet). AASB 16 requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' if the recognition requirements of a lease are met.

Lessor accounting under AASB 16 is substantially unchanged. Lessors will continue to classify leases as either finance or operating leases using similar principles as in AASB 117, therefore AASB 16 did not have an impact for leases where the Group is the lessor. However, when the Group is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

The Group adopted AASB 16 using the modified retrospective method on 1 July 2019 by using the option to recognise right-of-use assets at the value of lease liabilities, adjusted for any related prepaid and accrued lease payments for all leases. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised as an adjustment to the opening balance of retained earnings at the date of initial application, with no restatement of comparatives.

The Group also applied the available practical expedients wherein it:

- relied on its assessment of whether leases are onerous immediately before the date of initial application;
- applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application; and
- excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application.

Effect of adoption of AASB 16

The adoption of AASB 16 has primarily affected the accounting for the Group's operating leases, including property leases at the corporate store network of 69 stores and head office leases.

For leases previously classified as operating leases under AASB 117, the adoption of AASB 16 resulted in the recognition of a lease liability at the date of initial application by measuring the lease liability at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application and the recognition of a right-of-use asset at the date of initial application. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised.

As at 30 June 2019, the consolidated entity's future minimum lease payments under non-cancellable operating leases amounted to \$38.626 million on an undiscounted basis. A balance of \$152 thousand of these arrangements related to short-term leases and leases of low-value assets. As at 30 June 2019, management assessed the incremental borrowing rate to be applied to present value calculations and the Group disclosed an estimated impact of right-of-use asset and lease liability in the range of \$57 million to \$64 million in respect of leases.

A lease liability of \$61.716 million was recognised on 1 July 2019 which was within the range disclosed in the financial statements as at 30 June 2019. The Group's weighted average incremental borrowing rates applied to the lease liabilities on 1 July 2019 were 7.60% for leases in Australia and 7.03% for leases in the United Kingdom.

The adoption of AASB 16 impacts the consolidated statement of profit or loss from 1 July 2019 onwards as follows:

- the elimination of operating rental expenses, except for low-value and short-term leases;
- an increase in depreciation and amortisation expenses; and
- an increase in finance cost (interest expense).

The adoption of AASB 16 had the following material impacts on the consolidated statement of financial position:

- recognition of right-of-use assets;

1 Basis of preparation (continued)

- recognition of current and non-current lease liabilities; and
- recognition of deferred tax assets and liabilities.

The adoption of AASB 16 has no net impact on the consolidated statement of cash flows, however impacts the classification of payments between payment for operating and financing activities from 1 July 2019 onwards with the following offsetting changes:

- a decrease in cash paid to suppliers and employees (operating activities);
- an increase in payments for lease liabilities (financing activities); and
- an increase in finance costs (operating activities).

The following table summarises the impact of transition to AASB 16 on 1 July 2019:

	30 June 2020	1 July 2019
	\$'000	\$'000
Right-of-use assets		
Buildings	50,523	61,904
Lease liabilities		
Current	6,922	5,968
Non-current	46,121	55,748
	53,043	61,716
Deferred tax		
Deferred tax asset on lease liabilities	15,563	17,851
Deferred tax liability on right-of-use assets	(15,042)	(18,085)
	521	(234)

The statement of profit or loss shows the following amounts relating to leases subject to AASB 16:

	2020
	\$'000
Depreciation expense on right-of-use assets (buildings)	9,153
Interest expense (included in finance costs)	4,223
	13,376

The above has no cash effect to the Group and the changes are for financial reporting purposes only.

The statement of cash flows shows the following amounts relating to leases subject to AASB 16:

Interest and costs of finance paid (operating activities)	(4,212)
Repayment of lease liabilities (financing expenses)	(6,810)
	(11,022)

Lease deferrals and reductions received by the Group associated with COVID-19 were immaterial during the current year.

Summary of new accounting policy

The Group assesses whether a contract is or contains a lease, at inception of the contract. A contract is, or contains a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- The contract involves the right of use of an identified asset – this may be specified explicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;

1 Basis of preparation (continued)

- The Group has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and
- The Group has the right to direct the use of the asset.

At inception or reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component based on their relative stand-alone prices.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease i.e. the date the underlying asset is available for use. Right-of-use assets are subsequently measured at cost, less any accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities.

The cost of the right-of-use asset comprises the initial lease liability amount, initial direct costs incurred when entering into the lease less lease incentives received and an estimate of the costs to be incurred in dismantling and removing the underlying asset and restoring the site on which it is located to the condition required by the terms and conditions of the lease.

Unless the Group is reasonably certain of obtaining ownership of the leased asset at the end of the lease term, the recognised right-of-use asset is depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

An impairment review is undertaken for any right-of-use asset that shows indicators of impairment and an impairment loss is recognised against any right-of-use asset that is impaired.

Lease liabilities

The lease liability is initially measured at the present value of the fixed and variable lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which case the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used); and
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group adjusted the lease liability due to changes in lease payments and lease terms during the year ended 30 June 2020.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases i.e. those leases that have a lease term of 12 months or less. It also applies the lease of low-value assets recognition exemption to leases that are considered of low value (less than \$7,500). Payments associated with short-term leases (buildings, equipment and vehicles) and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Low-value assets comprise IT equipment and small items of office furniture.

1 Basis of preparation (continued)

Incremental borrowing rate

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received; and
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third-party financing, and adjustments specific to the lease (eg term, country, currency and security).

Extension and termination options

Extension and termination options are included in several property leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. Most of the extension and termination options held are exercisable only by the Group and not by the respective lessor.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

Most extension options in head office leases have not been included in the lease liability, because the Group could replace the assets without significant cost or business disruption.

The lease term is reassessed if an option is exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee. During the current financial year, the financial effect of revising lease terms to reflect the effect of exercising extension and termination options was a decrease in recognised lease liabilities and right-of-use assets of \$1.907 million.

IFRIC 23 'Uncertainty over Income Tax Treatments'

The Group adopted IFRIC 23 for the first time during the year ended 30 June 2020. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments, under AASB 12 Income Taxes.

The Interpretation requires the Group to:

- determine whether uncertain tax positions are assessed separately or as a Group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
 - if yes, the Group should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
 - if no, the Group should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

There were no adjustments to the amounts recognised in the financial report as a result of adopting IFRIC 23.

(c) Key judgements and estimates

In applying the Group's accounting policies, management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions. Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below.

Significant accounting judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amount recognised in the financial statements:

- Recoverability of deferred tax assets – see note 2.3(g)
- Classification of contingent liabilities – see note 6.1

1 Basis of preparation (continued)

Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

- Impairment of goodwill and other intangible assets – see note 3.7 and 3.8
- Incremental borrowing rate used in calculating lease asset and liability values – see note 1(b)
- Impairment of equity investment in associate – see note 5.1
- Useful lives of other intangible assets – see note 3.8
- Impairment of financial assets (including loan receivables) – see note 3.2
- Impairment for inventory obsolescence – see note 3.3

(d) Basis of consolidation

The consolidated financial statements comprise the financial statements of Cash Converters International Limited and entities controlled by the Company and its subsidiaries (the Group, as outlined in note 5.2). Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

(e) Foreign currency

Both the functional and presentation currency of Cash Converters International Limited and its Australian subsidiaries is Australian dollars (\$). The functional and presentation currency of the non-Australian Group companies is the national currency of the country of operation.

As at the reporting date, the assets and liabilities of foreign subsidiaries are translated into Australian dollars at the rate of exchange ruling at the reporting date and the statements of comprehensive income are translated at the average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity, the foreign currency translation reserve.

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Foreign currency differences arising on translation are recognised in the income statement.

(f) Other accounting policies

Significant and other accounting policies that summarise the measurement basis used, and are relevant to an understanding of the financial statements are provided throughout the notes to the financial statements.

(g) Rounding

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

2 Financial performance

In this section

This section explains the results and performance of the Group. This section provides additional information about those individual line items in the financial statements that the Directors consider most relevant in the context of the operations of the Group, including:

- a) Accounting policies that are relevant for understanding the items recognised in the financial statements; and
- b) Analysis of the Group's result for the year by reference to key areas, including revenue, results by operating segment and income tax.

2.1 Revenue

	2020	2019
	\$'000	\$'000
Financial services interest revenue		
Personal loan interest and establishment fees	112,292	120,853
Pawnbroking fees	28,767	30,490
Cash advance fee income	12,500	17,742
Vehicle loan interest and establishment fees	20,488	16,679
Other financial services revenue	315	698
	174,362	186,462
Sale of goods		
Retail sales	88,034	75,538
Vehicle trade sales	204	269
	88,238	75,807
Other revenue		
Bank interest	329	929
Other vehicle revenue	231	1,005
Other revenue	2,633	1,962
	3,193	3,896

Accounting policies

Franchise fees

Franchise fees and levies in respect of particular services are recognised as income when they become due and receivable and the costs in relation to the income are recognised as expenses when incurred.

Personal loan, cash advance, vehicle finance loan, vehicle lease and pawnbroking fees

Interest revenue is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Loan establishment fee revenue

Establishment fees are deferred and recognised over the life of the loans at the effective interest rate applicable so as to recognise revenue at a constant rate to the underlying principal over the expected life of the loan.

Other vehicle revenue

Charges relating to the vehicle leases such as vehicle maintenance, warranty, registration and insurance are recognised over the life of the lease.

Other categories of revenue

Other categories of revenue, such as financial services commission and retail sales, are recognised when the Group has transferred the risks and rewards of the goods to the buyer or when the services are provided. Bank interest is recognised as earned on an accruals basis.

2.2 Expenses

	Notes	2020	2019
		\$'000	\$'000
Financial services cost of sales			
Net bad and doubtful debt expense	3.2	41,493	60,409
Commissions		13,045	13,644
Other financial services cost of sales		5,578	4,051
		60,116	78,104
Employee expenses			
Employee benefits		67,525	65,990
Share-based payments		(366)	281
Superannuation expense		5,087	4,995
		72,246	71,266
Administrative expenses			
General administrative expenses		3,291	2,883
Communications expenses		955	1,478
IT expenses		3,620	3,723
Travel costs		781	949
		8,647	9,033
Occupancy expenses			
Rent		260	11,221
Outgoings		2,144	1,975
Other		2,081	2,599
		4,485	15,795
Depreciation and amortisation expense			
Depreciation		2,118	2,903
Depreciation of right-of-use assets		9,154	-
Amortisation of other intangible assets		5,967	6,242
Loss on write down of assets		2,622	4,077
		19,861	13,222
Other expenses			
Legal fees		1,171	3,742
Professional and registry costs		8,159	6,772
Auditing and accounting services		507	565
Bank charges		986	831
Other expenses from ordinary activities		4,235	3,343
		15,058	15,253
Finance costs			
Interest		8,384	10,598
Interest expense on lease liabilities		4,223	-
		12,607	10,598

2.2 Expenses (continued)

Class Action settlement expense

On 21 October 2019, the Company announced that it had reached a settlement in relation to the Lynch Class Action, under the terms of which the Company would pay \$42.500 million in two tranches into a fund for distribution to members of the class. The first tranche of \$32.500 million was paid in November 2019, and the second tranche of \$10.000 million is to be paid on or before 30 September 2020.

