AFG

2018 ANNUAL REPORT

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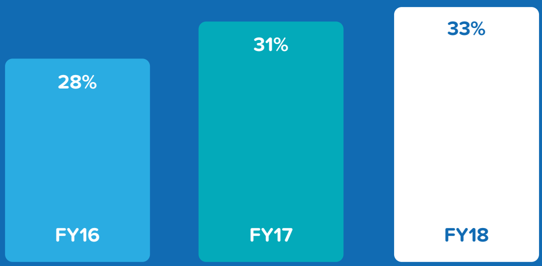
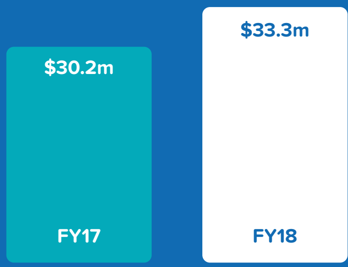
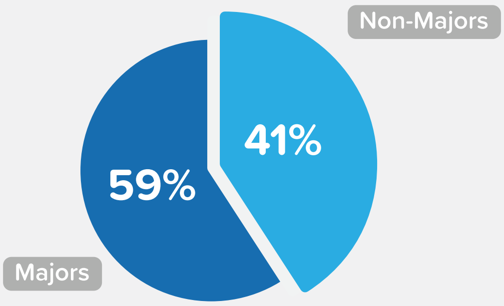


AFG normalised return on equity ROE has increased to 33%



Normalised NPAT up 10% to $33.3M



41% of flows to non-majors Q4 2018

up from 35% Q4 2017

FY2018 Residential settlements of

$35.3B

with trail book now up 9% to

$137.8B

Broker numbers grew to over

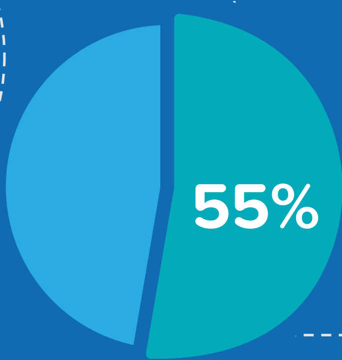
2,950 nationally

up from 2,875 at 30 June 2017

up to

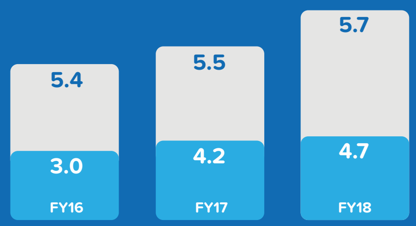
10,000

customers per month



209

employees



Ordinary Dividends
(cents per share)

Interim Final

Investment of 30.4% (fully diluted) of Think Tank Group Pty Ltd for $10.9 million

FY2018 Commercial settlements of

$2.62B

with the Asset Finance now up 21% to

$537M

Strong bedrock for AFG Business

AFG Home Loans settlements have increased from $2.7B to

$3.2B

4,000 +
individual products

50 +
lenders

1 in 11
Australian residential mortgages are arranged by an AFG broker

55% of Australian mortgages are written through a broker and growing

Broker & consumer advocacy

Responsible, strong and active voice for consumers. Participating in industry and regulatory debates and developments.

Chairman's Letter

Tony Gill
Chairman

On behalf of the Board of Directors, it gives me great pleasure to present Australian Finance Group (AFG) results for the 2018 financial year (FY18).

The company continues to successfully deliver earnings diversification through the core residential and commercial aggregation business, the higher margin AFG Home Loans business line, and has commenced increasing the volume of applications through its AFG Business platform. AFG's strategic focus on the under-served small to medium enterprise (SME) market also saw the company acquire a significant stake in leading commercial SME lender Think Tank Group Pty Ltd (Thinktank). I am very pleased to report that the company has delivered significant progress across a number of key performance measures.

Company update

Strong organic growth and cash flow generation capabilities of the business has resulted in AFG reporting net profit after tax (NPAT) of $33.3 million for FY18. This figure represents an increase of 10.4% on FY17 normalised profit.

The growth in AFG's profit is reflective of our resilient core business with residential settlements of $35.3 billion representing growth of 3% in a benign credit environment. The earnings diversification strategy of AFG Home Loans continues to deliver results for shareholders with settlements of $3.2 billion up 20% on FY17.

The growth in normalised earnings of 10.4% in FY18 was achieved whilst retaining a robust balance sheet and strong cash flows. This delivered a dividend yield of 15.9% (including a 12 cent per share special dividend) and a healthy 7.4% excluding the special dividend. In addition, return on equity for shareholders remains a highlight at 33% in FY18, up from 31% in FY17.

The strength of AFG's cash flows and balance sheet provides the company with significant financial resilience. AFG's lack of corporate debt continues to allow the company to take advantage of merger and acquisition opportunities should they present without significant strain on its balance sheet. Alternatively, it provides for a flexible capital management policy to be maintained, while still pursuing strategic opportunities and maintaining a capital light business model.

AFG continues to generate consistent growth in sustainable earnings despite challenging regulatory and economic conditions. This reinforces our strategy of earnings diversification to maintain an extensive footprint across the financial services industry whilst also enjoying the resilience provided by a $145.4 billion loan book and a distribution network of over 2,950 brokers across Australia.

Acquisition

A highlight of FY18 has been our 30.4% (fully diluted) investment in Thinktank. Established in 2005, Thinktank operates nationally and has a loan book in excess of $800 million.

This investment provides an opportunity for AFG to broaden its product offering to the SME sector via a white label commercial property mortgage. Thinktank's penetration of the SME market will also be enhanced through its access to AFG's extensive broker network.

AFG has appointed two Directors to the Thinktank Board and they are working with Thinktank to deliver value to both businesses.

Looking ahead

For the past three years the financial sector has been the focus of a number of regulatory reviews. With the mortgage broking sector being the dominant channel for the country's largest asset class, it is unsurprising the examination of the industry includes brokers. In this environment AFG is focused on acting with integrity to enhance competition and drive positive outcomes for consumers.

An effectively functioning financial system requires an appropriate balance of regulation and self-regulation. With this as a cornerstone of our thinking, AFG will continue to work with industry, regulators and government and strive to deliver a market leading value proposition for our brokers within a sound governance framework.

I would like to thank my fellow board members for what has been a very productive and successful year for the company. Each Director has made significant contributions to the development, growth and governance of AFG.

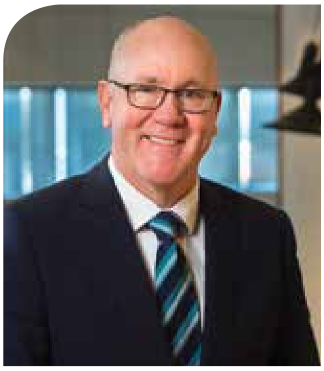
Finally, I have once again been enormously impressed by the effort, dedication and ability of our brokers and AFG staff to ensure the needs of their customers are at the forefront of everything they do. AFG's annual results are a testament to their hard work, and on behalf of the board, I thank them for that commitment.

