

21 February 2020



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Market Announcements Office  
ASX Limited  
Exchange Centre  
20 Bridge Street  
SYDNEY NSW 2000

Dear Sir/Madam

**AUSTRALIAN FINANCE GROUP LTD ANNOUNCES 1H FY20 RESULTS**

Please refer to the following information in relation to Australian Finance Group Ltd's (ASX: AFG) half year results for the six months ended 31 December 2019.

- Part 1: Appendix 4D and half year 2020 financial report.
- Part 2: Appendix 3A.1: notification of dividend.
- Part 3: 1H FY20 results investor presentation.
- Part 4: 1H FY20 results market release.

David Bailey, Chief Executive Officer and Ben Jenkins, Chief Financial Officer, will give a presentation to analysts and investors via a conference call at 11:00am (AEDT) today.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'Lisa Bevan', is positioned above the typed name.

**LISA BEVAN**  
Company Secretary

**CONTACT DETAILS**

**Alison Clarke**, AFG Head of Corporate Communications  
**David Bailey**, CEO

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**Australian Finance Group Limited**

**ABN 11 066 385 822**

**Half-year Report and Appendix 4D**

**for the half-year ended 31 December 2019**

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Australian Finance Group Limited  
Half-year Report and Appendix 4D  
For the half-year ended 31 December 2019

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### Half-year Report

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This half-year financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by Australian Finance Group Limited during the half-year reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

# Australian Finance Group Limited

## Appendix 4D (ASX Listing Rules 4.2A)

### Half-year Report for the Period ending 31 December 2019

Reporting period is the half-year ended 31 December 2019 with the previous corresponding period to 31 December 2018.

#### Results for announcement to the market

|   | 31 December<br>2019<br>\$'000 | 31 December<br>2018<br>\$'000 | Increase /<br>(Decrease)<br>\$'000 | % change |
|---|-------------------------------|-------------------------------|------------------------------------|----------|
| <b>Revenue from continuing operations</b>                             | 324,905                       | 314,573                       | 10,332                             | 3.3%     |
| <b>Profit after tax attributable to equity holders of the Company</b> | 18,348                        | 16,686                        | 1,662                              | 10.0%    |
| <b>Net profit for the period</b>                                      | 18,348                        | 16,686                        | 1,662                              | 10.0%    |
| <b>Underlying results from continuing operations</b>                  | 17,670                        | 14,715                        | 2,955                              | 20.0%    |

|   |         |         |        |        |
|---|---------|---------|--------|--------|
| <b>Net tangible asset backing per ordinary security ("NTA") (Cents)</b>   | (383.5) | (373.5) | (10.0) | (2.7%) |
| <b>Net tangible asset backing per ordinary security ("NTA") including Trail book contract asset (Cents)<sup>1</sup></b> | 47.3    | 45.3    | 2.0    | 4.4%   |

<sup>1</sup> In line with ASIC guidance NTA is shown without the inclusion of the trail book asset (contract asset). However, given the significant value of the trail book and its interrelationship with the trail book liability, NTA including the trail book asset has also been calculated and disclosed for both the current period to 31 December 2019 and the prior period to 31 December 2018.

| <b>Dividends</b>   | <b>Amount per security</b> | <b>Franked Amount per security</b> |
|--|----------------------------|------------------------------------|
| Interim dividend   | 5.4 cents                  | 100%                               |
| Previous corresponding period interim dividend                   | 4.7 cents                  | 100%                               |
| Record date for determining entitlements to the interim dividend | 3 March 2020               |                                    |
| Date the interim dividend is payable                             | 26 March 2020              |                                    |

Further results commentary and other significant information needed by an investor to make an informed assessment of our results are included in the accompanying half-year report.

This report is based on the consolidated half-year report which has been subject to a review by an independent auditor, Ernst & Young.

# Australian Finance Group Limited

## Directors' report

### For the half-year ended 31 December 2019

The Directors submit the consolidated financial report of Australian Finance Group Limited ('the Company'), and its controlled entities ('the Group'), for the half-year ended 31 December 2019 and the auditor's report thereon.

#### Directors

The names of the Directors of the Company at any time during or since the end of the half-year are:

##### Name

|  |                   |
|--|-------------------|
| Mr Tony Gill   | Mr Craig Carter   |
| Mr Brett McKeon  | Ms Melanie Kiely  |
| Mr Malcolm Watkins                                     | Ms Jane Muirsmith |
| Mr Kevin Matthews (resigned effective 28 October 2019) |                   |

The above-named Directors held office during the half-year.

#### Financial results

For the half-year ended 31 December 2019 the Group recorded a net profit after tax of \$18,348k recording an increase of 10.0% over the same period in 2018.

#### Review and results of operations

Revenue is up 3.3% to \$324,905k (2018: \$314,573k) as a result of revenue from the AFG Home Loans (AFGHL) segment, particularly AFG Securities, being up 19.3% on prior period.