On 22 October 2018, the Company reached a settlement in relation to the McKenzie Class Action, under the terms of which the Company paid \$10.600 million into a fund for distribution to members of the class, and a further \$5.800 million of legal, administrative and other costs.

Accounting policies

Employee benefits expense

The Group's accounting policy for liabilities associated with employee benefits is set out in note 3.10. The policy relating to share-based payments is set out in note 6.5.

Impairment

Impairment expenses are recognised to the extent that the carrying amount of assets exceeds their recoverable amount. Refer to note 3.7 for further details on impairment.

2.3 Taxation

This note sets out the Group tax accounting policies and provides an analysis of the Group's income tax expense / benefit and deferred tax balances, including a reconciliation of tax expense to accounting profit.

Income tax is accounted for using the balance sheet method. Accounting income is not always the same as taxable income, creating timing differences. These differences usually reverse over time. Until they reverse, a deferred tax asset or liability must be recognised in the statement of financial position.

(a) Consolidated income statement

The major components of tax expense are:

	2020	2019
	\$'000	\$'000
Current income tax expense		
Current year	(2,874)	3,622
Adjustment for prior years	(341)	(143)
Deferred income tax expense		
Temporary differences	(136)	(4,177)
Adjustment for prior years	542	24
Income tax (benefit) / expense reported in income statement	(2,809)	(674)
Tax reconciliation		
Profit / (loss) before tax from continuing operations	(13,300)	(2,366)
Income tax at the statutory rate of 30% (2019: 30%)	(3,990)	(710)
Adjustments relating to prior years	201	(119)
Income tax rate differential	(21)	(19)
Non-deductible items	980	66
Tax effect of share-based payment expense	(110)	84
Recognition of previously impaired tax losses	131	24
Income tax (benefit) / expense on profit before tax	(2,809)	(674)

2.3 Taxation (continued)

(b) Deferred tax

Deferred income tax in the statement of financial position relates to the following:

	2020	2019
	\$'000	\$'000
Deferred tax assets		
Allowance for doubtful debts	9,128	11,553
Accruals	686	612
Provision for employee entitlements	2,322	2,137
Other provisions	415	108
Leases	688	-
Other	178	270
Carry forward losses	6,566	2,799
	19,983	17,479
Deferred tax liabilities		
Fixed assets	(687)	(1,440)
Intangible assets	(1,097)	(1,181)
Other	(18)	(38)
	(1,802)	(2,659)
Net deferred tax assets	18,181	14,820
Reconciliation of net deferred tax assets		
Opening balance at beginning of period	14,820	8,614
Tax expense during period recognised in profit or loss	136	4,177
Tax benefit during period recognised in equity	-	2,001
Prior year adjustment	(542)	(24)
Transfer current year tax benefit	3,792	-
Other	(25)	52
Closing balance at end of period	18,181	14,820

(c) Unrecognised deferred tax balances

Deferred income tax relating to the UK in the balance sheet excludes the following:

Tax losses – revenue	4,312	4,254
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(d) Carry forward tax losses

Carry forward losses of \$2.758 million (2019: \$2.799 million) have been recognised in relation to the Group's UK operations, which were not profitable in the current year and have had a recent history of losses. Carry forward losses of \$3.945 million (2019: Nil) have been recognised in relation to losses in the Group's Australian operations during the current year. Refer to note 2.3(g) for further information supporting the recognition of these losses.

(e) Tax consolidation

Relevance of tax consolidation to the Group

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Cash Converters International Limited. The members of the tax-consolidated group are identified in note 5.2.

2.3 Taxation (continued)

Nature of tax funding arrangements and tax sharing agreements

Entities within the tax-consolidated group have entered into a tax funding arrangement and a tax sharing agreement with the head entity. Under the terms of the tax funding arrangement, Cash Converters International Limited and each of the entities in the tax-consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax-consolidated group.

The tax sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligation. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

(f) Accounting policies

Current taxes

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. Current tax assets and liabilities are measured at the amount expected to be recovered from, or paid to, taxation authorities. All are calculated at the tax rates and tax laws enacted or substantively enacted by the balance sheet date.

Deferred taxes

Deferred income tax liabilities are recognised for all taxable temporary differences. Deferred income tax assets are recognised for all deductible temporary differences, carried forward unused tax assets and unused tax losses, to the extent it is probable that taxable profit will be available to utilise them. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) that affect neither taxable income nor accounting profit. A deferred tax liability is not recognised in relation to the temporary differences arising from the initial recognition of goodwill.

The carrying amount of deferred income tax assets is reviewed at balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to utilise them.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised, or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the statement of comprehensive income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

(g) Key estimate: deferred tax assets

A net deferred tax asset of \$18.181 million (2019: \$14.820 million) has been recognised in the consolidated statement of financial position. This includes \$2.758 million (2019: \$2.799 million) of carried forward tax losses in relation to the Group's UK operations, which have a recent history of losses. The UK tax losses have an indefinite availability period subject to satisfaction of the continuity of ownership or same business tests. A deferred tax asset for the UK operations has only been recognised to the extent tax losses are expected to be recoverable against future earnings.

In making this assessment, a forward-looking estimation of taxable profit was made, based on management's best estimate of future UK performance from continuing operations as at 30 June 2020.

Continuing operations in Australia made a loss during the current year however the Australian tax group is expected to be profitable in future years, therefore supporting the recognition of net deferred tax assets arising from temporary differences in Australia.

2.4 Earnings per share

Earnings per share (EPS) is the amount of post-tax profit / (loss) attributable to each share. Basic EPS is calculated on the Company's statutory profit for the year divided by the weighted average number of shares outstanding. Diluted EPS adjusts the basic EPS for the dilutive effect of any instruments, such as options, that could be converted into ordinary shares. The calculation of basic earnings per share has been based on the following profit / (loss) attributable to ordinary shareholders and weighted average number of ordinary shares outstanding.

Reconciliation of earnings used in calculating earnings per share

	2020	2019
	\$'000	\$'000
Basic and diluted earnings per share		
(Loss) / profit attributable to shareholders of the Company used in calculating earnings per share	(10,491)	(1,692)

Weighted average number of shares used as the denominator

	Number	Number
Weighted average number of shares – basic	616,437,946	616,437,946
Dilutive effect of performance rights	8,970,232	12,210,611
Weighted average number of shares – diluted	625,408,178	628,648,557

The number of potential ordinary shares not included in the above calculation is 14,110,146 (2019: 10,973,771), equating to a weighted average dilutive effect of 8,970,232 (2019: 12,210,611).

2.5 Segment information

The Group's operating segments are organised and managed separately according to the nature of their operations. Each segment represents a strategic business unit that provides different services to different categories of customer. The Chief Executive Officer (chief operating decision-maker) monitors the operating results of the business units separately for the purpose of making decisions about resource allocation and performance assessment. The Group's reportable segments under AASB 8 Operating Segments are therefore as follows:

Franchise operations

This involves the sale of franchises for the retail sale of new and second-hand goods and the sale of master licenses for the development of franchises in countries around the world.

Store operations

This segment involves the retail sale of new and second-hand goods, cash advance and pawnbroking operations at corporate owned stores in Australia.

Personal finance

This segment comprises the Cash Converters Personal Finance personal loans business and Mon-E, which is responsible for providing the administration services for the Cash Converters network in Australia to offer small cash advance loans to customers.

Vehicle financing

This segment comprises Green Light Auto Group Pty Ltd, which provides motor vehicle finance since March 2016, and fully maintained vehicles through a lease product to customers for a term of up to four years (a product that the Group ceased to offer during the 2016 financial year).

The accounting policies of the reportable segments are the same as the Group's accounting policies.

The following is an analysis of the Group's revenue and results by reportable operating segment for the periods under review.

Segment profit represents the profit earned by each segment without the allocation of central administration costs and directors' fees and expenses, interest income and expense in relation to corporate facilities and tax expense. This is the measure reported to the chief executive officer (chief operating decision maker) for the purpose of resource allocation and assessment of segment performance.

2.5 Segment information (continued)

	Personal finance	Vehicle financing	Store operations	Franchise operations	Corporate head office ^(iv)	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Year ended 30 June 2020						
Interest revenue ⁽ⁱ⁾	117,703	20,526	46,038	972	-	185,239
Other revenue	-	435	87,981	17,258	-	105,674
Gross revenue	117,703	20,961	134,019	18,230	-	290,913
Less inter-company sales	(2,308)	-	(8,570)	(1,356)	-	(12,234)
Segment revenue	115,395	20,961	125,449	16,874	-	278,679
External interest revenue ⁽ⁱⁱ⁾	-	-	-	-	329	329
Total revenue	115,395	20,961	125,449	16,874	329	279,008
EBITDA ⁽ⁱⁱⁱ⁾	51,084	2,876	23,017	10,943	(68,752)	19,168
Less inter-company eliminations	(1,913)	6	2,732	(825)	-	-
Segment EBITDA	49,171	2,882	25,749	10,118	(68,752)	19,168
Depreciation and amortisation	(1,309)	(152)	(9,641)	(1,790)	(6,969)	(19,861)
EBIT	47,862	2,730	16,108	8,328	(75,721)	(693)
Interest expense	(5,864)	(2,689)	(3,814)	(51)	(189)	(12,607)
Profit / (loss) before tax	41,998	41	12,294	8,277	(75,910)	(13,300)
Income tax benefit						2,809
Loss for the year						(10,491)
Year ended 30 June 2019						
Interest revenue ⁽ⁱ⁾	128,241	16,886	52,677	1,771	-	199,575
Other revenue	52	1,274	75,496	18,895	-	95,717
Gross revenue	128,293	18,160	128,173	20,666	-	295,292
Less inter-company sales	(3,157)	-	(9,957)	(1,542)	-	(14,656)
Segment revenue	125,136	18,160	118,216	19,124	-	280,636
External interest revenue ⁽ⁱⁱ⁾	10	-	-	-	919	929
Total revenue	125,146	18,160	118,216	19,124	919	281,565
EBITDA ⁽ⁱⁱⁱ⁾	41,291	921	10,235	12,322	(43,315)	21,454
Less inter-company eliminations	(2,767)	7	3,662	(902)	-	-
Segment EBITDA	38,524	928	13,897	11,420	(43,315)	21,454
Depreciation and amortisation	(166)	(322)	(2,762)	(1,532)	(8,440)	(13,222)
EBIT	38,358	606	11,135	9,888	(51,755)	8,232
Interest expense	(7,213)	(2,590)	-	-	(795)	(10,598)
Profit / (loss) before tax	31,145	(1,984)	11,135	9,888	(52,550)	(2,366)
Income tax expense						674
Loss for the year						(1,692)

(i) Interest revenue comprises personal loan interest, cash advance fee income, pawnbroking interest from customers and commercial loan interest from third parties.

(ii) External interest is interest received on bank deposits.

(iii) EBITDA is earnings before interest, tax, depreciation, amortisation and impairment.

(iv) Class Action settlement expense of \$42.500 million (2019: \$16.400 million) has been included in the Corporate head office segment.

2.5 Segment information (continued)

	2020	2019
	\$'000	\$'000
Group assets by reportable segment		
Personal finance	196,915	213,365
Vehicle financing	53,100	63,256
Store operations	96,693	75,282
Franchise operations	15,609	33,709
Total of all segments	362,317	385,612
Unallocated assets	117,517	78,628
Consolidated total assets	479,834	464,240

Unallocated assets include various corporate assets including cash held at a corporate level that has not been allocated to the underlying segments.