Yours sincerely,

Tony Gill
Chairman

CEO's Report

It is with great pleasure I report on another successful year for AFG, my second as Chief Executive Officer.



David Bailey
CEO

Our core residential business continues to perform solidly. Regulatory reviews of the financial sector and tightened lending conditions have impacted product mix with investor and refinance volumes falling, offset by first home buyers and upgraders increasing in H1 FY18. These trends have been maintained in the final two quarters of FY18. In further evidence that the broker channel delivers a vital distribution base for lenders with and without the broad branch network possessed by the big four Banks, the flows of business to the non-major lenders on AFG's panel is now at around 40%.

In a competitive environment, AFG now has over 2,950 active brokers, further extending AFG's national distribution network providing quality lending solutions and service to consumers. The growth was led by NSW and Victoria with weaker economic conditions evident in other states reflecting the challenges being experienced by those economies.

Our diversified funding partners continue to deliver choice to consumers and we have achieved strong settlement volumes in our own-branded AFG Home Loans business. We have five core prime mortgage funders which will continue to protect the business against individual lender appetite that may vary over time. AFG Home Loans has now grown to service more than 19,000 retail customers.

A highlight for our AFG Securities business was the finalisation and close out of AFG 2013-1 and 2014-1 evidencing AFG's ability over the entire RMBS life cycle. All investors in these trusts generated returns in accordance with the original Information Memorandum and no losses were experienced over the life of the investments. In addition, we launched our residential mortgage backed security (RMBS) funded AFG Home Loans Link product in the latter half of FY18. The Link product targets the growing near prime or 'used to be prime' segment whilst maintaining AFG's high quality credit decision making process.

The AFG Securities business grew strongly in the second half of FY18 to produce full year settlements of $509.8 million - up 33%, and lodgements of $1.0 billion - up 50% on FY17.

Our strategic investment in commercial property lender Thinktank represents the next evolutionary step for AFG to diversify its earnings base. Thinktank is a competitive non-major commercial property lender, with a focus on the sub $3 million market and has a loan book in excess of $800 billion.

The opportunity to blend Thinktank's commercial property lending expertise with AFG's distribution and securitisation capability will benefit both businesses. In connection with the investment, AFG will distribute a white label Commercial Property product through our network of brokers. AFG aims to bring the same discipline to this white label proposition as we have successfully demonstrated with our residential white label program.

It will also enable us to deliver further competition and choice to the SME market place at a time when it is most needed.

Commercial lending

The AFG Business platform was rolled out with a soft launch during H1 FY18. Commercial mortgages are the main offering on the platform as well as unsecured finance product offerings. We are also currently piloting asset finance. The panel has now expanded to 15 lenders with more currently undergoing development and integration.

The platform allows new-to-commercial brokers to lodge applications in a common format across all lenders. It is backed by a new accreditation process that is as quick and simple as the platform itself. The platform comes with in-built training materials and sales tools, plus a dedicated commercial help desk to support our brokers.

Lending environment

Australian mortgage brokers continue to win market share by providing value, choice and competition to consumers. Brokers fill vital roles in areas that the banks have vacated: helping vulnerable customers, regional and remote borrowers, first home buyers and those with complex borrowing needs. Providing assistance in these areas takes a lot of time – time that the bigger lenders are often not prepared to give.

The past 12 months has seen a significant examination of the lending sector in Australia. The government has stated they will consider the findings of the ASIC Broker Remuneration Review, the Royal Commission into Misconduct in the Banking & Financial Services Industry, the Productivity Commission Inquiry into Competition in the Australian Financial System and advice from Treasury before making any decisions that may affect the sector.

Industry regulator, ASIC, spent considerable time examining significant amounts of data to evaluate broker remuneration and did not recommend wholesale changes to the model. They made a series of proposals for a way forward.

Our industry has come together, and positive steps are being taken as we work to address those proposals to improve consumer outcomes and confidence in the finance industry.

Treasury, in its submission to the financial services royal commission, recognised the value brokers provide to consumers' understanding and access to lending, particularly in regional areas. They also recognised the importance of brokers to non-major lenders and the downward pressure on home loan pricing more generally that is delivered by the broker channel.

Ultimately, the findings of these inquiries should assist the government to promote a competitive and stable financial industry that contributes to Australia's productivity. The mortgage broking sector provides vital competition to deliver on that aim.

Outlook

The broker value proposition is strong, and broker introduced business now represents over 55% of the home lending market. Australian consumers and lenders are clearly comfortable with the channel. A mortgage broker's business depends upon delivering a good outcome for their clients– more than 70% of their business is referred from existing customers.

It is pleasing that regulators and government have acknowledged the important role brokers play in the lending market. A recent Deloitte Access Economics report, "The Value of Mortgage Broking", showed that the mortgage broking industry contributes $2.9 billion to the Australian economy each year, supporting more than 27,100 (full-time equivalent) jobs. The channel is continuing to grow at a strong rate which is testament to the value Australian consumers derive from the use of a broker. With size, however, comes responsibility and the need to ensure the customer remains front and centre in everything we do.

With competition and consumers at the core of our business AFG will continue to work with regulators to remove any perceived conflicts within the largest distribution channel in the Australian mortgage market. We will remain a first-choice partner for lenders and broking groups as we deliver a market leading offering whilst maintaining high standards of compliance and governance.

The industry will continue to evolve and as an agile business in the sector with access to broad distribution and funding, we see the future direction will provide opportunity for AFG and look forward to another successful year for the company. I would like to thank the brokers across the country who make up our extensive distribution network and the AFG staff who work with them to provide choice and support for Australian consumers seeking informed and fair access to finance.

Yours sincerely,

David Bailey
CEO

Directors' Report

The Directors present their report together with the financial report on the consolidated entity consisting of Australian Finance Group Limited ('the Company' or 'AFG'), and its controlled entities ('the Group'), for the financial year ended 30 June 2018 and the auditor's report thereon.

Directors

The Directors and Company Secretary of the Company at any time during or since the end of the financial year are:

Anthony (Tony) Gill

(Non-Executive Chairman)

Mr Gill has been the Chairman of the Board since 2008. Mr Gill has extensive experience across Australia's finance industry, most recently with Macquarie Bank for more than 16 years, as Group Head of the Banking and Securitisation Group. Mr Gill is a Director of First Mortgage Services, First American Title Insurance and sits on the Board of the Butterfly Foundation for Eating Disorders and is a member of ASIC's External Advisory Panel. Mr Gill is a former member of the Board of Genworth Mortgage Insurance Limited (GMI). Mr Gill holds a Bachelor of Commerce and is a Chartered Accountant (retired).