Profit after income tax for the half-year ended 31 December 2019 was up 10.0% on the prior comparative period at \$18,348k (2018: \$16,686k). Underlying results from continuing operations were up 20.0% when compared to the prior comparative period at \$17,670k (2018: \$14,715k). The increase in profit was attributable to the following:

- Securitisation programme interest income being up 33% to \$44.4M (2018: \$33.4M) and the loan book increasing 51% to \$2.51B (2018: \$1.66B);
- AFGHL loan book increased \$1.4B (16.7%) to \$9.8B (2018: \$8.4B);
- Increased residential trail book of \$7.8B to \$151.7B (2018: \$143.9B).

Net cash flows from operating activities increased 34.8% to \$16,866k (2018: \$12,513k) driven by profit growth due to increased interest income compared to prior period.

The Directors are satisfied that the Group's ability to continue as a going concern will continue to be appropriate.

# Australian Finance Group Limited

## Directors' report

### For the half-year ended 31 December 2019

#### Non – IFRS financial information

The carrying value of our residential, commercial and AFGHL white label trail books are influenced amongst other things by the runoff and discount rates that are applied to these valuations. Excluding the non-cash entries to recognise the net present value of the future trailing commission receivable and payable, the underlying profit after tax increased by 20.0% to \$17,670k (31 December 2018: \$14,715k). The assessment of the trail loan book requires the use of assumptions which are determined by management, using a variety of inputs including external actuarial analysis of historical information, by reference to market observable inputs.

The following table reconciles the underlying earnings to the reported profit before tax for the period in accordance with Australian Accounting Standards:

|   | 31 December 2019           |                            | 31 December 2018           |                            |
|---|----------------------------|----------------------------|----------------------------|----------------------------|
|   | Operating income<br>\$'000 | Profit After Tax<br>\$'000 | Operating income<br>\$'000 | Profit After Tax<br>\$'000 |
| Underlying results from continuing operations                                 | 296,988                    | 17,670                     | 279,374                    | 14,715                     |
| Change in the present value of contract asset and trailing commission payable | 27,917                     | 678                        | 35,199                     | 1,971                      |
| Total result from continuing operations                                       | 324,905                    | 18,348                     | 314,573                    | 16,686                     |

The impact of the change in the present value of the contract asset (31 Dec 2019 \$927,644k and 30 June 2019 \$899,727k) and trailing commission payable (31 Dec 2019 \$833,763k and 30 June 2019 \$806,813k) on the profit after tax have been shown net as this illustrates the results excluding the movement in the trail book.

#### Auditor's independence declaration

The auditor's independence declaration is included on page 20 of the half-year report.

#### Rounding

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) and where noted (\$'000) under the option available to the Company under ASIC Corporations Instrument 2016/191. The Company is an entity to which the class order applies.

This report is signed in accordance with a resolution of the Directors.

On behalf of the Directors



Tony Gill  
Chairman

Dated at Perth, this 20 February, 2020

Australian Finance Group Limited  
Consolidated Statement of Financial Position  
As at 31 December 2019

*In thousands of AUD*

|                               | Note    | 31 December 2019 | 30 June 2019     |
|-------------------------------|---------|------------------|------------------|
| <b>Assets</b>                 |         |                  |                  |
| Cash and cash equivalents     | 4 (iii) | 116,636          | 96,818           |
| Trade and other receivables   |         | 6,668            | 5,415            |
| Contract Assets               |         | 927,644          | 899,727          |
| Loans and advances            |         | 2,514,331        | 2,072,004        |
| Right of use asset            |         | 7,098            | -                |
| Investment in associate       |         | 15,868           | 14,341           |
| Property, plant and equipment |         | 659              | 849              |
| Intangible assets             |         | 2,141            | 806              |
| <b>Total assets</b>           |         | <b>3,591,045</b> | <b>3,089,960</b> |
| <b>Liabilities</b>            |         |                  |                  |
| Trade and other payables      |         | 904,749          | 874,076          |
| Interest-bearing liabilities  |         | 2,531,745        | 2,073,772        |
| Employee benefits             |         | 4,347            | 5,234            |
| Current tax payable           |         | 3,191            | 2,808            |
| Lease liability               |         | 7,223            | -                |
| Contract liability            |         | 3,792            | 4,296            |
| Provisions                    |         | 2,989            | 3,129            |
| Deferred tax liability        |         | 21,992           | 21,823           |
| <b>Total liabilities</b>      |         | <b>3,480,028</b> | <b>2,985,138</b> |
| <b>Net assets</b>             |         | <b>111,017</b>   | <b>104,822</b>   |
| <b>Equity</b>                 |         |                  |                  |
| Share capital                 |         | 43,541           | 43,541           |
| Share-based payment reserve   |         | 2,193            | 1,630            |
| Other capital reserves        |         | (93)             | (96)             |
| Retained earnings             |         | 65,376           | 59,747           |
| <b>Total equity</b>           |         | <b>111,017</b>   | <b>104,822</b>   |