Group liabilities by reportable segment		
Personal finance	71,938	89,144
Vehicle financing	32,457	39,475
Store operations	57,014	8,008
Franchise operations	5,618	6,075
Total of all segments	167,027	142,702
Unallocated liabilities	6,436	4,686
Consolidated total liabilities	173,463	147,388

Unallocated liabilities include Group borrowings not specifically allocated to the underlying segments.

Other segment information

	Depreciation, amortisation and impairment		Additions to non-current assets	
	2020	2019	2020	2019
	\$'000	\$'000	\$'000	\$'000
Personal finance	183	166	203	2,098
Vehicle financing	98	258	2,231	1,471
Store operations	1,919	2,597	815	782
Franchise operations	1,359	1,532	314	1,452
Total of all segments	3,559	4,553	3,563	5,803
Unallocated	4,526	5,795	610	1,449
Total	8,085	10,348	4,173	7,252

2.5 Segment information (continued)

Geographical information

The Group operates in two principal geographical areas – Australia (country of domicile) and the United Kingdom. The Group's revenue from continuing operations from external customers and information about its non-current assets by geographical location are detailed below.

	Revenue from external customers		Non-current assets	
	2020	2019	2020	2019
	\$'000	\$'000	\$'000	\$'000
Australia	268,998	269,246	97,727	138,167
United Kingdom	9,259	11,744	35,239	2,037
Rest of world	751	575	-	-
	279,008	281,565	132,966	140,204

Non-current assets include property, plant and equipment, goodwill and other intangible assets, and exclude deferred tax assets, trade and other receivables and other financial assets.

2.6 Dividends

	2020		2019	
	Per share	Total	Per share	Total
	cents	\$'000	cents	\$'000
Recognised amounts				
Final dividend – prior year 100% franked at 30%	-	-	-	-
Interim dividend – current year 100% franked at 30%	-	-	-	-
	-	-	-	-
Unrecognised amounts				
Final dividend – current year 100% franked at 30%	-	-	-	-

The Company did not pay a dividend in respect of the financial year ended 30 June 2019.

On 27 August 2020 the Company resolved that there would be no final dividend in respect of the financial year ended 30 June 2020.

The Company has Australian franking credits available of \$68.379 million on a tax paid basis (2019: \$69.339 million).

2.7 Notes to cash flow statement

Reconciliation of profit to net cash flow from operating activities:

	2020	2019
	\$'000	\$'000
Profit / (loss) after tax	(10,491)	(1,692)
Non-cash adjustment to reconcile profit after tax to net cash flows:		
Amortisation	5,967	7,445
Depreciation	11,281	2,903
Share-based payments	(366)	281
Loss on disposal of non-current assets	2,623	2,873
Share of net (profit) / loss of equity accounted investment	(957)	(1,632)
Changes in assets and liabilities:		
Trade and loan receivables	46,632	(29,324)
Inventories	5,125	301
Other assets	2,907	(2,520)
Trade and other payables	9,493	(3,684)
Provisions	811	(219)
Income tax payables	(2,914)	(6,520)
Net cash provided by operating activities	70,111	(31,788)

Cash flows are included in the cash flow statement on a net basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.



3 Assets and liabilities

In this section

This section shows the assets used to generate Cash Converters' trading performance and the liabilities incurred as a result. Information on other assets and liabilities are in the following sections:

- Section 2 – Deferred tax assets and liabilities
- Section 4 – Financing activities
- Section 5 – Equity-accounted investments

3.1 Trade and other receivables

		2020	2019
		\$'000	\$'000
Current			
Trade receivables	(i)	1,862	1,151
Allowance for impairment losses		(154)	(26)
Total trade receivables (net)		1,708	1,125
Finance lease receivables	(ii)	-	128
Vendor finance loans	(iii)	1,797	1,817
Other receivables	(v)	3,195	4,724
Total trade receivables		6,700	7,794
Non-current			
Vendor finance loans	(iii)	2,060	3,358
Loan to associate	(iv)	2,848	2,913
Other receivables	(v)	22	22
Total trade and other receivables		4,930	6,293

(i) Trade receivables include weekly franchise fees, wholesale sales, pawnbroking fees, cash advance fees, default fees and OTC fees. Where the collection of the debtor is doubtful, an allowance for impairment losses is recognised. The average credit period on sales is 30 days. No interest is charged for the first 30 days from the date of the invoice. Thereafter, interest may be charged on the outstanding balance.

(ii) The Group entered into finance lease arrangements with customers for leasing of vehicles. All leases are denominated in Australian dollars. The average term of finance leases entered into was four years. The Group ceased entering into such finance lease arrangements from March 2016 and as at 30 June 2020 the Group no longer holds any lease receivables.

(iii) Vendor finance loans are loans made to purchasers of the Group's UK corporate stores during the year ended 30 June 2017 as part of the purchase agreement. The loans have various terms of up to six years, and bear interest at rates between nil and 9%. The receivables are held at amortised cost. No receivables are past due or impaired at 30 June 2020 (2019: nil).

(iv) Commercial loan advanced to Cash Converters Holdings LP (New Zealand master franchisee) with a maturity date of 14 September 2023. Interest is charged quarterly at a rate of 5% per annum.

(v) Other receivables include GST receivable, development agent fees outstanding, sub-master license sales, Mon-E fees, financial commission and instalment credit loans. None of these receivables are past due or considered impaired (2019: nil).

As at 30 June the ageing analysis of trade receivables was as follows:

0 to 30 days	509	688
31 to 60 days past due not impaired	235	109
61 to 90 days past due not impaired	343	32
90 + days past due not impaired	621	296
Considered impaired	154	26
Balance at end of year	1,862	1,151

3.1 Trade and other receivables (continued)

Accounting policy

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as trade and other receivables and are measured at amortised costs using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Allowance for impairment losses

As at 30 June 2020, trade receivables and instalment credit loans of \$154 thousand (2019: \$26 thousand) were impaired and fully provided for. Movements in the provision for impairment of trade receivables were as follows:

	2020	2019
	\$'000	\$'000
Balance at beginning of year	26	136
Impairment losses recognised on receivables	131	(109)
Foreign currency exchange differences	(3)	(1)
Balance at end of year	154	26

3.2 Loan receivables

Current

Personal short-term loans (unsecured)	(i)	97,245	142,308
Allowance for impairment losses		(17,922)	(27,143)
Total personal short-term loans (net)		79,323	115,165
Vehicle finance loans (secured)	(ii)	18,908	15,451
Allowance for impairment losses		(4,544)	(2,242)
Total vehicle finance loans (net)		14,364	13,209
Total loan receivables		93,687	128,374

Non-current

Personal short-term loans (unsecured)	(i)	4,444	5,998
Allowance for impairment losses		(817)	(992)
Total personal loans (net)		3,627	5,006
Vehicle finance loans (secured)	(ii)	39,398	47,429
Allowance for impairment losses		(7,096)	(6,209)
Total vehicle finance loans (net)		32,302	41,220
Total loan receivables		35,929	46,226

(i) The credit period provided in relation to personal short-term unsecured loans varies from 30 days to 24 months. Interest is charged on these loans at a fixed rate which varies dependent on the state or country of origin. An allowance has been made for estimated unrecoverable amounts arising from loans already issued, which has been determined by reference to past default experience. Before accepting any new customers, the Group uses an external scoring system to assess the potential customer's credit quality and define credit limits by customer. There is no concentration of credit risk within the personal loan book.

(ii) Vehicle finance loans are secured loans advanced for financing the purchase of vehicles. The average remaining term of these loans is 3.2 years (2019: 3.5 years) and the average interest rate is 24.9% (2019: 25.0%).

3.2 Loan receivables (continued)

As at 30 June the ageing analysis of personal loan receivables was as follows:

	2020	2019
	\$'000	\$'000
0 to 30 days	75,828	107,730
31 to 60 days past due not impaired	2,421	6,899
61 to 90 days past due not impaired	2,315	3,363
90 + days past due not impaired	2,386	2,179
Considered impaired	18,739	28,135
Balance at end of year	101,689	148,306

As at 30 June the ageing analysis of vehicle finance loan receivables was as follows:

0 to 30 days	32,632	41,231
31 to 60 days past due not impaired	4,525	3,872
61 to 90 days past due not impaired	2,491	2,543
90 + days past due not impaired	7,018	6,783
Considered impaired	11,640	8,451
Balance at end of year	58,306	62,880

Allowance for impairment losses

In determining the recoverability of a personal loan, the Group considers any change in the credit quality of the receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit loss allowance required in excess of the loss allowance.

The following table explains changes in the loss allowance between the beginning and end of the year:

Personal loan receivables Loss allowance	Stage 1	Stage 2	Stage 3	Total
	12 month ECL	Lifetime ECL	Lifetime ECL	
	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2019	9,756	10,088	8,291	28,135
Movements with P&L impact				
Transfers:				
Transfers from Stage 1 to Stage 2	(714)	714	-	-
Transfers from Stage 1 to Stage 3	(730)	-	730	-
Transfers from Stage 2 to Stage 1	76	(76)	-	-
Transfers from Stage 2 to Stage 3	-	(801)	801	-
Transfers from Stage 3 to Stage 1	39	-	(39)	-
Transfers from Stage 3 to Stage 2	-	455	(455)	-
New financial assets originated	3,391	4,109	6,596	14,096
Changes in PDs/LGDs/EADs	(1,100)	(2,396)	(1,233)	(4,729)
Changes to model assumptions and methodologies	261	1,593	2,150	4,004
Written off and settled loans	(7,418)	(8,642)	(6,707)	(22,767)
Total net change during the period	(6,195)	(5,044)	1,843	(9,396)
Balance at 30 June 2020	3,561	5,044	10,134	18,739

3.2 Loan receivables (continued)

The following table further explains changes in the gross carrying amount of the loans and receivables to help explain their significance to the changes in the loss allowance:

Personal loan receivables Gross carrying amount	Stage 1	Stage 2	Stage 3	Total
	12 month ECL	Lifetime ECL	Lifetime ECL	
	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2019	105,032	26,451	16,823	148,306
Movements with P&L impact				
Transfers:				
Transfers from Stage 1 to Stage 2	(5,813)	5,813	-	-
Transfers from Stage 1 to Stage 3	(5,075)	-	5,075	-
Transfers from Stage 2 to Stage 1	305	(305)	-	-
Transfers from Stage 2 to Stage 3	-	(2,303)	2,303	-
Transfers from Stage 3 to Stage 1	118	-	(118)	-
Transfers from Stage 3 to Stage 2	-	1,314	(1,314)	-
New financial assets originated	62,135	15,893	14,219	92,247
Changes in outstanding balance	(5,500)	(5,560)	(2,260)	(13,320)
Written off and settled loans	(89,638)	(22,577)	(13,329)	(125,544)
Total net change during the period	(43,468)	(7,725)	4,576	(46,617)
Balance at 30 June 2020	61,564	18,726	21,399	101,689

In determining the recoverability of a vehicle finance loan, the Group considers any change in the credit quality of the receivable from the date credit was initially granted up to the reporting date. As the current customer base is relatively small, the Group has made a provision based on known historical losses and reasonable estimation of expected future losses. As these loans are secured by the underlying vehicle financed, the total loss will be reduced by the recoverable amount. Accordingly, the directors believe that there is no further credit loss allowance required in excess of the loss allowance for doubtful debts.