Brett McKeon

(Managing Director and Chief Executive Officer) Resigned 31 May 2017
(Executive Director) Appointed 1 June 2017

Mr McKeon is a founding Director of AFG and the Group's former Managing Director. Mr McKeon has worked for over 30 years in the finance industry and has considerable management, capital raising, public company and sales experience and is an experienced Director in both the public and private arenas. Mr McKeon was awarded The Ernst & Young Entrepreneur of the Year for WA in 2006. In 2016 Mr McKeon was appointed to the newly reconstituted Financial Sector Advisory Council, a non-statutory body that provided advice to the federal government on policies that will maintain an efficient, competitive and dynamic financial sector. Mr McKeon drives AFG's advocacy activity through the company's guiding principles of fairness, shared prosperity and the provision of choice for Australian consumers.

Malcolm Watkins

(Executive Director)

Founding Director Mr Watkins plays a key role in the strategic direction of AFG. Across the past 24 years Mr Watkins has driven the company's tactical development of market-leading IT and Marketing divisions, which have long set the company apart from competitors. Mr Watkins is now stewarding the expansion of the AFG Business portfolio and will oversee the extraction of value from AFG's recent acquisition of a 30% stake in leading commercial property lender, Thinktank, through a seat on the lender's board. Mr Watkins is tasked with ensuring the opportunity to blend Thinktank's commercial property lending expertise with AFG's broad distribution and securitisation capabilities will deliver strategic value to both businesses. Mr Watkins is a former member of the Board of the Mortgage and Finance Association of Australia (MFAA).

Kevin Matthews

(Non-Executive Director)

Mr Matthews is a founding Director of the Group. He previously held a role as an Executive Director and was responsible for negotiating and managing key relationships with banks and lending institutions, including product development and the Commercial line of business. Mr Matthews ceased to be an Executive Director and became a Non-Executive Director on 1 May 2015. Mr Matthews has worked in the finance industry for more than 40 years and has been a licensed finance broker for more than 30 years. He is a former Director of the Mortgage and Finance Association of Australia (MFAA) and served on the MFAA's National Brokers Committee for 12 years. Mr Matthews is also a Senior Fellow of the Financial Services Institute of Australasia (FINSIA) and a life member of the MFAA.

Craig Carter

(Independent Non-Executive Director)

Mr Carter joined the AFG Board in early 2015, and is the Chair of the Audit Committee, a member of the Risk and Compliance Committee, and a member of the Remuneration and Nomination Committee. Following a career spanning 35 years in stockbroking and investment banking, specialising in Corporate Advice and Equity Capital Markets, Mr Carter now actively manages his own business interests across a portfolio of equities, agriculture and real estate. He is also Vice President of the Fremantle Football Club. Mr Carter was a Member of the Australian Stock Exchange and is a Fellow of the Financial Services Institute. Mr Carter is a well-known professional with unique experience in equities, capital markets and corporate transactions. This experience provides a platform for robust perspectives and a long reputation of integrity and good governance.

Melanie Kiely

(Independent Non-Executive Director)

Ms Kiely is an experienced Executive and Company Director with over 25 years of experience in health care, financial services and consulting in Australia, Europe and South Africa. Ms Kiely is also currently a Director of the Black Dog Institute and was recently with the Silver Chain Group as Executive General Manager, Social Care. Prior to this, Ms Kiely held senior executive positions at HBF Health Fund, nib health funds, MBF and was an Associate Partner at Accenture. She has also held a number of Board positions in the financial services and health sectors. Ms Kiely has an Honours Degree in Business Science from the University of Cape Town and is a Graduate of the Australian Institute of Company Directors. Ms Kiely joined the AFG Board as a Non-Executive Director in March 2016 and is Chair of the Remuneration and Nomination Committee, a member of the Audit Committee and a member of the Risk and Compliance Committee.

Jane Muirsmith

(Independent Non-Executive Director)

Ms Muirsmith is an accomplished digital and marketing strategist, having held several executive positions in Sydney, Melbourne, Singapore and New York. Jane is Managing Director of Lenox Hill, a digital strategy and advisory firm and is a Non-Executive Director of Cedar Woods Properties Ltd, HealthDirect Australia and the Telethon Kids Institute. She is a Graduate of the Australian Institute of Company Directors and a Fellow of Chartered Accountants Australia and New Zealand, where she is Chair of the WA Business Advisory Committee. Ms Muirsmith is also a member of the Ambassadorial Council UWA Business School. Ms Muirsmith was appointed to the AFG Board in March 2016 and is Chair of the Risk and Compliance Committee, a member of the Audit Committee and a member of the Remuneration and Nomination Committee.

The above-named Directors held office during the whole of the financial year and since the end of the financial year except where noted otherwise.

Company Secretary

Lisa Bevan

(Company Secretary)

Ms Bevan joined AFG in 1998 and was appointed to the position of Company Secretary in 2001. Ms Bevan is a Chartered Accountant, holds a Bachelor of Commerce degree and has a Diploma of Corporate Governance from the Governance Institute of Australia. Ms Bevan is responsible for managing AFG's secretariat, compliance, governance and risk management programs. Ms Bevan also oversees the legal and human resources functions.

Interests in the shares and rights of the Company

As at the date of this report, the interests of the Directors in the shares of the Group were:

Director	Number of ordinary shares	Number of rights over ordinary shares
Tony Gill	1,125,000	-
Brett McKeon	21,179,773	196,064
Malcolm Watkins	19,602,689	64,708
Kevin Matthews	15,029,516	-
Craig Carter	500,000	-
Melanie Kiely	67,164	-
Jane Muirsmith	65,000	-

Changes in state of affairs

Other than matters dealt with in this report there were no significant changes in the state of affairs of the Group during the financial year.

Dividends

Total dividends paid during the financial year ended 30 June 2018 were $47,690k (2017: $20,622k), which included:

- A final fully franked ordinary dividend of $11,816k (5.5 cents per fully paid share) was declared out of profits of the Company for 2017 and paid on 28 September 2017.
- An interim fully franked ordinary dividend of $10,096k (4.7 cents per fully paid share) was declared out of profits of the Company for 2018 and paid on 29 March 2018.
- A special fully franked ordinary dividend of $25,778k (12.0 cents per fully paid share) was declared out of profits of the Company for 2018 and paid on 29 March 2018.

A final fully franked ordinary dividend of $12,244k (5.7 cents per fully paid share) has been declared out of profits of the Company for the financial year ended 30 June 2018 and is to be paid on 27 September 2018.

Principal Activities

The Group's principal activities in the course of the financial year continued to be:

- Mortgage origination and management of home loans and commercial loans; and
- Distribution of own branded home and business loan products, funded via traditional mortgage management products, white label and its established RMBS programme.