*The Consolidated Statement of Financial Position should be read in conjunction with the Notes to the financial statements.*

# Australian Finance Group Limited

## Consolidated Statement of Profit or Loss and Other Comprehensive Income

### For the half-year ended 31 December 2019

In thousands of AUD

|  | Note   | 31 December 2019 | 31 December 2018 |
|--|--------|------------------|------------------|
| <b>Continuing Operations</b>   |        |                  |                  |
| Commission and other income  | 4 (i)  | 280,537          | 281,178          |
| Securitisation interest income   |        | 44,368           | 33,395           |
| <b>Operating income</b>  |        | <b>324,905</b>   | <b>314,573</b>   |
| Commission and other cost of sales                                       |        | (254,939)        | (253,031)        |
| Securitisation interest expense  |        | (27,150)         | (24,859)         |
| <b>Gross profit</b>  |        | <b>42,816</b>    | <b>36,683</b>    |
| Other income   |        | 8,595            | 9,151            |
| Administration expenses  |        | (2,801)          | (2,434)          |
| Other expenses   | 4 (ii) | (24,446)         | (21,616)         |
| <b>Results from operating activities</b>                                 |        | <b>24,164</b>    | <b>21,784</b>    |
| Finance income   |        | 776              | 1,042            |
| Share of profit of an associate  |        | 1,147            | 921              |
| <b>Net finance income</b>  |        | <b>1,923</b>     | <b>1,963</b>     |
| <b>Profit before tax from continuing operations</b>                      |        | <b>26,087</b>    | <b>23,747</b>    |
| Income tax expense   |        | (7,739)          | (7,061)          |
| <b>Profit for the period</b>   |        | <b>18,348</b>    | <b>16,686</b>    |
| <b>Other comprehensive income</b>  |        |                  |                  |
| <b>Items that may not be reclassified subsequently to profit or loss</b> |        |                  |                  |
| Net fair value change on equity investments designated at FVOCI          |        | 3                | (7)              |
| <b>Total comprehensive income for the period</b>                         |        | <b>18,351</b>    | <b>16,679</b>    |
| <b>Profit attributable to:</b>   |        |                  |                  |
| Equity holders of the Company  |        | 18,348           | 16,686           |
| <b>Profit for the period</b>   |        | <b>18,348</b>    | <b>16,686</b>    |
| <b>Total comprehensive income for the period attributable to:</b>        |        |                  |                  |
| Equity holders of the Company  |        | 18,348           | 16,686           |
| <b>Total comprehensive income for the period</b>                         |        | <b>18,348</b>    | <b>16,686</b>    |
| <b>Earnings per share</b>  |        |                  |                  |
| Basic earnings per share (cents per share)                               |        | 8.52             | 7.77             |
| Diluted earnings per share (cents per share)                             |        | 8.42             | 7.74             |

The Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the Notes to the financial statements.



# Australian Finance Group Limited

## Consolidated Statement of Changes in Equity

### For the half-year ended 31 December 2019

*In thousands of AUD*

|  | Share capital | Foreign currency translation reserve | Fair value reserve | Share-based payment reserve | Retained earnings | Total equity   |
|--|---------------|--------------------------------------|--------------------|-----------------------------|-------------------|----------------|
| Balance at 1 July 2019                                       | 43,541        | (14)                                 | (82)               | 1,630                       | 59,747            | 104,822        |
| <b>Total comprehensive income for the period</b>             |               |                                      |                    |                             |                   |                |
| Profit   | -             | -                                    | -                  | -                           | 18,348            | 18,348         |
| Other comprehensive income                                   | -             | -                                    | 3                  | -                           | -                 | 3              |
| Total comprehensive income for the period                    | -             | -                                    | 3                  | -                           | 18,348            | 18,351         |
| <b>Transactions with owners, recorded directly in equity</b> |               |                                      |                    |                             |                   |                |
| Dividends to equity holders                                  | -             | -                                    | -                  | -                           | (12,719)          | (12,719)       |
| Share-based payment transactions                             | -             | -                                    | -                  | 563                         | -                 | 563            |
| Total transactions with owners                               | -             | -                                    | -                  | 563                         | (12,719)          | (12,156)       |
| <b>Balance at 31 December 2019</b>                           | <b>43,541</b> | <b>(14)</b>                          | <b>(79)</b>        | <b>2,193</b>                | <b>65,376</b>     | <b>111,017</b> |
| Balance at 1 July 2018                                       | 43,541        | (14)                                 | (73)               | 814                         | 49,056            | 93,324         |
| <b>Total comprehensive income for the period</b>             |               |                                      |                    |                             |                   |                |
| Profit   | -             | -                                    | -                  | -                           | 16,686            | 16,686         |
| Other comprehensive income                                   | -             | -                                    | (7)                | -                           | -                 | (7)            |
| Total comprehensive income for the period                    | -             | -                                    | (7)                | -                           | 16,686            | 16,679         |
| <b>Transactions with owners, recorded directly in equity</b> |               |                                      |                    |                             |                   |                |
| Dividends to equity holders                                  | -             | -                                    | -                  | -                           | (12,243)          | (12,243)       |
| Share-based payment transactions                             | -             | -                                    | -                  | 319                         | -                 | 319            |
| Total transactions with owners                               | -             | -                                    | -                  | 319                         | (12,243)          | (11,924)       |
| <b>Balance at 31 December 2018</b>                           | <b>43,541</b> | <b>(14)</b>                          | <b>(80)</b>        | <b>1,133</b>                | <b>53,499</b>     | <b>98,079</b>  |