The following table explains changes in the loss allowance between the beginning and end of the year:

Vehicle finance loan receivables Loss allowance	Stage 1	Stage 2	Stage 3	Total
	12 month ECL	Lifetime ECL	Lifetime ECL	
	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2019	1,998	2,537	3,916	8,451
Movements with P&L impact				
Transfers:				
Transfers from Stage 1 to Stage 2	(286)	286	-	-
Transfers from Stage 1 to Stage 3	(185)	-	185	-
Transfers from Stage 2 to Stage 1	637	(637)	-	-
Transfers from Stage 2 to Stage 3	-	(611)	611	-
Transfers from Stage 3 to Stage 1	329	-	(329)	-
Transfers from Stage 3 to Stage 2	-	160	(160)	-
New financial assets originated	660	1,033	924	2,617
Changes in PDs/LGDs/EADs	(3,519)	499	379	(2,641)
Changes to model assumptions and methodologies	2,442	1,475	2,483	6,400
Written off and settled loans	(319)	(736)	(2,132)	(3,187)
Total net change during the period	(241)	1,469	1,961	3,189
Balance at 30 June 2020	1,757	4,006	5,877	11,640

3.2 Loan receivables (continued)

The following table further explains changes in the gross carrying amount of the loans and receivables to help explain their significance to the changes in the provision as discussed above:

Vehicle finance loan receivables Gross carrying amount	Stage 1	Stage 2	Stage 3	Total
	12 month ECL	Lifetime ECL	Lifetime ECL	
	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2019	47,566	7,451	7,863	62,880
Movements with P&L impact				
Transfers:				
Transfers from Stage 1 to Stage 2	(6,354)	6,354	-	-
Transfers from Stage 1 to Stage 3	(3,280)	-	3,280	-
Transfers from Stage 2 to Stage 1	2,036	(2,036)	-	-
Transfers from Stage 2 to Stage 3	-	(1,824)	1,824	-
Transfers from Stage 3 to Stage 1	705	-	(705)	-
Transfers from Stage 3 to Stage 2	-	351	(351)	-
New financial assets originated	15,589	2,445	1,169	19,203
Changes in outstanding balance	(7,627)	(1,200)	(350)	(9,177)
Written off and settled loans	(7,743)	(2,311)	(4,546)	(14,600)
Total net change during the period	(6,674)	1,779	321	(4,574)
Balance at 30 June 2020	40,892	9,230	8,184	58,306

Changes in the loss allowance between the beginning and end of the year were attributable to the following items:

- Transfers to/(from) stages: movements due to transfers of credit exposures between Stage 1, Stage 2 and Stage 3.
- New financial assets originated: movements in credit exposures and provisions for impairment due to new financial assets originated.
- Changes in PDs/LGDs/EADs: movements due to changes in probability of default, loss given default and exposure at default. Expected loss rates are based on payment profiles, age and expected lifetime of the receivables, changes in underlying credit quality and historic loss experience.
- Changes to model assumptions and methodologies: movements in provisions for impairment due to adjustments reflecting forward-looking macro-economic information or other assumptions.
- Written-off and settled loans: derecognition of credit exposures and provisions for impairment upon write-off or repayment of receivables.

Accounting policy

Loan receivables that have fixed or determinable payments that are not quoted in an active market are classified as loan receivables and are measured at amortised costs using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Key estimate – impairment of financial assets

Under AASB 9, a three-stage approach is applied to measuring expected credit losses (ECL) based on credit migration between the stages as follows:

- Stage 1: At initial recognition, a provision equivalent to 12 months ECL is recognised.
- Stage 2: Where there has been a significant increase in credit risk (SICR) since initial recognition, a provision equivalent to full lifetime ECL is required.
- Stage 3: Lifetime ECL is recognised for loans where there is objective evidence of impairment.

ECL are probability weighted and determined by evaluating a range of possible outcomes, taking into account the time value of money, past events, current conditions and forecasts of future economic conditions.

3.2 Loan receivables (continued)

Probability of default

To measure the expected credit losses, loan receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of loan receivables over a period of 12 months before 1 July 2020 respectively and the corresponding historical credit losses experienced within this period.

Macroeconomic scenarios

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Group has performed historical analysis to identify key economic variables impacting credit risk and expected credit losses for Personal Loans and Motor Vehicle Loans. Expected credit losses are a probability-weighted estimate of credit losses over the expected life of the financial instrument.

The full impacts of the COVID-19 pandemic have yet to result in anticipated increases in delinquencies due to the government stimulus packages supporting consumers. As these likely future delinquencies are not currently captured in the modelled outcome, the Group has specifically considered the likely customer impacts through an economic risk reserve. The ECL model is adjusted to reflect forward-looking macro-economic information to allow for additional risk in compliance with AASB 9.

An assessment was undertaken to determine the most relevant and reliable economic indicator on which to base a forward-looking assessment of expected credit loss. The unemployment rate was chosen as a key indicator of impairment levels for the portfolios. Using publicly available forecasts for unemployment rates over the next year, alternate scenarios, outlined below, were determined. A probability weighting was attributed to each scenario with the highest weighting being applied to the downside case reflecting the significant uncertainty regarding the impact to loan loss rates once government support packages cease. The outcome of this is an additional \$4.282 million provision for personal loan receivables and a \$2.910 million provision for vehicle finance loan receivables.

The following provides an overview of the scenarios chosen as well as the expected change to the total overlay were the individual scenarios to be given a 100% weighting and holding all other assumptions constant:

Scenario	Forecast basis	Sensitivity
Baseline	Central bank forecast for unemployment rates baseline case.	A 100% weighting to this scenario would reduce the total expected credit loss provision by circa \$766 thousand.
Upside	Central bank forecast for unemployment rates upside case.	A 100% weighting to this scenario would reduce the total expected credit loss provision by circa \$2.434 million.
Downside	Central bank forecast for unemployment rates downside case.	A 100% weighting to this scenario would increase the total expected credit loss provision by circa \$1.829 million.

The table below provides a summary of the unemployment rate forecasts used in the baseline, upside and downside scenarios:

Unemployment rate	FY 2021	FY 2022
Baseline	9.3%	8.2%
Upside	8.8%	7.3%
Downside	9.8%	9.9%

Loss given default

Loss given default is estimated based on historical data related to amounts recovered post write off.

3.2 Loan receivables (continued)

Write-off policy

The Group writes off financial assets in whole or in part on the following basis:

- For personal loans, when payments on the loan reach 90 days past due, unless the loan is in a hardship arrangement or in dispute,
- For motor vehicle loans, the earlier of the date on which all practical asset recovery efforts have been exhausted with no reasonable expectation of further recoveries and when the loan has reached 180 days in contractual arrears and no payment has been received for 90 days.

Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Group's recovery method is foreclosing on collateral and the value of the collateral such that there is no reasonable expectation of full recovery. Written off loans can subsequently be sent to third party collection agents for recovery.

3.3 Inventories

	2020	2019
	\$'000	\$'000
New and pre-owned goods at cost	16,272	21,904
Provision for obsolete stock	(1,051)	(1,563)
New and pre-owned goods (net)	15,221	20,341
New and used motor vehicles at cost	-	29
	15,221	20,370

Accounting policies

Inventories are valued at the lower of cost and net realisable value. Costs, including purchase costs are assigned to individual inventory items on hand. Net realisable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale.

3.4 Prepayments

Current

Prepaid commissions	1,498	4,878
Other prepayments	3,461	2,888
	4,959	7,766

Non-current

Prepaid commissions	2,129	3,083
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Accounting policies

Prepayments for goods and services which are to be provided in future years are recognised as prepayments and amortised over the period in which the economic benefits are received. Prepaid commissions relating to loan receivables are amortised over the life of the related loan receivable at the effective interest rates which match the revenue recognition from the loan receivable.

3.5 Plant and equipment

	Leasehold improvements	Plant and equipment	Total
	\$'000	\$'000	\$'000
Cost			
Balance at 1 July 2018	13,449	12,073	25,522
Additions	72	544	616
Disposals	(608)	(2,746)	(3,354)
Foreign currency exchange differences	1	14	15
Balance at 30 June 2019	12,914	9,885	22,799
Additions	462	749	1,211
Disposals	(513)	(2,736)	(3,249)
Foreign currency exchange differences	-	(2)	(2)
Balance at 30 June 2020	12,863	7,896	20,759
Depreciation			
Balance at 1 July 2018	8,216	8,165	16,381
Disposals	(461)	(2,209)	(2,670)
Depreciation expense	1,514	1,389	2,903
Foreign currency exchange differences	1	11	12
Balance at 30 June 2019	9,270	7,356	16,626
Disposals	(389)	(2,220)	(2,609)
Depreciation expense	1,156	962	2,118
Foreign currency exchange differences	-	(4)	(4)
Balance at 30 June 2020	10,037	6,094	16,131
Net book value			
As at 30 June 2019	3,644	2,529	6,173
As at 30 June 2020	2,826	1,802	4,628

Accounting policies

Plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on plant and equipment. Depreciation is calculated on a straight-line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period. The following estimated useful lives are used in the calculation of depreciation:

	Years
Leasehold improvements	8
Plant and equipment	5
Equipment under finance lease	5
Fixtures and fittings	8

3.6 Right-of-use assets

	2020	2019
	\$'000	\$'000
Cost		
Balance at beginning of year	61,904	-
Additions	499	-
Terminations	(122)	-
Remeasurements	(2,661)	-
Foreign currency exchange differences	26	-
Balance at end of year	59,646	-
Depreciation		
Balance at beginning of year	-	-
Terminations	-	-
Depreciation expense	9,153	-
Foreign currency exchange differences	(30)	-
Balance at end of year	9,123	-
Net book value	50,523	-

The Group right-of-use assets relate to property leases. The average lease term is 5.42 years. The corresponding lease liability analysis is presented in note 4.2.

Amounts recognised in profit and loss

Depreciation expense on right-of-use assets	9,153
Interest expense on lease liabilities	4,223
Expense relating to short-term leases	259
	13,635

3.7 Goodwill

Gross carrying amount

Goodwill	106,967	106,967
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Accounting policies

Goodwill arising on an acquisition of a business is carried at cost at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGUs) that are expected to benefit from the synergies of the combination. CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the unit pro rata based on the carrying amount of each asset in the CGU. An impairment loss recognised for goodwill is recognised directly in profit or loss and is not reversed in subsequent periods.

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3.7 Goodwill (continued)

Allocation of goodwill to CGUs

Goodwill has been allocated for impairment testing purposes to the following CGUs or groups of CGUs:

	2020	2019
	\$'000	\$'000
Personal finance	90,561	90,561
Store operations	16,406	16,406
	106,967	106,967

Impairment losses recognised

No impairment losses have been recognised in the years ended 30 June 2020 or 30 June 2019.

Impairment testing and key assumptions

Impairment testing approach applicable to all CGUs

Impairment modelling for each CGU has been prepared separately based on a value in use model which uses cash flow projections based on budgets approved by management covering a five-year period. Cash flows beyond the five-year period are estimated using industry growth rates and a terminal value calculated based on a terminal growth rate under standard valuation principles.

Key assumptions are based on a combination of past experience for mature products and external sources (market data) for less mature products and economic metrics such as interest rates. There is inherent uncertainty associated with the key assumptions supporting the cash flow projections including the duration of the economic downturn associated with COVID-19 and the recovery period.

