

SILVER CHEF LIMITED – IMPACT OF FRAUD EVENT

In accordance with Listing Rule 3.1, this announcement provides:

- details of a material Fraud Event which the Company has recently identified and is currently investigating;
- expectations of FY17 first half earnings in light of additional provisioning required in relation to the Fraud Event; and
- amended earnings guidance for the year ended 30 June 2017 as a result of the Fraud Event.

1. Details of Fraud Event

Silver Chef Limited (“Silver Chef” or “the Company”) has been the victim of a material fraud attack involving fraudulent customers working in conjunction with fraudulent GoGetta equipment vendors (“the Fraud Event”). Due to the complex nature of the fraud, Silver Chef has only just quantified the financial impact of the matter and investigation into the Fraud Event with the assistance of third parties is ongoing. The Company has notified the authorities to assist in pursuing the fraudulent customers and vendors.

The circumstances giving rise to the Fraud Event are complex involving false identity information used by fraudulent customers and equipment vendors across a number of low dollar value contracts. The written down value of rental equipment subject to the fraud is \$3.3 million.

The Company is exploring all options of financial recovery through its investigation process and insurance channels. However, the recovery process is likely to be protracted. The Company will need to fully provide for these losses at 31 December 2016, resulting in a once-off after tax impairment charge of \$2.2 million.

2. General Comments on Fraud

Silver Chef, similar to other financial services companies, operates in an environment where it must constantly improve its systems and processes to guard against the risk of credit application fraud. During Silver Chef's long history, it has periodically experienced incidences of fraud, but nothing on the scale or complexity of the Fraud Event. The increasing incidence of cybercrime, particular on-line identity theft is a significant challenge for our business and the financial services sector as a whole.

VEDA reported in their 2015 Cybercrime and Fraud Report that 58% of all reported credit application fraud arises through falsifying personal details, with 22% from identity takeover. 50% of all reported credit application fraud occurs online which was up 33% on the previous year.

The Company is taking the Fraud Event and the expectation of increasing incidence of attempted credit application fraud and Cybercrime very seriously. This announcement sets out ongoing actions which the Company is implementing to address this risk, but Silver Chef recognises that ongoing attention and innovation is required in order to safe-guard its assets.

3. Enhanced Fraud Protection Measures

3.1 Accelerated roll-out of third party identity verification software

The Company introduced the use of third party bank statement evaluation software in March 2016 as part of its credit approval process in the light commercial channel within the GoGetta business. This software achieves two objectives:

- a) gives insight into customer revenue and expense patterns over the preceding three months, which informs our credit decision making process; and
- b) enables us to verify a customer's identity against an existing bank account, thereby allowing us to rely on the bank's comprehensive "Know Your Client" identity verification processes.

This initiative has been successful in both improving average credit quality in the light commercial channel and identifying customers with identity inconsistencies. The Fraud Event occurred prior to completion of the planned rollout of the software to the entire business.

3.2 Vendor re-accreditation

The Company has commenced an enhanced process to re-accredit all vendors in the GoGetta business. This re-accreditation process involves a GoGetta representative meeting the principal/s of the equipment vendor business at their business premises.

3.3 Increase to Internal Audit resources

The Company has re-allocated personnel between its quality assurance and risk teams to provide a larger pool of resources to undertake internal audit activities including contract settlement reviews and customer/vendor spot audits.

3.4 Re-Evaluate benefits of Fraud/Cyber-Crime Insurable Loss Policy

Silver Chef is currently evaluating the merits of a Fraud/Cyber-Crime Insurable Loss Policy as part of the Company's FY17 insurance program renewal. The Company had previously declined to engage cover of this type based on premium costs. In light of the Fraud Event and the general increase in the risks associated with Cybercrime and on-line identity fraud (discussed in more detail below), the Company is re-evaluating the risk transfer benefits of a dedicated insurance policy.

3.5 Membership of Veda Fraud Focus Group

Silver Chef is a member of the Veda National Financial Fraud Focus Group consisting of around eighty other financial institutions sharing information on known fraud, identity theft and cybercrime. In conjunction with our own identity checking processes, information shared through this group enhances our ability to detect known fraud perpetrators. It enables us to benefit from benchmarking our processes against wider industry practice in the area of fraud and cybercrime prevention.

4. Impact on Half Year Earnings

On the basis that the Company intends to provide for the entire Fraud Event at 31 December 2016, statutory earnings is expected to be in the range of \$4.0 to \$5.0 million after tax, with underlying earnings in the range of \$6.3 to \$7.3 million after tax.

(\$ millions)	31 Dec 2016		31 Dec 2015
	<i>Low</i>	<i>High</i>	<i>Actual</i>
Statutory net profit after income tax	4.0	5.0	10.3
Non-recurring loan note break costs	-	-	1.0
First time impact of deferral accounting	-	-	(3.7)
Provision for Fraud Event	2.3	2.3	-
Underlying net profit after tax	6.3	7.3	7.6

First half underlying earnings is down slightly on the previous corresponding period due to:

- higher provisioning for bad debts and impairments in the GoGetta business as previously announced; and
- period on period changes in overhead cost structure, primarily in respect of salary and wages costs and marketing costs.

5. Impact on Full Year Earnings Guidance

It is Silver Chef's intention to implement strategies to mitigate the financial impact of the Fraud Event. The Company believes it prudent to reduce full year earnings expectations at this time. Consistent with prior years, the Company expects a strong skew to earnings in the second half due to inertia in the rental asset base. Consequently, statutory earnings is expected to be in the range of \$21.0 to \$23.0 million after tax, with underlying earnings in the range of \$23.0 to \$25.0 million after tax.

	30 June 2017		30 June 2016
(\$ millions)	Low	High	Actual
Statutory net profit after income tax	21.0	23.0	22.4
Non-recurring loan note break costs	-	-	1.0
First time impact of deferral accounting	-	-	(3.7)
Provision for Fraud Event	2.3	2.3	-
Underlying net profit after tax	23.3	25.3	19.7

6. General Update on Quarter 1 Performance

The business continues to perform in line with expectations during quarter 1 of FY17. Acquisition and origination targets are being achieved across both the Silver Chef and GoGetta brands and the Company's expansion strategy in Canada is being executed in line with plan. The overall credit quality of the GoGetta customer base continues to improve based on changes to our underwriting policy and deal approval processes.

Enquiries to:

Damien Guivarra
Chief Executive Officer
(07) 3335 3300

Doug McAlpine
Chief Financial Officer
(07) 3335 3300

About Silver Chef

Silver Chef was established in 1986 to help businesses fund their equipment needs through the Rent-Try-Buy® and Rent-Grow-Own® Solutions. This keeps their options open and preserves their cash to grow their business.

Silver Chef Limited is an Australian Securities Exchange-listed company (ASX Code: SIV) focused on rentals of commercial equipment to small-to-medium enterprise. The Company has operations in Australia, New Zealand and Canada and operates under two brands: Silver Chef – hospitality assets and GoGetta – broader commercial equipment.

Silver Chef Limited

Park Tower, 20 Pidgeon Cl, West End Q 4101
PO Box 1760 Milton BC Q 4064
ABN 28 011 045 828

P 07 3335 3300
F 07 3335 3399
E admin@silverchef.com.au