Corporate Governance Statement

The Company's Corporate Governance Statement can be found at investors.afgonline.com.au/investor/?page=corporate-governance

Review of Operations

For the year ended 30 June 2018 the Group recorded a net profit after tax of $33,309k, a decrease of 14.8% over the same period in 2017. The comparative period included the initial recognition of the AFGHL trail book which for the first time recognised loans settled prior to FY17. Prior year net profit after tax has been normalised to reflect the impact of FY17 settlements in relation to the additional commissions earned on the AFG Home Loan ('AFGHL') white label trail book. Normalised net profit was $33,309k an increase of 10.4% over the same period in 2017 ($30,164k).

	30 June 2018 $'000	30 June 2017 $'000	% change
Net profit for the period	**33,309**	**39,104**	**(14.8%)**
Initial recognition of value of AFGHL white label trail book relating to prior years' settlements	-	(8,940)	
Normalised net profit for the period	**33,309**	**30,164**	**10.4%**

The increase in normalised profit was attributable to the following:

- An increase in AFGHL settlements of 20% to $3.21B (2017: $2.68B).
- $125.8M increase in settlement volumes in the securitisation programme to $509.8M (2017: $384M) and the loan book increasing 20% to $1.37B (2017: $1.14B);
- Increased residential trail book of $11.3B to $137.8B (2017: $126.5B); and
- Increased residential settlements of $1.0B to $35.3B (2017: $34.3B).

Net cash flows from operating activities increased 22.5% to $32,486k (2017: $26,517k) driven by normalised profit growth and positive working capital movements compared to prior period.

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

	30 June 2018		30 June 2017	
In thousands of AUD	Operating Income	Profit after tax	Operating Income	Profit after tax
Underlying profit from continuing operations	533,053	28,052	499,020	26,160
Change in the present value of trail commission receivable and payable	70,343	5,257	88,531	13,959
Provision for clawbacks	-	-	(1,450)	(1,015)
Total result from continuing operations	603,396	33,309	586,101	39,104

On 29th March 2018 AFG paid a special dividend of $25,778k to shareholders. Strong organic growth and cash flow generation of the business allowed AFG to pay a Special Dividend of 12 cents per share. The strength of AFG's cash flows and balance sheet provides the company with significant financial resilience. AFG's lack of corporate debt and low capital intensity continues to allow the company to take advantage of merger and acquisition opportunities should they arise without significant strain on its balance sheet. Alternatively, it provides for a flexible dividend policy to be maintained, while AFG continues to evaluate financially material strategic opportunities.

On 19th April 2018 AFG announced that it had made a strategic investment of 30.4% (fully diluted) in Think Tank Group Pty Ltd ("Thinktank") for $10.9 million in cash consideration, with additional contingent consideration payable of $1,488k. In connection with the investment, AFG will distribute a white label Commercial Property product through its network of brokers. The strategic investment in Thinktank represents the next evolutionary step for AFG to diversify its earnings base. The ongoing success of AFGHL and the introduction of AFG Business are important parts of AFG's overall strategy. The investment in Thinktank allows AFG to participate further in commercial property lending - both directly through the white label opportunity and indirectly through AFG's shareholding to generate further earnings for AFG.

Likely Developments and Expected Results

The Group will continue to provide choice and lead the market by building on the strengths of our traditional wholesale mortgage broking business while developing our significant distribution network to access other areas of the finance market.

Further information about likely developments in the operations and the expected results of those operations in future financial years have not been included in this report because disclosure of the information would, in the opinion of the Directors, be likely to result in unreasonable prejudice to the Group.

Environmental regulation

The Group is not subject to any significant environmental regulation under a law of the Commonwealth or of a State or Territory in respect of its activities.

Subsequent events

On 10 August 2018, the Group secured a new residential warehouse facility, replacing its existing NAB warehouse. The new warehouse comprises four classes of secured, limited and floating rate notes, with the senior note being issued to NAB, mezzanine notes issued to Deutsche Bank AG Sydney Branch and AFG holding the subordinated notes. The maturity date for this new facility is 31 December 2018.

On 23 August 2018, the Directors recommended the payment of a dividend of 5.7 cents per fully paid ordinary share, fully franked based on tax paid at 30%. The dividend has a record date of 3 September 2018 and a payment date of 27 September 2018. The aggregate amount of the declared dividend expected to be paid out of retained earnings at 30 June 2018 is $12,244k. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2018.

On 14 September 2018 AFG Trust 2013-2 was successfully redeemed with all investors having been repaid in full. AFG Trust 2013-2 will be shutdown.

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.

Share options

There were no options issued or exercised during the financial year (2017: Nil).

Indemnification of insurance of officers and auditors

During the financial year, the Group paid a premium in respect of a contract insuring the Directors of the Group (as named above) against a liability incurred as a Director 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 Group has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the Group or of any related body corporate against a liability incurred as such an officer or auditor.

Directors' meetings

The number of Directors' meetings (excluding circulatory resolutions) held during the year and each Director's attendance at those meeting is set out in the table below.

The Directors met as a Board 12 times during the year. 11 meetings were main meetings and 1 meeting was convened to consider special business. Special meetings are convened at a time to enable the maximum number of Directors to attend and are generally held to consider specific items that cannot be held over to the next scheduled main meeting. Apologies were received from Directors in all instances where they were unable to attend a meeting.

Directors' Board Meetings

	Main Meetings Held	Main Meetings Attended	Special Meetings Held	Special Meetings Attended
Tony Gill	11	11	1	1
Brett McKeon	11	10	1	1
Malcolm Watkins	11	11	1	1
Kevin Matthews	11	11	1	1
Craig Carter	11	11	1	1
Melanie Kiely	11	11	1	1
Jane Muirsmith	11	11	1	1

Committee membership

As at the date of this report, the Company had an Audit Committee, Remuneration and Nomination Committee and a Risk and Compliance Committee.

Members acting on the Committees of the Board during the year were:

Audit	Remuneration and Nomination	Risk and Compliance
Craig Carter (C)	Melanie Kiely (C)	Jane Muirsmith (C)
Melanie Kiely	Craig Carter	Craig Carter
Jane Muirsmith	Jane Muirsmith	Melanie Kiely

Notes

(C) designates the Chair of the Committee

The following table sets out the number of meetings of the Committees of the Board and the number of meetings attended by each Director who is/was a member of that Committee:

Committee Meetings

Directors	Audit		Remuneration and Nomination		Risk and Compliance	
	Maximum Possible Meetings	Attended	Maximum Possible Meetings	Attended	Maximum Possible Meetings	Attended
Craig Carter	5	5	5	5	4	4
Melanie Kiely	5	5	5	5	4	4
Jane Muirsmith	5	5	5	5	4	4

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.