Working capital requirements are factored into the modelling based on historic requirements for each CGU, and vary in line with earnings growth. Capital investment, required to run the business (i.e. replacement and non-expansionary capital expenditure) has been included based on budgeted amounts for the next financial year and incremental growth in subsequent years consistent with increasing revenues.

The recoverable value of all non-current assets, including goodwill, property, plant and equipment (note 3.5) and other intangible assets (note 3.8) is assessed using the impairment testing as outlined in this note.

Impact of COVID-19

The impact of COVID-19 on the general economy is sufficiently pervasive to be considered an impairment indicator. Impairment testing undertaken has considered alternative scenarios to the base case assumptions whereby lending recovery is both slower and faster than the base case.

Impact of regulations

The Personal Finance business operates in a regulated industry. The impairment testing for this business segment is based on management's expectation of performance, considering applicable legislative requirements at the date of the impairment testing, being 30 June 2020, as well as forecasts for the impact of future regulatory changes planned but not yet legislated.

As disclosed in note 3.5 of the 30 June 2017 annual report, on 28 November 2016, the Minister for Revenue and Financial Services issued a media release in response to the Final Report of the Small Amount Credit Contract (SACC) Law Review advising that the Government supports most of the recommendations, in part or in full, of the Final Report. One of the recommendations is to extend the SACC protected earnings amount (PEA) requirement to all consumers and lowering it to 10 per cent of the consumer's net income. The Company is continuing discussions with the Government around these recommendations, with no changes to the applicable SACC legislation having currently been enacted.

3.7 Goodwill (continued)

Consequently, there is significant uncertainty with respect to the timing of enacting any legislative change, as well as the final scope and form of any eventual change, if any.

The recoverable value of both the Personal Finance and Store Operations businesses may be impacted by potential future legislative changes given the potential impact on both the Group's personal loan and cash advance operations. Refer to note 2.5 for further information on the Group's operations.

In assessing the recoverable value, alternative cash flow projection scenarios were considered on a probability basis. The alternative scenarios considered include varying projections for lending volume recovery reflecting slower and faster projections from the base forecast. Additionally, the alternative scenarios reflected application of the PEA legislation to all customers at both the existing 20% and proposed 10% of customers.

Forecast revenue and expense growth rates in the table below reflect the range of assumptions in the scenarios developed spanning varying lending recovery rates post COVID-19 in FY2021 and FY 2022 as well as the impact of PEA legislation changes in FY 2023 (impacting cash flows beyond year 2). Probability weightings were applied to the scenarios. Revenue growth projections for FY 2022 reflect returns to pre-COVID-19 lending volumes from a diminished revenue base forecast for FY 2021. Revenue is not forecast to return to pre-COVID-19 levels until FY 2024. Revenue and expense growth projections beyond year 2 reflect the range of impacts under PEA legislation changes.

The following key assumptions were used in the impairment testing:

Assumption	Personal finance	Store operations
2021 budget revenue growth / (reduction)	(26%) to (30%)	(8%) to (9%)
2021 budget expense growth / (reduction)	(8%) to (14%)	(6%)
2022 forecast revenue growth / (reduction)	29% to 37%	7%
2022 forecast expense growth / (reduction)	13% to 16%	2%
Revenue growth rate beyond year 2	(20%) to 5%	(5%) to 1%
Expense growth rate beyond year 2	(22%) to 3%	(2%) to 1%
Terminal growth rate > 5 years	2%	2%
Post-tax discount rate applied to cash flows	10.6%	10.6%

For the year ended 30 June 2019 the key assumptions used included:

- 2020 growth rates for revenue and expenses in Personal Finance of -5% and -11% respectively, in the following years growth rates ranged from +1% to +5% for revenue and -4% to +2% for expenses;
- 2020 growth rates for revenue and expenses in Store Operations of -5% and -11% respectively, in the following years growth rates ranged from +1% to +2% for revenue and -4% to +2% for expenses;
- Post-tax discount rates of 9.8% and terminal growth rates of 2.5%.

3.8 Other intangible assets

Allocation of other intangible assets to CGUs

Other intangible assets are allocated to their respective CGU and tested for impairment when impairment indicators are identified. Intangible assets with indefinite lives included within other intangible assets are tested for impairment annually. Refer to note 3.7 for details of impairment testing. The recoverable value of other intangible assets is assessed using the same assumptions and methods as the goodwill for the related CGUs.

No impairment has been recognised in the year ended 30 June 2020 (2019: nil).

3.8 Other intangible assets (continued)

The allocation of other intangible assets to CGUs is as follows:

	2020	2019
	\$'000	\$'000
Franchise operations (excluding UK)	5,085	5,715
Franchise operations (UK)	1,722	3,096
Personal finance	8,053	11,897
Store operations	3,363	4,271
Vehicle financing	3,148	1,945
	21,371	26,924

Categories of other intangible assets

	Reacquired rights	Trade names & customer relationships	Software	Total
	\$'000	\$'000	\$'000	\$'000
Cost				
Balance at 1 July 2018	7,604	16,850	26,609	51,063
Additions	-	-	6,636	6,636
Disposals	-	-	(6,782)	(6,782)
Impairment	-	-	(1,192)	(1,192)
Foreign currency exchange differences	18	-	21	39
Balance at 30 June 2019	7,622	16,850	25,292	49,764
Additions	-	-	2,962	2,962
Disposals	(746)	-	(5,584)	(6,330)
Foreign currency exchange differences	(9)	-	6	(3)
Balance at 30 June 2020	6,867	16,850	22,676	46,393
Amortisation				
Balance at 1 July 2018	4,961	8,712	7,240	20,913
Disposals	-	-	(4,320)	(4,320)
Amortisation expense	500	141	5,600	6,241
Foreign currency exchange differences	5	-	1	6
Balance at 30 June 2019	5,466	8,853	8,521	22,840
Disposals	-	-	(3,776)	(3,776)
Amortisation expense	329	127	5,511	5,967
Foreign currency exchange differences	(4)	-	(5)	(9)
Balance at 30 June 2020	5,791	8,980	10,251	25,022
As at 30 June 2019	2,156	7,997	16,771	26,924
As at 30 June 2020	1,076	7,870	12,425	21,371

3.8 Other intangible assets (continued)

Accounting policies

Reacquired rights and customer relationships acquired through business combinations are recognised at fair value at acquisition date less accumulated amortisation and impairment.

Trade names relating to repurchased sub-master licenses both overseas and in Australia are recognised at cost less accumulated amortisation.

Software development expenditure is recognised as an asset when it is possible that future economic benefits attributable to the asset will flow. Software assets are recognised at cost less accumulated amortisation.

Intangible assets are amortised as follows:

Asset	Amortisation period
Reacquired rights	The remaining life of each franchise agreement as at the acquisition date
Customer relationships	Useful life of 5 years based on historic average customer relationships
Trade names	Useful life which is not more than 100 years
Software	Useful life of 5 years based on historic experience

Key estimate – useful lives of other intangible assets

The Company reviews the estimated useful lives of other intangible assets at the end of each annual reporting period. The estimation of the remaining useful lives of other intangible assets requires the entity to make significant estimates based on both past performance and expectations of future performance. During the year ended 30 June 2019 the Company revised its estimate of the useful lives of all software assets, previously between 5 and 8 years, to 5 years, resulting in an additional accelerated amortisation charge of \$2.941 million.

3.9 Trade and other payables

	2020	2019
	\$'000	\$'000
Current		
Trade payables	1,952	2,014
Accruals	11,364	13,282
Class Action final settlement payment	10,000	-
	23,316	15,296

The Group has financial risk management policies in place to ensure that all payables are paid within the allowed credit period in order to avoid the payment of interest on outstanding accounts.

3.10 Provisions

		2020	2019
		\$'000	\$'000
Current			
Employee benefits		6,942	6,235
Fringe benefits tax		54	41
Onerous lease contracts	(i)	82	518
Other		977	250
		8,055	7,044
Non-current			
Employee benefits		798	887
Onerous lease contracts	(i)	459	825
		1,257	1,712

(i) The provision for onerous lease contracts relates to the Group's previously discontinued UK operations.

Movements in the provisions were as follows:

Balance at beginning of year		8,756	8,423
Arising during the year		824	1,045
Utilised during the year		(263)	(747)
Foreign currency exchange differences		(5)	35
Balance at end of year		9,312	8,756

Accounting policies

Provisions are recognised when the Group has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, the carrying amount is the present value of those cash flows.

When some or all the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received, and the amount of the receivable can be measured reliably.

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and personal leave when it is probable that settlement will be required, and they are capable of being measured reliably. Liabilities recognised in respect of short-term employee benefits are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Liabilities recognised in respect of long-term employee benefits are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

4 Capital structure and financing costs

In this section

This section outlines how the Group manages its capital structure and related financing costs, including its balance sheet liquidity and access to capital markets.

The Board determines the appropriate capital structure of the Group, specifically how much is raised from shareholders (equity) and how much is borrowed from financial institutions and capital markets (debt), in order to finance the Group's activities both now and in the future.

The Board considers the Group's capital structure and its dividend policy at least twice a year ahead of announcing results, in the context of its ability to continue as a going concern, to execute the strategy and to deliver its business plan.

4.1 Cash and cash equivalents

	2020	2019
	\$'000	\$'000
Cash on hand	2,050	2,407
Cash at bank	104,498	78,694
	106,548	81,101

Cash at bank includes restricted cash of \$4.839 million (2019: \$6.592 million) that is held in accounts controlled by the CCPF Receivables Trust No 1 that was established to operate the Company's securitisation facility with Fortress Finance. The facility prescribes that cash deposited in this account can only be used to fund new principal advances. Surplus funds at the end of the period are redistributed in keeping with the terms of the securitisation facility. Cash at bank includes a further \$6.270 million (2019: \$5.730 million) on deposit as security for banking facilities.

4.2 Lease liabilities

Current		
Lease liabilities	6,922	-
Non-current		
Lease liabilities	46,121	-
Maturity analysis		
Year 1	10,694	-
Year 2	9,295	-
Year 3	7,840	-
Year 4	7,284	-
Year 5	6,381	-
Onwards	34,650	-
	76,144	-
Less: unearned interest	(23,101)	-
	53,043	-

The Group does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's treasury function.

4.3 Borrowings

		2020	2019
		\$'000	\$'000
Current			
Securitisation facility	(i)	60,576	87,826
Insurance premium funding		42	-
		60,618	87,826
Non-current			
Securitisation facility	(i)	27,174	35,510

(i) The securitisation facility represents a liability owed by CCPF Receivables Trust No 1, a consolidated subsidiary established as part of the borrowing arrangement with the Fortress Investment Group. This liability is secured against eligible receivables (which includes Small and Medium Amount Credit Contracts issued by Cash Converters Personal Finance and secured vehicle loans provided by Green Light Auto) which have been assigned to the Trust. Collections from Trust receivables are used to pay interest of the securitisation facility, with the remainder remitted to the Group twice per month. Receivables have maturities of up to 5 years and the facility has accordingly been presented as current and non-current liabilities in line with the maturities of the underlying receivables. The facility limit is \$150 million. In the ordinary course of business, the consolidated entity currently expects to utilise this facility until at least 18 December 2022.