*The Consolidated Statement of Changes in Equity should be read in conjunction with the Notes to the financial statements.*

Australian Finance Group Limited  
Consolidated Statement of Cashflows  
For the half-year ended 31 December 2019

*In thousands of AUD*

|  | Note    | 31 December 2019 | 31 December 2018 |
|--|---------|------------------|------------------|
| <b>Cash flows from operating activities</b>                  |         |                  |                  |
| Cash receipts from customers                                 |         | 253,629          | 246,824          |
| Cash paid to suppliers and employees                         |         | (246,794)        | (235,703)        |
| Interest received  |         | 44,368           | 33,395           |
| Interest paid  |         | (27,150)         | (24,859)         |
| Income taxes paid  |         | (7,187)          | (7,144)          |
| <b>Net cash from operating activities</b>                    |         | <b>16,866</b>    | <b>12,513</b>    |
| <b>Cash flows from investing activities</b>                  |         |                  |                  |
| Interest received  |         | 776              | 1,042            |
| Acquisition of property, plant and equipment                 |         | (1,637)          | (111)            |
| Investment in associate                                      |         | (379)            | -                |
| Decrease in other loans and advances                         |         | 1,533            | 212              |
| Loans advanced to borrowers                                  |         | (441,706)        | (284,509)        |
| <b>Net cash used in investing activities</b>                 |         | <b>(441,413)</b> | <b>(283,366)</b> |
| <b>Cash flows used in financing activities</b>               |         |                  |                  |
| Proceeds from/(repayments to) warehouse facility             |         | 119,350          | 404,024          |
| Proceeds from/(repayments) to securitised funding facilities |         | 338,624          | (117,455)        |
| Lease rental payment   |         | (890)            | -                |
| Decrease in loans from funders                               |         | -                | (15)             |
| Dividends paid   |         | (12,719)         | (12,244)         |
| <b>Net cash generated by financing activities</b>            |         | <b>444,365</b>   | <b>274,310</b>   |
| Net increase in cash and cash equivalents                    |         | 19,818           | 3,457            |
| Cash and cash equivalents at the beginning of the period     |         | 96,818           | 88,710           |
| <b>Cash and cash equivalents at the end of the period</b>    | 4 (iii) | <b>116,636</b>   | <b>92,167</b>    |

*The Consolidated Statement of Cash Flows should be read in conjunction with the Notes to the financial statements.*

# Australian Finance Group Limited

## Notes to the Financial Statements

### For the half-year ended 31 December 2019

#### 1. Reporting entity

The consolidated financial statements for the half-year ended 31 December 2019 comprise of Australian Finance Group Limited (the 'Company'), which is a for profit entity and a company domiciled in Australia and its subsidiaries (together referred to as the 'Group') and the Group's interest in associates and jointly controlled entities. The Group's principal activities in the course of the reporting period were mortgage origination and lending. The Company's principal place of business is 100 Havelock Street, West Perth, Western Australia.

#### 2. Basis of preparation and significant accounting policies

##### (a) Statement of compliance

The half-year report is a general-purpose financial report which has been prepared in accordance with AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The half-year report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report.

##### (b) Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis except for the following material items:

- Payables relating to trailing commission are initially measured at fair value and subsequently at amortised cost;
- Contract assets relating to trailing commission are measured using expected value method;
- Financial instruments at fair value through profit or loss are measured at fair value; and
- Non-traded equity investments have been designated at fair value through other comprehensive income.

All amounts are presented in Australian dollars ("AUD"), unless otherwise noted.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000's) unless otherwise stated.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's 2019 annual financial report for the financial year ended 30 June 2019, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

##### (c) Significant accounting policies

###### (i) Adoption of new and revised Accounting Standards

New and revised Standards and amendments thereof and interpretations effective for the current half-year that are relevant to the Group include:

- AASB 16 Leases
- AASB 2017-6 Amendments to Australian Accounting Standards – Prepayment Features with negative compensation
- AASB 2017-7 Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures
- AASB 2018-1 Amendments to Australian Accounting Standards – Annual Improvements 2015-2017 cycle
- AASB 2018-2 Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement
- AASB Interpretation 23 and relevant amending standards – Uncertainty over income tax treatments. The Group does not have any uncertain tax positions as at 31 December 2019.