Non–audit services

The following non-audit services were provided by the entity's auditor, Deloitte Touche Tohmatsu. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001 (Cth).*

The Directors are of the opinion that the services as disclosed in Note 11 to the Financial Statements do not compromise the external auditor's independence, based on advice received from the Audit Committee, for the following reasons:

- All non-audit services have been reviewed and approved to ensure that 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 APES 110 'Code of Ethics for Professional Accountants' issued by the Accounting Professional & 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.

The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

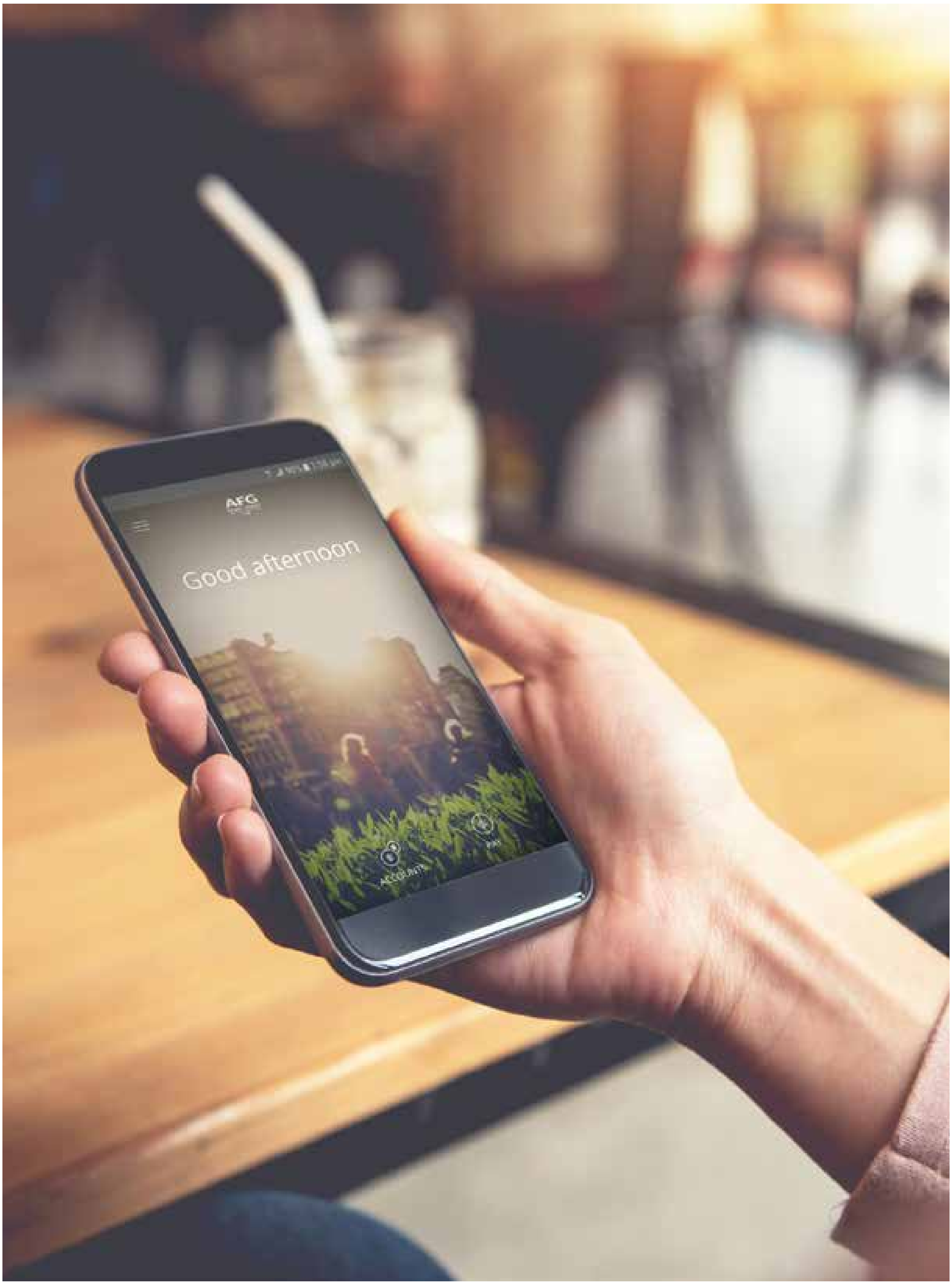
Deloitte Touche Tohmatsu received or is due to receive the following amounts for the provision of non-audit services:

	$
Other non-audit services	162,600
	162,600

Auditor's Independence declaration

The auditor's independence declaration is included on page 35 of this financial report for the year ended 30 June 2018.

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


AFG
Good afternoon

Remuneration Report

Message from the Chair of the Remuneration & Nomination Committee

Dear Shareholder,

On behalf of the Board I am pleased to present AFG's Remuneration Report for FY18.

The AFG Board remains committed to an Executive Remuneration structure that drives a strong performance culture in line with our strategy and delivers sustainable returns for shareholders in the short and longer term. At the same time, it is important to focus on conduct, responsible lending and ensuring positive customer outcomes.

Feedback from shareholders, stakeholders and proxy advisors is valuable to our remuneration process. In line with this and consistent with prior years, the Board has actively sought feedback. To continue to provide a clear link between strategy, sustainable returns and customer outcomes with employee retention, conduct and performance, we have made the following changes:

- **The inclusion of a strategic STI target for FY18 relating to AFG Business settlement volumes** in addition to the Group's financial target and AFGHL settlement target. AFGHL has been a key driver of the company's profit growth over the last two financial years. AFG Business is an important element in the earnings diversification strategy and therefore alignment of Executive remuneration to its success is also important. Further information is provided in section 3.
- **An increase in FY18 to the compound annual growth rate earnings per share (EPS) for the LTI grant to 10% per annum** growth target to achieve 100% payment (FY17: 7.5%). The 10% growth target has also been retained for FY19, notwithstanding our view that credit growth in the Australian residential mortgage market will continue to be benign, a stretch target is reflective of the Group's earnings diversification strategy through higher margin business lines. This change reflects our ongoing intent to set challenging targets in the context of industry outlook and the economic environment.
- **An increased emphasis on profit relative to the strategic targets.** In FY17 the STI targets were split 50/50 between profit and strategic targets to continue to drive the growth in the profitable AFGHL business. In FY18 the STI target was 60% profit and with 40% allocated to strategic targets with a profit gateway for strategic targets. This change has been retained in FY19.

Key Management Personnel (KMP) changes

Mr Sanger was appointed as Chief Operating Officer during the year, this role was previously held by Mr Bailey prior to his appointment as Chief Executive Officer.