Reconciliation of liabilities arising from financing activities

	2019	Cash flows	Non-cash changes	2020
			Borrowing costs	
			\$'000	
	\$'000	\$'000	\$'000	\$'000
Securitisation facility	123,336	(35,250)	(336)	87,750

Accounting policies

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

4.3 Borrowings (continued)

Financing arrangements

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

	2020	2019
	\$'000	\$'000
Total facilities		
Securitisation facilities	150,000	150,000
Used at balance date		
Securitisation facilities	89,250	124,500
Unused at balance date		
Securitisation facilities	60,750	25,500

Refer to note 4.4 for further information in relation to financial instruments.

Loan covenants and review events

The Group's borrowing facilities are subject to various covenants and review events. The securitisation has various eligibility criteria which the receivables of the Group must meet to be funded under the facility. During the reporting period there have been no events that would cause these covenants to be breached.

4.4 Financial risk factors

The Group's activities expose the Group to a variety of financial risks: market risks (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on financial performance.

Financial risk and capital management is carried out in accordance with policies approved by the Board. The Board reviews and approves written principles of overall risk management, as well as written policies covering specific areas such as managing capital, mitigating interest rates, liquidity, foreign exchange and credit risk. The Audit and Risk Committee assists the Board in monitoring the implementation of risk management policies.

(a) Categories of financial instruments

Financial assets		
Cash and cash equivalents	106,548	81,101
Trade and other receivables	11,630	14,087
Loan receivables	129,616	174,600
	247,794	269,788
Financial liabilities		
Trade and other payables	23,316	15,296
Borrowings	87,792	123,336
	111,108	138,632

The Group has no material financial assets or liabilities that are held at fair value.

4.4 Financial risk factors (continued)

(b) Financial risk management objectives

The Group's treasury function provides services to the business, co-ordinates access to domestic and international financial markets, and manages the financial risks relating to the operations of the Group. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

(c) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk from the previous period.

(d) Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are relatively small and spot rates are normally used to translate transactions into the reporting currency. There are no foreign currency denominated monetary assets or monetary liabilities in the Group at the reporting date (2019: nil) other than in the functional currency of the operating entity.

(e) Interest rate risk management

The Company and the Group are exposed to interest rate risk as entities in the consolidated Group borrow funds at variable rates and place funds on deposit at variable rates. Loans issued by the Group are at fixed rates. The risk is managed by the Group by monitoring interest rates.

The Company and the Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 50-basis point increase or decrease is used because this represents management's assessment of the possible change in interest rates.

At reporting date, if interest rates had been 50 basis points higher or lower and all other variables were held constant, the Group's net profit would increase/decrease by approximately \$129 thousand (2019: increase/decrease by approximately \$446 thousand).

(f) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group measures credit risk on a fair value basis. The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics, other than its franchisees. Refer to note 3.2. The Group has a policy of obtaining sufficient collateral or other securities from these franchisees. The majority of loans within the financing divisions relate to loans made by Cash Converters Personal Finance and Green Light Auto which may be both secured and unsecured loans. Credit risk is present in relation to all loans made, which is managed within an agreed corporate policy on customer acceptance and ongoing review of recoverability. For secured loans, the fair value of the credit risk considers the underlying value of the collateral against the loan.

(g) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate cash reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching maturity profiles of financial assets and liabilities. Included in note 4.3 is a listing of additional undrawn facilities that the Company / Group has at its disposal to further reduce liquidity risk.

4.4 Financial risk factors (continued)

Liquidity and interest risk tables

Financial liabilities

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

To the extent that interest flows are at floating rates, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Group may be required to pay.

	1 year or less	1 to 5 years	More than 5 years	Total
	\$'000	\$'000	\$'000	\$'000
2020				
Non-interest bearing	23,316	-	-	23,316
Variable interest rate instruments	60,618	27,174	-	87,792
	83,934	27,174	-	111,108
2019				
Non-interest bearing	15,296	-	-	15,296
Variable interest rate instruments	87,826	35,510	-	123,336
	103,122	35,510	-	138,632

Financial assets

The following table details the Group's expected maturity for its financial assets. The table below has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Company / Group anticipates that the cash flow will occur in a different period.

2020				
Non-interest bearing	41,109	-	-	41,109
Fixed interest rate instruments	180,674	60,518	-	241,192
Variable interest rate instruments	63,469	-	-	63,469
	285,252	60,518	-	345,770
2019				
Non-interest bearing	27,862	-	-	27,862
Fixed interest rate instruments	236,815	96,654	-	333,469
Variable interest rate instruments	35,201	-	-	35,201
	299,878	96,654	-	396,532

The amounts included above for variable interest rate instruments for both assets and liabilities are subject to change if actual rates differ from those applied in the above average calculations.

4.4 Financial risk factors (continued)

(h) Fair value of financial instruments

The fair value of the Group's financial assets and liabilities are determined on the following basis:

Financial assets and financial liabilities that are measured at fair value on a recurring basis

Subsequent to initial recognition, at fair value financial instruments are grouped into Levels 1 to 3 based on the degree to which the fair value is observable. Levels are defined as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included with 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 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At 30 June 2020 and 30 June 2019, the Group has no material financial assets and liabilities that are measured on a recurring basis at fair value.

Financial assets and financial liabilities that are not measured at fair value on a recurring basis (but where fair value disclosures are required)

At 30 June 2020 and 30 June 2019, the carrying amount of financial assets and financial liabilities for the Group is considered to approximate their fair values.

The fair value of the monetary financial assets and financial liabilities is based upon market prices where a market price exists or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles.

4.5 Issued capital

	2020	2019	2020	2019
	Number	Number	\$'000	\$'000
Balance at beginning of year	616,437,946	616,437,946	248,714	248,714
Issued during the year	-	-	-	-
Balance at end of year	616,437,946	616,437,946	248,714	248,714

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Changes to the Corporations Act abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

5 Group structure

In this section

This section provides information to assist users understand how the Group structure affects the financial position and performance of the Group as a whole. The Group includes entities that are classified as associates, which are accounted for using the equity method.

In this section of the notes there is information about:

1. Changes to the structure that occurred during the prior year as a result of business combinations or the disposal of a discontinued operation;
2. Investments in associates;
3. Composition of the Group; and
4. Parent entity financial information.

5.1 Investment in associates

Balances of the investments in associates and joint ventures are as follows:

	2020	2019
	\$'000	\$'000
Balance at beginning of year	6,452	5,282
Net profit for year	3,338	1,613
Provision for impairment of investment	(2,300)	-
Return on investment received	(659)	(680)
Foreign exchange adjustment in value of investment	(195)	237
Balance at end of year	6,636	6,452

Associates are those entities over which the Company has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but not control or joint control over those policies.

The financial statements include the Company's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. If the Company's share of losses exceeds its interest in an associate, their carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

During the year, the Company held an investment in the Cash Converters Holdings Limited Partnership, the master franchisor in New Zealand. The Company holds a 25% equity interest (ownership and voting interest) in all aspects of the New Zealand enterprise, including corporate stores, franchise contracts and financial services.

5.1 Investment in associates (continued)

Impairment

The Company's investment in the Cash Converters Holding Limited Partnership has been tested for impairment, as required, under the accounting standards at 30 June 2020.

Recent changes to consumer credit laws in New Zealand triggered an impairment test of the investment's carrying value. The changes introduced new rules for loans that have an annual interest rate of 50% or more, which are deemed "high-cost" under the legislation. The new rules for "high-cost" loans include limits to cap the total cost of borrowing on the loan and a cap on the rates of interest and fees charged. These changes have necessitated the New Zealand enterprise developing and distributing a new product with substantially different interest rates. No impairment indicators were present in the prior period.

Financial forecasts were developed for the New Zealand enterprise and these forecasts were used to assess the recoverable value of the investment based on a value in use calculation. Financial forecasts were projected for five years including a terminal year value and discounted using an appropriate discount rate. The growth rate used to extrapolate cashflow projections beyond the period covered by the most recent budgets/forecasts was 2% and the post-tax discount rate used was 10.6%.

Key assumptions within the cashflow projections supporting the value in use calculation include forecast lending volumes and forecast bad debt rates for the new lending products. Forecast lending volumes have been based on past experience with lending products.

Review of the financial forecasts identified assumptions regarding the forecast bad debt rates as being a critical judgement area. In assessing the recoverable value alternative bad debt rate scenarios, including a historic bad debt rate, an improved bad debt rate and a more pessimistic forecast for bad debt rates, were considered on a probability weighted basis.

This assessment identified that the recoverable value was below the carrying amount and hence an impairment provision of \$2.300 million has been reflected against the value of the investment.

It is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from the assumptions could require a material adjustment to the carrying amount of the asset. To the extent that the recoverable amount of the investment subsequently increases any reversal of the impairment loss is recognised in accordance with ASB 136 Impairment of Assets.

The recoverable value of the investment in the Cash Converters Holding Limited Partnership is sensitive to changes in its discount rate and earnings before tax forecasts. When applying the same probability weighted assessment a 100 basis point increase in discount rate or a 10% reduction in its forecast earnings before tax would result in a further \$727 thousand and \$676 thousand impairment respectively.

Summarised financial information

Summarised financial information in respect of the Group's interest in Cash Converters Holdings Limited Partnership is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	2020	2019
	\$'000	\$'000
Current assets	7,943	5,349
Non-current assets	4,266	4,885
Current liabilities	(425)	(629)
Non-current liabilities	(2,848)	(3,153)
Net assets	8,936	6,452

5.2 Controlled entities

(a) Composition of the Group

Controlled entities of Cash Converters International Limited:

Name of entity	Country of incorporation	Ownership interest	
		2020	2019
BAK Property Pty Ltd ⁽⁴⁾	Australia	0%	100%
Cash Converters (Cash Advance) Pty Ltd ^{(1) (2)}	Australia	100%	100%
Cash Converters Finance Corporation Limited ⁽³⁾	Australia	64.33%	64.33%
Cash Converters (NZ) Pty Ltd	Australia	100%	100%
Cash Converters Personal Finance Pty Ltd ^{(1) (2)}	Australia	100%	100%
Cash Converters Pty Ltd ^{(1) (2)}	Australia	100%	100%
Cash Converters (Stores) Pty Ltd ^{(1) (2)}	Australia	100%	100%
Cash Converters UK Holdings PLC	UK	100%	100%
Cash Converters USA, Inc ⁽³⁾	USA	99.285%	99.285%
Cash Converters USA Limited ⁽³⁾	Australia	99.285%	99.285%
CC Acquisitions Pty Ltd ⁽²⁾	Australia	100%	0%
Finance Administrators of Australia Pty Ltd ^{(1) (2)}	Australia	100%	100%
Green Light Auto Group Pty Limited ^{(1) (2)}	Australia	100%	100%
Mon-E Pty Ltd ^{(1) (2)}	Australia	100%	100%
Safrock Finance Corporation (QLD) Pty Ltd ⁽²⁾	Australia	100%	100%
Safrock Finance Corporation WA Pty Ltd ^{(1) (2) (4)}	Australia	0%	100%
CCPF Receivables Trust No 1	Australia	100%	100%

(1) These companies are parties to the Deed of Cross Guarantee and members of the Closed Group as at 30 June 2020.

(2) These companies are members of the tax consolidated group.

(3) Non-controlling interest is not considered material in these subsidiaries.

(4) These dormant entities were deregistered during the year ended 30 June 2020.