# Australian Finance Group Limited

## Notes to the Financial Statements

### For the half-year ended 31 December 2019

## 2. Basis of preparation and significant accounting policies (continued)

### (c) Significant accounting policies (continued)

#### (ii) Adoption of new and revised Accounting Standards (continued)

##### AASB 16 Leases

In the context of the transition to AASB 16, right of use assets of \$6.8M and lease liabilities of \$6.8M were recognised as at 1 July 2019. The Group transitioned to AASB 16 in accordance with the modified retrospective approach. The prior year figures were not adjusted. As part of the application of AASB 16, the Group chooses to apply the option to adjust the right of use asset by the amount of any provision for onerous leases recognised in the balance sheet immediately before the date of initial application.

The following reconciliation to the opening balance for the lease liabilities as at 1 July 2019 is based upon the operating lease obligations as at 30 June 2019:

| <i>In thousands of AUD</i>   | \$'000       |
|--|--------------|
| <b>Operating lease obligations at 30 June 2019</b>                     | <b>9,175</b> |
| Lease obligations relating to new lease entered into after 1 July 2019 | (1,347)      |
| <b>Gross operating lease liabilities at 1 July 2019</b>                | <b>7,828</b> |
| Discounting  | (1,022)      |
| <b>Lease liabilities at 1 July 2019</b>                                | <b>6,806</b> |

The lease liabilities were discounted at the incremental borrowing rate as at 1 July 2019. The weighted average incremental borrowing rate was 5%. Non lease components have been included in future cashflows.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics.

#### (iii) Summary of new accounting policies

##### 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 measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

##### Lease Liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of 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.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Australian Finance Group Limited  
Notes to the Financial Statements  
For the half-year ended 31 December 2019

**2. Basis of preparation and significant accounting policies (continued)**

**(c) Significant accounting policies (continued)**

**(iv) Accounting Standards and Interpretations issued but not yet effective**

| <b>(v) Affected Standards and Interpretations</b>  | <b>Application date</b> | <b>Application date for Group</b> |
|--|-------------------------|-----------------------------------|
| AASB 2019-1 Amendments to Australian Accounting Standards – Reference to the Conceptual Framework  | 1 January 2020          | 30 June 2021                      |
| AASB 2018-6 Amendments to Australian Accounting Standards – Definition of a Business   | 1 January 2020          | 30 June 2021                      |
| AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material   | 1 January 2020          | 30 June 2021                      |
| AASB 17 – Insurance Contracts  | 1 January 2021          | 30 June 2022                      |
| AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an investor and its Associate or Joint Venture | 1 January 2022          | 30 June 2023                      |

**3. Segment information**

AASB 8 requires operating segments to be identified on the basis of internal reports about business activities in which the Group is engaged and that are regularly received by the chief operating decision maker, the Board of Directors, in order to allocate resources to the segment and to assess its performance.

The Group has identified two reportable segments based on the nature of the products and services, the type of customers for those products and services, the processes followed to produce, the method used to distribute those products and services and the similarity of their economic characteristics.

The following summary describes the operations in each of the Group's reportable segments:

**AFG Wholesale Mortgage Broking**

The mortgage broking segment refers to the operating activities in which the Group acts as a wholesale mortgage broker that provides its contracted brokers with administrative and infrastructure support as well as access to a panel of lenders.

The Group receives two types of commission payments on loans originated through its network, as described below:

Upfront commissions on settled loans - Upfront commissions are received by the Group from lenders as a percentage of the total amount borrowed. Once a loan settles, the Group receives a one-off payment linked to the total amount borrowed as an upfront commission, a large portion of which is then paid by the Group to the originating broker.

Trail commissions on the loan book - Trail commissions are received by the Group from lenders over the life of the loan (if it is in good order and not in default), as a percentage of the particular loan's outstanding balance. The trail book represents the aggregate of mortgages outstanding that have been originated by the Group's brokers and are generating trail income.

Australian Finance Group Limited  
Notes to the Financial Statements  
For the half-year ended 31 December 2019

**3. Segment information (continued)**

**AFG Home Loans (AFGHL)**

AFGHL offers the Group's branded mortgage products, funded by third party wholesale funding providers (white label products) and AFG Securities mortgages (Securitised loans issued by AFG Securities Pty Ltd) that are distributed through the Group's broker network. AFGHL sits on the Group's panel of lenders alongside the other Lenders and competes with them for home loan customers. The segment earns fees for services, largely in the form of upfront and trail commissions, and net interest margin on its securitisation programme.

Segment results that are reported to the Board of Directors include items directly attributable to the relevant segment as well as those that can be allocated on a reasonable basis. Other/unallocated items are comprised mainly of other operating activities from which the Group earns revenues and incurs expenses that are not required to be reported separately since they don't meet the quantitative thresholds prescribed by AASB 8 or are not managed separately and include corporate and taxation overheads, assets and liabilities.