The Chief Operating Officer role takes responsibility for information technology, marketing, customer service and AFG Securities credit and operations teams. Mr Sanger joined AFG in March 2018 following 17 years of senior experience in telecommunications. Mr Sanger's previous role focussed on strategy and maintained an 'outward in' focus with respect to customers which will help facilitate our overall strategy across all aspects of the business.

FY18 Performance & Remuneration Outcomes Summary

FY18 was a successful year with strong growth in normalised NPAT of 10.4% to $33.3m. Normalised NPAT removes the recognition impact in FY17 relating to the initial actuarial assessment and asset recognition of the AFGHL trail book.

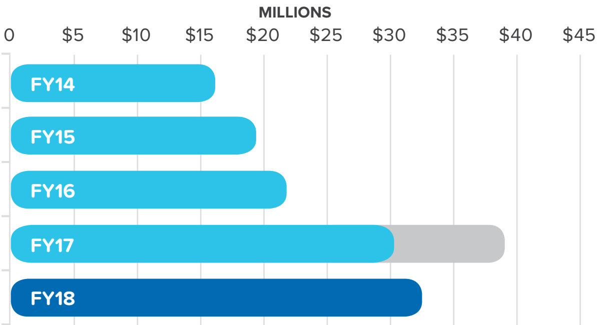
AFGHL settlements grew strongly again in FY18 up 20% to $3,223k (FY17: $2,680k) and continues to be a strong driver of the company's profit growth.

AFG Business successfully launched during the year and has expanded to a lender panel of 15 from the initial launch panel of 5 lenders. The asset finance module will be added during the first half of FY19 providing brokers with access to additional lenders of this asset class. Whilst settlements through the platform did not meet expectations AFG Business remains an important part of strategy and will remain a remuneration target for executives in FY19.

Performance against other KPI measures was also strong with the Group's loan book ending the year at $145.4 billion up 9.2% from FY17. This demonstrates growth in the core business generating ongoing stability for future investment and growth.

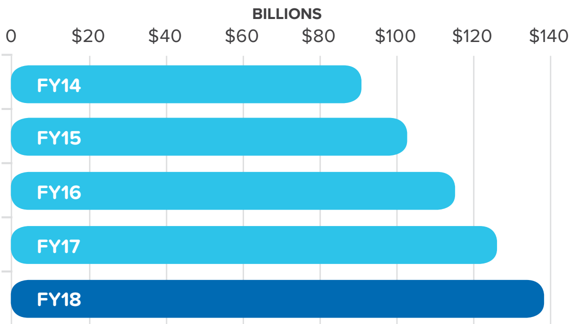
A 5 year history of AFG's NPAT, Residential Loan Book, AFGHL Loan Book and Commercial Loan Book growth is provided below:

Net Profit After Tax*

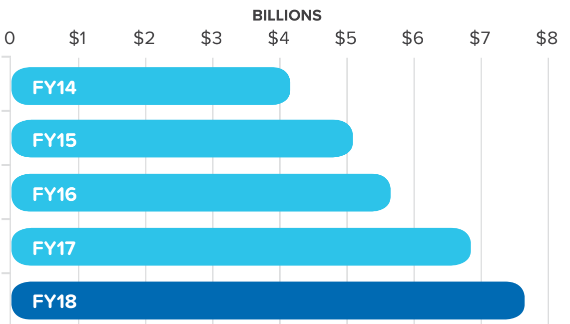


* Grey shading of FY17 profit shows the initial recognition of AFGHL white label trail book relating to loans settled in prior periods.

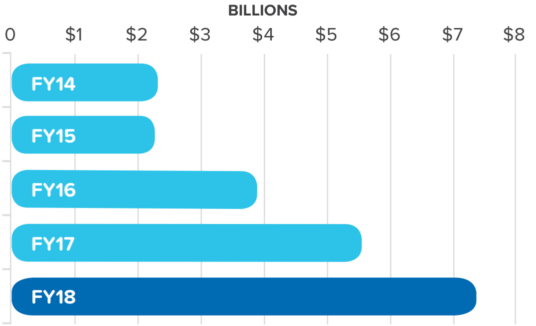
Residential Loan Book



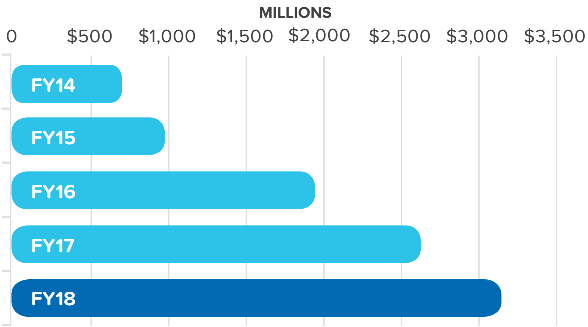
Commercial Loan Book



AFGHL Portfolio



AFGHL Settlements



Including the special dividend the Group delivered a dividend yield for FY18 of 15.9% based on the closing share price at 30 June 2018 of $1.41. Based on ordinary dividends alone the yield was 7.4%.

In line with this performance, the key remuneration outcomes, which are detailed further in the Remuneration Report include:

- Total FY18 STI payments made at 89%, reflecting stretch performance when compared to FY17 results for NPAT (108%) and AFGHL (115%), offset by AFG Business not achieving target.
- STI payments relating to AFG Business (20% allocation) were forfeited.
- No performance rights vested during the year with the first measurement date under existing plans being 30 June 2019.

Further detail on the remuneration results are detailed in section 3 of the report, which reflect the outcomes of a good year for shareholders and employees.

Yours sincerely,

Melanie Kiely
Chair, Remuneration & Nomination Committee

1) Introduction

The Remuneration Report outlines AFG's remuneration philosophy, framework and outcomes for all Non-Executive Directors, Executive Directors and other Key Management Personnel (collectively KMP). The report is written in accordance with the requirements of the *Corporations Act 2001 (Cth) (the Act)* and its regulations. This information has been audited as required by section 308(3C) of the Act.

2) Key Management Personnel

KMP are those persons who have specific responsibility for planning, directing and controlling material activities of the Group. In this report, "Executives" refers to the KMP excluding the Non-Executive Directors ("NED").

The current KMPs of the Group for the entire financial year unless otherwise stated are as follows:

Non-Executive Directors		
Tony Gill	Non-Executive Chairman	Appointed 28 August 2008
Kevin Matthews	Non-Executive Director	Appointed 20 January 1995
Craig Carter[1]	Non-Executive Director	Appointed 25 March 2015
Melanie Kiely[2]	Non-Executive Director	Appointed 31 March 2016
Jane Muirsmith[3]	Non-Executive Director	Appointed 31 March 2016
Executive Directors		
Brett McKeon	Executive Director	Appointed 19 June 1996
Malcolm Watkins	Executive Director	Appointed 8 December 1997
Executives		
David Bailey	Chief Executive Officer	Appointed 16 June 2017
Lisa Bevan	Company Secretary	Appointed 9 March 1998
Ben Jenkins	Chief Financial Officer	Appointed 14 December 2015
John Sanger	Chief Operating Officer	Appointed 6 March 2018

[1] Craig Carter is Chairman of the Audit Committee.