(b) Deed of cross guarantee

Cash Converters International Limited and certain wholly-owned companies (the Closed Group), identified in (a) above, are parties to a Deed of Cross Guarantee (the Deed). The effect of the Deed is that members of the Closed Group guarantee to each creditor payment in full of any debt in the event of winding up of any of the members under certain provisions of the Corporations Act 2001. ASIC Corporations Instrument 2016/785, issued on 28 September 2016, provides relief to parties to the Deed from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports and directors' reports, subject to certain conditions as set out therein.

Pursuant to the requirements of this Corporations Instrument, a summarised consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2020 and consolidated Statement of Financial Position as at 30 June 2020, comprising the members of the Closed Group after eliminating all transactions between members are set out on the following pages.

5.2 Controlled entities (continued)

Summarised statement of profit or loss and comprehensive income

	2020	2019
	\$'000	\$'000
Profit / (loss) before income tax	(12,841)	(2,200)
Income tax benefit / (expense)	2,824	674
Total comprehensive income	(10,017)	(1,526)

Summary of movements in Closed Group's retained earnings

Retained earnings at beginning of year	98,295	103,916
AASB 9 adjustment to opening retained earnings	-	(4,669)
Transfer reserve balance	180	574
Net profit	(10,017)	(1,526)
Retained earnings at end of year	88,458	98,295

Statement of financial position

Current assets

Cash and cash equivalents	102,897	69,227
Trade receivables	1,912	4,318
Loan receivables	93,688	128,374
Inventories	14,900	20,364
Prepayments	4,720	7,165
Current tax receivable	1,424	1,897
Total current assets	219,541	231,345

Non-current assets

Trade and other receivables	13,412	22,236
Loan receivables	35,929	46,226
Plant and equipment	4,535	6,022
Right-of-use assets	50,139	-
Deferred tax assets	15,423	12,021
Goodwill	106,967	106,967
Other intangible assets	20,299	24,687
Prepayments	2,128	3,083
Investments in associates	6,636	6,452
Other financial assets	30,250	30,250
Total non-current assets	285,718	257,944
Total assets	505,259	489,289

5.2 Controlled entities (continued)**Statement of financial position** (continued)

	2020	2019
	\$'000	\$'000
Current liabilities		
Trade and other payables	20,051	10,564
Lease liabilities	6,092	-
Borrowings	60,618	87,826
Provisions	7,329	6,526
Total current liabilities	94,090	104,916
Non-current liabilities		
Lease liabilities	45,783	-
Borrowings	27,174	35,510
Provisions	798	887
Total non-current liabilities	73,755	36,397
Total liabilities	167,845	141,313
Net assets	337,414	347,976
Equity		
Issued capital	248,714	248,714
Reserves	242	967
Retained earnings	88,458	98,295
Total equity	337,414	347,976



5.3 Parent entity disclosures

The financial information of the parent entity, Cash Converters International Limited has been prepared on the same basis as the consolidated financial report.

(a) Statement of financial position

	2020	2019
	\$'000	\$'000
Assets		
Current assets	1,476	1,904
Non-current assets	251,986	252,565
Total assets	253,462	254,469
Liabilities		
Current liabilities	41	9
Non-current liabilities	-	-
Total liabilities	41	9
Net assets	253,421	254,460
Equity		
Issued capital	248,714	248,714
Reserves	337	884
Retained earnings	4,370	4,862
Total equity	253,421	254,460

(b) Comprehensive income

(Loss) for the year	(492)	(456)
Other comprehensive income	-	-
Total comprehensive (loss)	(492)	(456)

(c) Guarantees entered into by parent entity in relation to the debts of its subsidiaries

Cross guarantees have been provided by the parent entity and its controlled entities as listed in note 5.2.

Guarantee provided under the deed of cross guarantee ⁽¹⁾	2,327	2,348
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(1) Cash Converters International Limited has provided a cross guarantee to HSBC for a BACS facility provided to CCUK.

6 Other items

In this section

This section includes additional information not disclosed elsewhere in the report but required to be disclosed to comply with the Accounting Standards, the Corporations Act 2001 or the *Corporations Regulations*.

6.1 Contingent liabilities

In the course of its normal business the Group occasionally receives claims and writs for damages and other matters arising from its operations. Where, in the opinion of the directors it is deemed appropriate, a specific provision is made, otherwise the directors deem such matters are either without merit or of such kind or involve such amounts that would not have a material adverse effect on the operating results or financial position of the economic entity if disposed of unfavourably.

Following an AUSTRAC assessment, the Group continues to engage with AUSTRAC with respect to concerns expressed on the Group's compliance with the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (Cth) ("the Act").

On 7 August 2020, AUSTRAC issued a Notice on Cash Converters Pty Ltd, a wholly-owned subsidiary of the Group requiring information and documents be given and produced on or before 2 October 2020. The relevant period to which the required information is to be provided is 14 February 2014 to 14 February 2020.

The Group is co-operating fully with AUSTRAC and intends to comply by responding to the requirements outlined in the Notice on or before the requested due date. Additionally the Group is continuing to strengthen its Anti-Money Laundering and Counter-Terrorism Financing Program.

At the date of this report the outcome is unknown as AUSTRAC have not completed their investigation and therefore it is not possible to determine the extent of any potential financial impact to the Group. Consequently, no amounts have been included as contingent liabilities at the date of this report.

The directors are not aware of any other material contingent liabilities in existence as at 30 June 2020 requiring disclosure in the financial statements.

6.2 Commitments

Operating leases

Non-cancellable operating lease commitments payable:

	2020	2019
	\$'000	\$'000
Within one year	-	11,223
One to five years	-	26,136
Later than five years	-	1,267
	-	38,626

As a result of the adoption of AASB 16 Leases during the current year, \$38,320 million of operating lease commitments recognised at 30 June 2019 were recognised as lease liabilities on 1 July 2019.

Capital expenditure

As at 30 June 2020, capital expenditure commitments were nil (2019: nil).

6.2 Commitments (continued)

Other contractual commitments

	2020	2019
	\$'000	\$'000
Within one year	295	785
One to five years	1,098	450
	1,393	1,235

6.3 Related party disclosures

The immediate parent and ultimate controlling party of the Group is Cash Converters International Limited.

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

During the year an amount of \$120,000 (2019: \$120,000) was paid for consulting services to an entity controlled by Mr P Cohen, the beneficial owner of EZCORP Inc, the Company's largest shareholder.

Mr Brendan White, former Chief Executive Officer, received unsecured loans from the Company during the year ended 30 June 2019 totalling \$441,216 to assist with the transfer of financial arrangements necessitated from his departure from Bank of Queensland. The loan accrued interest at 5.65% per annum and the outstanding balance at the date of his resignation on 26 February 2020 of \$415,045 was forgiven. Further details are provided in the Remuneration Report.

Other than share-based payments (as disclosed in note 6.5) and shareholdings of Key Management Personnel (KMP) (as disclosed in the remuneration report), the parent, its subsidiaries, associates and KMP made no other related party transactions during the reporting period.

6.4 Key management personnel disclosures

Details of directors and other members of KMP of Cash Converters International Limited during the year are:

- Mr Stuart Grimshaw (Non-Executive Chairman)
- Mr Peter Cumins (Executive Deputy Chairman)
- Mr Kevin Dundo (Non-Executive Director)
- Ms Julie Elliott (Non-Executive Director, appointed 14 April 2020)
- Mr Lachlan Given (Non-Executive Director)
- Mr Robert Hines (Non-Executive Director, appointed 14 April 2020)
- Mr Sam Budiselik (Chief Operating Officer to 26 February 2020, Chief Executive Officer from 26 February 2020)
- Mr Leslie Crockett (Chief Financial Officer from 2 June 2020)
- Mr Brad Edwards (General Counsel and Company Secretary)
- Mr Peter Egan (Chief Risk Officer from 3 February 2020)
- Mr Ben Cox (General Manager Corporate Distribution to 13 September 2019)
- Mr Martyn Jenkins (Chief Financial Officer to 2 September 2019)
- Mr Brendan White (Chief Executive Officer to 26 February 2020)

6.4 Key management personnel disclosures (continued)

The aggregate compensation of the KMP of the Group is set out below:

	2020	2019
	\$	\$
Short-term employee benefits	4,295,040	3,823,836
Post-employment benefits	112,947	152,708
Other long-term benefits	(24,019)	22,580
Share-based payments	(194,373)	(466,658)
Termination benefits	302,500	747,077
	4,492,095	4,279,543

6.5 Share-based payments

Cash Converters rights plan

The Cash Converters rights plan, which was approved by shareholders on 18 November 2015, allows the directors of the Company to issue performance rights which will vest into ordinary shares in the Company upon the achievement of certain vesting conditions. As at 30 June 2019, the shareholders had approved the issue of 15,920,500 performance rights under the Company's previous rights plan, approved by shareholders on 30 November 2010 and 37,063,109 performance rights under the new rights plan, to the then managing director (now Executive Deputy Chairman) and the Company's senior management team in various tranches with each tranche containing vesting conditions.

Each right entitles the holder to subscribe for one fully paid ordinary share in the Company at the exercise price of nil. During the reporting period, a total of 10,201,088 performance rights were granted in Tranches 27 and 28 to senior executives of the Company.

The following arrangements were in existence during the current reporting period:

Tranche	Grant date	Number of rights	Grant date fair value	Exercise price	Expiry date
21	14 Feb 2018	999,380	\$0.22	\$0.00	30 Jun 2020
22	14 Feb 2018	999,380	\$0.33	\$0.00	30 Jun 2020
23	19 Dec 2018	2,643,872	\$0.15	\$0.00	30 Jun 2021
24	19 Dec 2018	2,643,872	\$0.24	\$0.00	30 Jun 2021
25	26 Mar 2019	1,843,633	\$0.06	\$0.00	30 Jun 2021
26	26 Mar 2019	1,843,633	\$0.19	\$0.00	30 Jun 2021
27	9 Jun 2020	5,100,544	\$0.17	\$0.00	30 Jun 2022
28	9 Jun 2020	5,100,544	\$0.19	\$0.00	30 Jun 2022

Fair value of performance rights granted during the year

The weighted average fair value of the performance rights granted during the financial year is \$0.18 (2019: \$0.17). Where relevant, the expected life used in the model is based on the earliest vesting date possible for each tranche, based on the vesting conditions.

	Tranche 27	Tranche 28
Grant date	9 Jun 2020	9 Jun 2020
Option pricing model	Monte Carlo	Binomial
Grant date share price	\$0.195	\$0.195
Exercise price	\$0.00	\$0.00
Expected volatility	50%	50%
Option life	2.06 years	2.06 years
Dividend yield	0.00%	0.00%
Risk-free interest rate	0.28%	0.28%

6.5 Share-based payments (continued)

Movement in performance rights during the year

The following table illustrates the number of, and movements in, performance rights during the year. The performance rights were issued at no charge, and the weighted average exercise price is nil. No rights were exercisable at the end of the current year.

	2020	2019
	Number	Number
Outstanding at beginning of year	10,973,770	9,819,506
Granted during year	10,201,088	9,218,162
Forfeited / lapsed during year	(7,064,712)	(8,063,898)
Exercised during year	-	-
Outstanding at end of year	14,110,146	10,973,770

Share options exercised during the year

No share options were exercised during the years ended 30 June 2019 or 2020.