Information regarding the results of each reportable segment is included below.

Performance is measured based on segment profit before tax, as included in the internal management reports that are reviewed by the Board of Directors.

**Half-year ended 31 December 2019**

|   | <b>AFG Wholesale<br/>Mortgage Broking</b> | <b>AFG Home Loans</b> | <b>Other / Unallocated</b> | <b>Total</b>     |
|---|---|-----------------------|----------------------------|------------------|
| <i>In thousands of AUD</i>              |   |                       |                            |                  |
| <b>Continuing operations</b>            |   |                       |                            |                  |
| <b>Revenue</b>                          |   |                       |                            |                  |
| External customers                      | 261,929                                   | 62,233                | 743                        | 324,905          |
| Inter-segment                           | 18,719                                    | -                     | (18,719)                   | -                |
| Other operating income                  | 3,303                                     | -                     | 5,292                      | 8,595            |
| Interest income                         | -   | 60                    | 716                        | 776              |
| <b>Total segment revenue</b>            | <b>283,951</b>                            | <b>62,293</b>         | <b>(11,968)</b>            | <b>334,276</b>   |
| Timing of revenue recognition           |   |                       |                            |                  |
| At a point in time                      | 283,951                                   | 17,380                | (17,261)                   | 284,070          |
| Over time                               | -   | 44,913                | 5,293                      | 50,206           |
| <b>Results</b>                          |   |                       |                            |                  |
| Segment profit/(loss) before income tax | 16,095                                    | 13,622                | (3,630)                    | 26,087           |
| Income tax expense                      |   |                       |                            | (7,739)          |
| <b>Net profit after tax</b>             |   |                       |                            | <b>18,348</b>    |
| <b>Assets and Liabilities</b>           |   |                       |                            |                  |
| Total segment assets                    | <b>917,370</b>                            | <b>2,640,360</b>      | <b>33,315</b>              | <b>3,591,045</b> |
| Total segment liabilities               | <b>895,982</b>                            | <b>2,576,242</b>      | <b>7,984</b>               | <b>3,480,028</b> |
| <b>Other segment information</b>        |   |                       |                            |                  |
| Depreciation and amortisation           | (49)                                      | (10)                  | (1,261)                    | (1,320)          |

Australian Finance Group Limited  
Notes to the Financial Statements  
For the half-year ended 31 December 2019

**3. Segment information (continued)**

Half-year ended 31 December 2018

|   | AFG Wholesale<br>Mortgage Broking | AFG Home Loans   | Other / Unallocated | Total            |
|---|-----------------------------------|------------------|---------------------|------------------|
| <i>In thousands of AUD</i>              |                                   |                  |                     |                  |
| <b>Continuing operations</b>            |                                   |                  |                     |                  |
| <b>Revenue</b>                          |                                   |                  |                     |                  |
| External customers                      | 261,810                           | 52,172           | 591                 | 314,573          |
| Inter-segment                           | 16,305                            | -                | (16,305)            | -                |
| Other operating income                  | 3,588                             | -                | 5,563               | 9,151            |
| Interest income                         | -                                 | 7                | 1,035               | 1,042            |
| <b>Total segment revenue</b>            | <b>281,703</b>                    | <b>52,179</b>    | <b>(9,116)</b>      | <b>324,766</b>   |
| Timing of revenue recognition           |                                   |                  |                     |                  |
| At a point in time                      | 281,703                           | 18,412           | (14,642)            | 285,473          |
| Overtime                                | -                                 | 33,767           | 5,526               | 39,293           |
| <b>Results</b>                          |                                   |                  |                     |                  |
| Segment profit/(loss) before income tax | 16,513                            | 8,272            | (1,038)             | 23,747           |
| Income tax expense                      |                                   |                  |                     | (7,061)          |
| <b>Net profit after tax</b>             |                                   |                  |                     | <b>16,686</b>    |
| <b>Assets and Liabilities</b>           |                                   |                  |                     |                  |
| <b>Total segment assets</b>             | <b>823,409</b>                    | <b>1,767,595</b> | <b>26,803</b>       | <b>2,617,807</b> |
| <b>Total segment liabilities</b>        | <b>810,767</b>                    | <b>1,705,366</b> | <b>3,595</b>        | <b>2,519,728</b> |
| <b>Other segment information</b>        |                                   |                  |                     |                  |
| Depreciation and amortisation           | (76)                              | (11)             | (439)               | (526)            |

Australian Finance Group Limited  
Notes to the Financial Statements  
For the half-year ended 31 December 2019