[2] Melanie Kiely is Chair of the Remuneration and Nomination Committee.

[3] Jane Muirsmith is Chair of the Risk and Compliance Committee.

Other than Kevin Matthews, all Non-Executive Directors listed above are Independent Directors.

3) Executive Remuneration Structures

The Group aims to reward Executives with a level of remuneration commensurate with their responsibilities and position within the Group and their ability to influence shareholder value creation within the context of appropriate conduct, and consumer outcomes.

The remuneration framework links rewards with the strategic goals and performance of the Group and provides a market competitive mix of both fixed and variable rewards including a blend of short and long-term incentives. The variable (or "at risk") remuneration of Executives is linked to the Group performance through measures based on the operational performance of the business and is subject to a gateway for appropriate conduct.

AFG Business Strategy	**To provide customer choice and competition, expand our core wholesale mortgage broking business while diversifying earnings with complimentary businesses.**

Executive Remuneration Strategy

Remuneration component	Performance measure	Strategic objective/performance link
Fixed annual remuneration (FAR) comprises base salary, superannuation contributions and other benefits	Key result areas for the role: Key roles and responsibilities as set out in the individual's employment contract and position description.	To provide competitive fixed remuneration set with reference to role, market and experience to attract, retain and engage key talent. Considerations: • Role and responsibility • External benchmarking • Contribution, competencies and capabilities • Company and individual performance
Short-term incentive (STI) paid in cash	Group Financial Measures FY18 & onwards: Group Net Profit After Tax and at least 1 key strategically relevant KPI target with a clear link to long term strategy. Allocation to NPAT target will remain the same at 60% in FY19. 90% NPAT hurdle for any STI payment including strategic targets.	Rewards Executives for their contribution to achievement of Group outcome and the achievement of strategically relevant KPI targets in the given financial year.

Long-term incentive (LTI) awards are made in the form of performance rights	FY18 & FY19 grant:
	• 65% of a KMP's entitlement allocated to a 3-year CAGR EPS target
	• 35% of a KMP's entitlement allocated to relative TSR targets, 50% measure against the ASX Diversified Financials Index and 50% against the ASX Small Industrials Index. Both TSR targets include a gateway requirement for absolute TSR to be positive.
		Ensures a strong link to the long-term creation of shareholder value.
		• CAGR EPS was chosen as a performance hurdle as it is:
		  • A key indicator of the creation and growth in shareholder value over the long term.
		  • Provides a reliable measurement of the creation of shareholder value and has been given a higher weighting than the individual TSR measures due to the difficulty in identifying appropriate peer groups or comparison indices for comparison against Company performance.
		• TSR was chosen as a performance hurdle as it:
		  • Provides a relative, external market performance measure with a requirement for TSR to be at least positive even if relative performance against Indices is on target. This will help to ensure Executive remuneration is clearly tied to positive shareholder value creation.

3.1) Executive Remuneration Outcomes

STI award outcomes FY18

The combined cash bonus pool available to be paid to the Executives for on-target performance in the 2018 financial year was $451,757 and the minimum is nil. For the 2018 financial year, 89% of the target STI bonus amount was achieved by the Executives as outlined below.

Target	FY17 000's	FY18 000's	Growth	Target Assessment
NPAT ($'000)	*$30,164	$33,309	10%	108%
AFGHL settlements	$2,680,000	$3,223,000	20%	103%
AFGB settlements	-	$11,792	100%	0%

* FY17 result normalised to remove prior year impact of actuarial assessment of AFGHL trail book. FY17 NPAT component of STI was paid using this normalised number to remove the accounting uplift relating to prior year settlements.

	Target STI opportunity	As a % of fixed remuneration	STI outcome	% Achieved	% Forfeited
David Bailey	$220,000	40%	$192,681	88%	12%
Brett McKeon	$21,680	16%	$18,988	88%	12%
Malcolm Watkins	$27,517	17%	$24,100	88%	12%
Lisa Bevan	$84,800	33%	$74,270	88%	12%
Ben Jenkins	$62,500	23%	$54,739	88%	12%
John Sanger	$35,260[1]	36%	$36,904	105%	0%
Total	**$451,757**		**$401,682**	**89%**	

[1] John Sanger STI was allocated 60% to NPAT and 40% to individual KPI given his start date. In FY19 his allocation is aligned to other KMP.

3.2) Fixed Annual Remuneration

No significant changes to the remuneration structure were required during the financial year.

The targeted remuneration mix for:

- The CEO is 53% fixed and 47% variable (at risk): and
- Other members of the Executive team are in the range of 61% to 75% fixed and 25% to 39% variable (at risk).

3.3) STI Plan

AFG Executives are entitled to participate in the AFG STI plan. The amount of the STI award each participant may become entitled to (if any) will be determined by the Remuneration and Nomination Committee based on achievement against set performance targets.

Objective	The AFG STI plan rewards Executives for the achievement of objectives directly linked to AFG's business strategy that is focused on growth and choice.
Participation	All Executives
STI opportunity	The STI available to each Executive is set at a level based on role, responsibilities and market data for the achievement of stretching targets against specific KPIs. The target STI opportunity for each Executive in FY18 is listed at 3.1 as an absolute dollar amount and as a percentage of the Executive's fixed base.
Performance period	The performance period is the relevant Financial Year. KPIs and weightings are set and reviewed each year to ensure that the STI targets remain relevant for the current environment and Executives remain focused on clear goals for the period.
Link between performance and reward	The KPI targets are selected based on what needs to be achieved over each financial performance period to deliver the business strategy over the long term. From FY18 onwards the KPIs will include a financial target and current year delivery of a strategically relevant KPI relating to the Group's long-term strategy. The weightings for each KPI is set for each performance period based on the specific business targets set by the Board. A minimum threshold hurdle is set for each KPI included in the scorecard before any payment is made in respect of that KPI measure. Further details of the KPIs that will be used to assess 2019 performance are set out at 3.4. In order for any STI award to be payable, a conduct gateway must also be achieved.
Assessment of performance	The Board reviews and approves the performance assessment and STI payments for the CEO and all other Executives.
Payment method	STI payments are delivered as cash.

3.4) FY19 STI Opportunity

Offers to participate in STI awards for 2019 were made to Executives under the STI Plan on the terms set out on the next page.

The amount of the STI award each participant may become entitled to (if any) will be determined by the Remuneration and Nomination Committee and approved by the Board based on achievement against the targeted NPAT as approved by the Board (60%), targeted AFGHL settlement volumes (20%) and AFG Business (AFG's new digital broking platform for commercial SME lending) settlement volumes (20%). The allocation of these targets is dependent upon the Executive's role in the business however all have a NPAT target.