Share options forfeited / lapsed during the year

Tranche	Grant date	Number lapsed
Year ended 30 June 2020		
21	14 Feb 2018	999,380
22	14 Feb 2018	999,380
23	19 Dec 2018	689,343
24	19 Dec 2018	689,343
25	26 Mar 2019	1,843,633
26	26 Mar 2019	1,843,633
		7,064,712
Year ended 30 June 2019		
17	23 Nov 2016	2,286,460
18	23 Nov 2016	2,286,460
19	12 Dec 2016	892,649
20	12 Dec 2016	892,649
21	14 Feb 2018	731,264
22	14 Feb 2018	731,264
23	19 Dec 2018	121,576
24	19 Dec 2018	121,576
		8,063,898

6.5 Share-based payments (continued)

Share options outstanding at year end

The total number of options outstanding at 30 June 2020 was 14,110,146 (2019: 10,973,770).

Tranche	Grant date	Number of rights	Grant date fair value	Exercise price	Expiry date
23	19 Dec 2018	1,954,529	\$0.15	\$0.00	30 Jun 2021
24	19 Dec 2018	1,954,529	\$0.24	\$0.00	30 Jun 2021
27	9 Jun 2020	5,100,544	\$0.17	\$0.00	30 Jun 2022
28	9 Jun 2020	5,100,544	\$0.19	\$0.00	30 Jun 2022
		14,110,146			

The weighted average remaining contractual life for the performance rights outstanding at 30 June 2020 was 1.7 years (2019: 1.8 years).

Accounting policies

The Group provides benefits to executives of the Group in the form of share-based payment transactions, whereby KMP render services in exchange for options (equity-based transactions). These performance rights are indeterminate rights and confer the right (following valid exercise) to the value of an ordinary Share in the Company at the time, either settled in Shares that may be issued or acquired on-market, or settled in the form of cash, at the discretion of the Board (a feature intended to ensure appropriate outcomes in the case of terminations).

The current plan to provide these benefits is the Executive Performance Rights Plan. The cost of the equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using an appropriate valuation methodology.

The cost of equity-based transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (vesting date).

At each subsequent reporting date until vesting, the cumulative charge to the profit or loss is the product of:

- The grant date fair value of the award.
- The current best estimate of the number of the awards that will vest, taking into account such factors as the likelihood of non-market performance conditions being met.
- The expired portion of the vesting period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition. Where vesting is conditional upon a market condition and awards do not ultimately vest, amounts previously charged to the share-based payment reserve are reversed directly to retained earnings, and not to profit and loss.

Where the terms of an equity-settled award are modified, as a minimum, an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of dilutive earnings per share.

6.6 Auditor's remuneration

	2020	2019
	\$	\$
Auditor of the parent entity		
Audit / review of the financial report	539,530	466,399
Other non-audit services	-	26,083
Related practice of the parent entity auditor		
Audit	50,160	46,974
Taxation services	18,310	15,176
	608,000	554,632

The auditor of Cash Converters International Limited is Deloitte Touche Tohmatsu.

6.7. Events subsequent to the end of the year

Victoria entered Stage 4 pandemic restrictions with effect from Thursday 6 August 2020 for a minimum six-week period, impacting 19 metropolitan corporate stores and 9 franchise stores. The ongoing impact is not able to be estimated by the directors at this point in time.

There has not been any matter or circumstance other than that referred to in the financial statements or notes thereto that has arisen since the end of the financial year that has significantly affected or may significantly affect the operations of the Group.

Directors' declaration

The directors declare that:

- a) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- b) in the directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 1 to the financial statements;
- c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Group; and
- d) the directors have been given the declarations required by s295A of the Corporations Act 2001.

At the date of this declaration the Company is within the class of companies affected by ASIC Class Order 98/1418. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

In the directors' opinion, there are reasonable grounds to believe that the Company and the companies to which the ASIC Class Order applies, as detailed in note 5.2 to the financial statements will, as a group, be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the deed of cross guarantee.

Signed in accordance with a resolution of the directors made pursuant to s295(5) of the Corporations Act 2001.

On behalf of the directors



Peter Cumins

Director

Perth, Western Australia

27 August 2020

Auditor's independence declaration

Deloitte.

Deloitte Touche Tohmatsu
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The Board of Directors
Cash Converters International Limited
Level 11, 37 St Georges Terrace
Perth WA 6000

27 August 2020

Dear Directors

Cash Converters International Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Cash Converters International Limited.

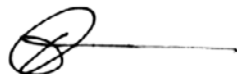
As lead audit partner for the audit of the financial statements of Cash Converters International Limited for the financial year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU



Leanne Karamfiles
Partner
Chartered Accountants

Independent auditor's report

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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Independent Auditor's Report to the members of Cash Converters International Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Cash Converters International Limited (the "Company") and its subsidiaries (the "Group"), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) 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; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

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 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 & 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.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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. These 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.

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Independent auditor's report (continued)

Deloitte.

Key audit matter	How the scope of our audit responded to the Key Audit Matter
<p>Carrying value of non-current assets</p> <p>As disclosed in Notes 3.7 and 3.8, the carrying value of goodwill and other intangible assets as at 30 June 2020 relating to the personal finance and store operations was \$107.0 million and \$11.4 million respectively.</p> <p>Management undertakes impairment testing to test the recoverability of goodwill and intangible assets annually. Additionally, an assessment is made as to whether any non-current asset or cash generating unit ('CGU') may be impaired at balance date.</p> <p>The assessment of the recoverable value requires significant judgement in respect of assumptions and estimates in preparing a value in use model ('VIU') such as:</p> <ul style="list-style-type: none"> • discount rates; • forecast retail growth rates; • forecast loan volumes; • forecast bad debt levels; and • weighted probability scenario's in relation to the uncertainty surrounding the timing of COVID-19 recovery. 	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • evaluating the key controls management has in place in relation to the estimate of the recoverable amount of the personal finance and store operations; • comparing the forecasts used in calculating the recoverable amount to the Board approved business plan; • evaluating the forecasts used in calculating the recoverable amount by reference to recent performance of the business and assessing historical forecasting accuracy; • in conjunction with our valuation specialists we assessed and challenged the assumptions and methodologies used, in particular: <ul style="list-style-type: none"> • our independently determined range of reasonable discount rates was compared to the rates used by management; • we compared forecast loan volumes for personal loans against recent actual levels of lending and the historic growth rates in lending; • we compared forecast bad debt levels for personal loans to historic bad debt levels; • we compared forecast retail and pawn broking revenue growth rates to historic grow rates as well as external data on expected industry growth rates; • evaluating the probability weighted scenarios applied by management for the impacts of COVID-19 and potential legislation changes on future personal loan volumes; • sample testing management's models for mathematical accuracy; and • assessing the appropriateness of the disclosures in the Notes to the financial statements.

Independent auditor's report (continued)



Key audit matter	How the scope of our audit responded to the Key Audit Matter
<p>Allowance for impairment losses – loan receivables</p> <p>As disclosed in Note 3.2, the carrying value of loan receivables as at 30 June 2020 was \$129.6 million, net of allowances for impairment losses of \$30.4 million.</p> <p>The assessment of the recoverable value of loans requires significant judgements in determining the approach for estimating expected credit losses.</p> <p>Management uses an expected credit loss model taking into account the historical losses observed, current conditions of the loan receivables and forecast future economic conditions.</p> <p>Significant judgement has been applied to assess the likely future economic conditions resulting from the COVID-19 pandemic using a macroeconomic model overlay incorporating publicly available forecasts for unemployment rates and probability weighted scenarios focused on the rate of economic recovery.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • evaluating the key controls management have in place in relation to the estimate of the expected credit losses, loan originations, collections and arrears management; • challenging the assumptions and methodology used to determine the timing of recognition of loss events and significant increase in credit risk, probability of default, loss given default and forward-looking information; • assessing the accuracy and completeness of the historical data on a sample basis utilised in the model; • in conjunction with our credit modelling specialists, developing an independent expectation of the allowance for impairment losses based on historical data and forward-looking information; • assessing the impact of COVID-19, including the Melbourne lock down on the loan recovery assumptions; and • assessing the appropriateness of the disclosures in the Notes to the financial statements.

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 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, 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.

Independent auditor's report (continued)

Deloitte.

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 has 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 this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Independent auditor's report (continued)

Deloitte.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 26 to 37 of the Directors' Report for the year ended 30 June 2020.

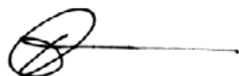
In our opinion, the Remuneration Report of Cash Converters International Limited, for the year ended 30 June 2020, complies with section 300A of the *Corporations Act 2001*.

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.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU



Leanne Karamfiles
Partner
Chartered Accountants
Perth, 27 August 2020

Additional security holder information

As at 21 September 2020

1 Number of holders of equity securities

(a) Distribution of holders of equity securities

	Holders	Fully paid ordinary shares
	Number	Number
1 to 1,000	687	298,888
1,001 to 5,000	1,197	3,356,806
5,001 to 10,000	707	5,541,003
10,001 to 100,000	1,243	41,498,080
100,001 and over	312	565,743,169
	4,146	616,437,946

(b) Voting rights

Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

(c) Less than marketable parcel of shares

The number of shareholders holding less than a marketable parcel is 1,423, given a share price of \$0.165 per share.

(d) Substantial shareholders

Ordinary shareholder	Number of shares	% of issued shares
EZCORP Inc	214,183,714	34.75
Perpetual Limited	60,848,809	9.87
FMR LLC	43,023,094	6.98
Carol Australia Holdings Pty Limited	41,397,986	6.72

2 Twenty largest equity security holders

Ordinary shareholder	Number of shares	% of issued shares
1. EZCORP Inc	214,183,714	34.75
2. HSBC Custody Nominees (Australia) Limited	113,395,106	18.40
3. Citicorp Nominees Pty Limited	40,055,821	6.50
4. JP Morgan Nominees Australia Pty Limited	34,883,267	5.66
5. Sandhurst Trustees Ltd <Collins St Value Fund A/C>	17,042,736	2.76
6. Mrs Lilian Jeanette Warmbrand	6,837,452	1.11
7. National Nominees Limited	6,653,950	1.08
8. Riolane Holdings Pty Ltd <Cumins Super Fund A/C>	6,275,226	1.02
9. Vadina Pty Limited <Jordan Super Fund A/C>	2,863,750	0.46
10. Mr Frederick Benjamin Warmbrand <FB & LJ Warmbrand Super A/C>	2,765,774	0.45
11. Consvest Pty Ltd <The Consvest Super Fund A/C>	2,600,000	0.42
12. Cash Converters Franchisees Association Inc	2,595,040	0.42
13. Acres Holdings Pty Ltd <Noel Edward Kagi Family A/C>	2,500,000	0.41
14. Rocsange Pty Ltd <S Superannuation Fund A/C>	2,500,000	0.41
15. Mr Peter Cumins <Peter Cumins Family A/C>	1,900,468	0.31
16. NCH Pty Ltd	1,705,423	0.28
17. Mr Kamil Umit Yesilyurt	1,700,000	0.28
18. Kamala Holdings Pty Ltd <Kamala 1994 Super Fund A/C>	1,654,896	0.27
19. BNP Paribas Noms Pty Ltd <DRP>	1,651,087	0.27
20. Dorran Pty Ltd	1,500,000	0.24
	465,263,710	75.50



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