4. Results for the period

(i) Revenue

*In thousands of AUD*

**Commission and other income**

*At a point in time*

Commissions

Securitisation transaction fees

*Over time*

Interest on commission income receivable

Mortgage management services

Securitisation transaction fees

|  | 31 December 2019 | 31 December 2018 |
|--|------------------|------------------|
|  |                  |                  |
|  |                  |                  |
|  | 250,971          | 253,647          |
|  | 865              | 417              |
|  |                  |                  |
|  | 28,156           | 26,741           |
|  | 140              | 103              |
|  | 405              | 270              |
|  | <b>280,537</b>   | <b>281,178</b>   |

(ii) Expenses

*In thousands of AUD*

**Other expenses**

Advertising and promotion

Consultancy and professional fees

Information technology

Occupancy costs

Employee costs

Depreciation and amortisation

Operating lease costs

Impairment loss on loans and advances

|  | 31 December 2019 | 31 December 2018 |
|--|------------------|------------------|
|  |                  |                  |
|  | (3,142)          | (3,099)          |
|  | (2,064)          | (1,007)          |
|  | (2,267)          | (1,581)          |
|  | (84)             | (216)            |
|  | (15,128)         | (14,254)         |
|  | (1,320)          | (526)            |
|  | (17)             | (826)            |
|  | (424)            | (107)            |
|  | <b>(24,446)</b>  | <b>(21,616)</b>  |

(iii) Cash and cash equivalents

*In thousands of AUD*

Cash at bank

Short term deposits

**Unrestricted cash**

Cash collections accounts<sup>1</sup>

Restricted cash<sup>2</sup>

**Restricted cash**

**Cash and cash equivalents**

**Cash and cash equivalents in the Statement of Cash Flows**

|  | 31 December 2019 | 30 June 2019  |
|--|------------------|---------------|
|  | 48,063           | 48,297        |
|  | 2,349            | 1,276         |
|  | <b>50,412</b>    | <b>49,573</b> |
|  |                  |               |
|  | 56,804           | 30,611        |
|  | 9,420            | 16,634        |
|  | <b>66,224</b>    | <b>47,245</b> |
|  |                  |               |
|  | <b>116,636</b>   | <b>96,818</b> |
|  |                  |               |
|  | <b>116,636</b>   | <b>96,818</b> |

- 1) Discloses amounts held in the special purpose securitised trusts and series on behalf of the warehouse funder and the bondholders.
- 2) Discloses cash collateralised standby letter of credit, liquidity reserve account and cash provided in trust by the warehouse providers to fund pending settlements.



Australian Finance Group Limited  
Notes to the Financial Statements  
For the half-year ended 31 December 2019

## 5. Dividends

|                                  | Half-year ended<br>31 December 2019 |              | Half-year ended<br>31 December 2018 |              |
|----------------------------------|-------------------------------------|--------------|-------------------------------------|--------------|
|                                  | Cents per<br>share                  | Total \$'000 | Cents per<br>share                  | Total \$'000 |
| <b>Unrecognised amounts</b>      |                                     |              |                                     |              |
| Interim dividend - fully franked | 5.4                                 | 11,640       | 4.7                                 | 10,096       |

## 6. Key management personnel

Remuneration arrangements of key management personnel are disclosed in the annual financial report. During the half-year there were no changes in the key management personnel remuneration structure.

## 7. Financial instruments

### Accounting classifications and fair values

#### Fair value hierarchy

The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

#### Fair value of financial assets and liabilities that are not measured at fair value (but fair value disclosures are required)

The table below reflects the fair value of the trail commission payable, non-current loans and advances and non-current securitised funding facilities. The carrying amount of all the other financial assets and liabilities recognised in the Statement of Financial Position approximate their fair value due to their short-term nature.

| <i>In thousands of AUD</i>                      | 31 December 2019   |            | 30 June 2019       |            |
|---|--------------------|------------|--------------------|------------|
|   | Carrying<br>amount | Fair value | Carrying<br>amount | Fair value |
| <b>Financial assets</b>                         |                    |            |                    |            |
| Non-current loans and advances                  | 2,108,433          | 2,101,750  | 1,717,244          | 1,711,854  |
| <b>Financial liabilities</b>                    |                    |            |                    |            |
| Future Trailing commission payable <sup>1</sup> | 833,763            | 851,540    | 806,813            | 826,777    |
| Non-current securitised funding facilities      | 1,216,897          | 1,213,010  | 919,606            | 916,687    |

# Australian Finance Group Limited

## Notes to the Financial Statements

### For the half-year ended 31 December 2019

#### 7. Financial instruments (continued)

##### Loans and advances

The fair values of loans and advances are estimated using a discounted cash flow analysis, based on current lending rates for similar types of lending arrangements ranging from 3.5% to 5.3%.

For the purpose of fair value disclosure under AASB 13 Fair Value Measurement, the loans and advances would be categorised as a level 3 asset where the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

##### Future Trailing commission payable

Trailing commissions are received from lenders on settled loans over the life of the loan based on the loan book balance outstanding if the respective loans are in good order and not in default. The Group is entitled to the trailing commissions without having to perform further services. The Group also makes trailing commission payments to Members when trailing commission is received from lenders. Trail commissions are actuarially assessed on future cashflow based on a number of assumptions including estimated loan life, discount rate, payout ratio and income rate.

The trail commission assets and liabilities at 31 December 2019 relate to the Residential, Commercial and the AFGHL white label loan books.

The movement in the future trail commission balances for the period are mostly attributable to the growth of the respective trail books over the financial year as opposed to any significant changes in the assumptions applied.

The fair value of trailing commission contract asset from lenders and the corresponding payable to members is determined by using a discounted cash flow valuation. These calculations require the use of assumptions which are determined by management, reviewed by external actuaries, by reference to market observable inputs. The valuation is classified as level 3 in the fair value measurement hierarchy.

The key assumptions underlying the carrying value calculations of trailing commission receivable and the corresponding payable to members at the reporting date is summarised in the following table:

|                            | 31 December 2019          | 30 June 2019              |
|----------------------------|---------------------------|---------------------------|
| Average loan life          | Between 3.2 and 5.1 years | Between 3.2 and 5.1 years |
| Discount rate per annum    | Between 5% and 13.5%      | Between 5% and 13.5%      |
| Percentage paid to brokers | Between 85% and 94%       | Between 85% and 93.8%     |

<sup>1</sup> Note 5% discount rate applied to the Fair value calculations. Run off rate and pay out percentage remain consistent with the carrying value calculation assumptions.

##### Securitised funding facilities

The fair values of securitised funding facilities are estimated using discounted cash flow analysis, based on current borrowing rates for similar types of borrowing arrangements ranging from 2.1% to 2.3%.

For the purposes of fair value disclosure under AASB 13 Fair Value Measurement, the subordinated notes would be categorised as a level 3 liability where the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

# Australian Finance Group Limited

## Notes to the Financial Statements

### For the half-year ended 31 December 2019

#### 8. Earnings per share (EPS)

Basic EPS amounts are calculated by dividing the profit for the period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS amounts are calculated by dividing the profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares during the period plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects in the income and share data used in the basic and dilutive EPS computations:

| <i>In thousands of AUD</i>   | <b>31 December 2019</b> | <b>31 December 2018</b> |
|--|-------------------------|-------------------------|
| <b>Profit attributable to ordinary equity holders of the Company</b>           | 18,348                  | 16,686                  |
|  | Thousands               | Thousands               |
| Weighted average number of ordinary shares for basic EPS (thousands)           | 215,358                 | 214,813                 |
| Effect of dilution:  |                         |                         |
| Performance rights   | 1,300                   | 709                     |
| Weighted average number of ordinary shares adjusted for the effect of dilution | 216,658                 | 215,522                 |

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these financial statements.

#### 9. Subsequent events

On 12 February 2020, the ACCC released a Statement of Issues (SOI) regarding the proposed AFG merger with Connective. The SOI seeks industry views and further information on certain competition issues that have arisen from the ACCC's market inquiries to date. The SOI is not a final decision. It provides the ACCC's preliminary views on the proposed acquisition. AFG will continue to work with the ACCC and Connective to progress the proposed transaction through the ACCC process and is confident the issues raised can be addressed to the satisfaction of the ACCC.

On 20 February 2020, the Directors recommended the payment of an interim dividend of 5.4 cents fully franked based on tax paid at 30%. The interim dividends have a record date of 3 March 2020 and a payment date of 26 March 2020. The aggregate amount of the proposed dividend expected to be paid out of retained earnings at 31 December 2019 is \$11,640k. The financial effect of this dividend has not been brought to account in the financial statements for the half-year ended 31 December 2019.

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, the results of those operations, or the state of affairs of the Group in future financial years.

Australian Finance Group Limited  
Directors' Declaration  
For the half-year ended 31 December 2019

In accordance with a resolution of the directors of Australian Finance Group Limited (the Company), I state that:

In the opinion of the directors:

- (a) the interim financial statements and notes of the Company and its subsidiaries (collectively the Group) are in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and
  - (ii) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



Tony Gill  
Chairman

20 February, 2020



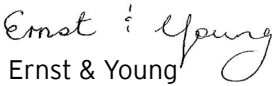
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## Auditor's Independence Declaration to the Directors of Australian Finance Group Limited

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

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

  
Ernst & Young

  
Fiona Dummond  
Partner  
20 February 2020

# Independent Auditor's Review Report to the Members of Australian Finance Group Limited

## Report on the Half-Year Financial Report

### Conclusion

We have reviewed the accompanying half-year financial report of Australian Finance Group Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

### Directors' Responsibility for the Half-Year Financial Report

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

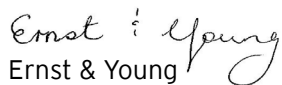
### Auditor's Responsibility


Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2019 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

## Independence

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

  
Ernst & Young

  
F Drummond  
Partner  
Perth  
20 February 2020