In order for any STI award to be payable, a conduct gateway must be achieved and a threshold profit target must be satisfied, being 90% of target. The percentage of the STI award that will become payable, if any, will be determined over the performance period by reference to the following schedule:

Target	Achievement %	STI Award Payable
Group NPAT	Less than 90% 90%-100% 100%-150%	0% 50%-100% Straight line between 100%-150%
AFG Home Loans Settlements	Less than 70% 70-100% 100%-150%	0% Straight line between 70%-100% Straight line between 100%-150%
AFG Business	Less than 75% 75%-100% 100%+	0% 75%-100% Straight line over 100%

The Board has discretion to take into account unbudgeted extraordinary items as part of its overall assessment. From time to time bonuses may be paid outside this structure in relation to a special project or special circumstances subject to approval from the Remuneration and Nomination Committee.

3.5) The LTI Plan – 2018 and 2019 Grants

AFG has established the LTI Plan to assist in the longer term motivation, retention and reward of KMP and certain senior employees. The LTI Plan is designed to align the interests of Executives and senior management with the interests of shareholders by providing an opportunity for the participants to receive an equity interest in AFG and to ensure a focus on long term sustainable growth. Details of the LTI Grants are provided below.

	2017 LTI Grant	2018 & 2019 LTI Grant
Instrument	Performance rights to acquire ordinary AFG shares	Performance rights to acquire ordinary AFG shares
Quantum	65% of an Executive's annual LTI entitlement weighted to an ***EPS*** target 35% of an Executive's annual LTI entitlement weighted to ***TSR*** targets	65% of an Executive's annual LTI entitlement weighted to an ***EPS*** target 35% of an Executive's annual LTI entitlement weighted to ***TSR*** targets
Grant date	1 July 2016, other than those approved at the 2016 AGM; and 1 July 2017, other than those approved at the 2017 AGM	1 July 2018, other than those approved at the 2018 AGM; and 1 July 2019 other than those subject to approval at the 2019 AGM
Grant date fair value	***TSR*** Small Industrials Index $0.66 ***TSR*** Diversified Financials Index $0.67 ***EPS*** $1.00 (being the 20-day Volume Weighted Average Price leading up to 30 June 2016)	***TSR*** Small Industrials Index 2018 $0.77; 2019 $0.84 ***TSR*** Diversified Financials Index 2018 $0.75; 2019 $0.79 ***EPS*** $1.25 (being the 20-day Volume Weighted Average Price leading up to 30 June 2018)
Gateway performance measure	***TSR*** – Absolute TSR must be positive ***EPS*** – 2.5% CAGR EPS	***TSR*** – Absolute TSR must be positive ***EPS*** – 5.0% CAGR EPS

	2017 LTI Grant	2018 & 2019 LTI Grant
Key performance measure	*TSR* Relative Total Shareholder Return (pro-rata vesting between hurdles) 50% measured against the Diversified Financials Index, 50% against Small Industrials 50th Percentile – 50% vesting 75th Percentile – 100% vesting 85th Percentile – 125% vesting (stretch target) 90th Percentile – 150% vesting (stretch target) *EPS accretion* 2.5% CAGR – 25% vesting 7.5% CAGR – 100% vesting 10.0% CAGR – 125% vesting (stretch target) 12.5% CAGR – 150% vesting (stretch target)	*TSR* Relative Total Shareholder Return (pro-rata vesting between hurdles) 50% measured against the Diversified Financials Index, 50% against Small Industrials 50th Percentile – 50% vesting 75th Percentile – 100% vesting 85th Percentile – 125% vesting (stretch target) 90th Percentile – 150% vesting (stretch target) *EPS accretion* 5.0% CAGR – 50% vesting 10% CAGR – 100% vesting 11.25% CAGR – 125% vesting (stretch target) 12.5% CAGR – 150% vesting (stretch target)
Performance & Service period	1 July 2016 – 30 June 2019	1 July 2018 – 30 June 2021
Performance assessment	30 June 2019 and 30 June 2020 Performance period not yet complete.	30 June 2021 Performance period not yet complete.
Common LTI Plan Rules & Design Considerations		
Link between performance and reward	*TSR* TSR encapsulates performance across the underlying key performance measures throughout the business aimed at achieving targeted business outcomes that will result in increased shareholder wealth through share price growth and dividends. Stretch targets are available giving Executives the opportunity to increase the number of performance rights by up to 50% for exceptional performance. *EPS* Long term EPS accretion targets are set at levels that are challenging yet achievable in a sustainable manner. EPS directly links creation of shareholder wealth to the delivery of the businesses strategy over a long term period. Stretch targets are available giving Executives the opportunity to increase the number of performance rights by up to 50% for exceptional performance.	
Cessation of employment	If the participant ceases employment for cause or resigns, unless the Board determines otherwise, any unvested Performance Rights will automatically lapse. Generally, if the participant ceases employment for any other reason, all of their unvested Performance Rights will remain on foot and subject to the original performance condition. However, the Board retains discretion to determine that some of their Rights (up to a pro rata portion based on how much of the Performance Period remains) will lapse.	
Dividends & voting	The Performance Rights do not carry dividends or voting rights prior to vesting.	
Clawback and preventing inappropriate benefits	The Plan Rules provide the Board with broad 'clawback' powers if, amongst other things, the participant has acted fraudulently or dishonestly, engaged in gross misconduct or has acted in a manner that has brought AFG or its related bodies corporate into disrepute, or there is a material financial misstatement, or AFG is required or entitled under law or Company policy to reclaim remuneration from the participant, or the participant's entitlements vest as a result of the fraud, dishonesty or breach of obligations of any other person and the Board is of the opinion that the incentives would not have otherwise vested.	

	2017 LTI Grant	2018 & 2019 LTI Grant
Change of control	In a situation where there is likely to be a change of control, the Board has the discretion to accelerate vesting of some or all of the Performance Rights. Where only some of the Performance Rights have vested on a change of control, the remainder of the Performance Rights will immediately lapse. If the change of control occurs before the Board exercises its discretion: • A pro-rata portion of the Performance Rights equal to the portion of the relevant Performance Period that has elapsed up to the expected or actual (as appropriate) date of the change of control will immediately vest; and the Board may, in its absolute discretion, decide whether the balance should vest or lapse.	
Restrictions on dealing	The participant must not sell, transfer, encumber, hedge or otherwise deal with Performance Rights. Unless the Board determines otherwise, the participant will be free to deal with the Shares allocated on vesting of the Performance Rights, subject to the requirements of AFG's Policy for dealing in securities.	
Reconstructions, corporate action, rights issues, bonus issues, etc.	The rules of the LTI Plan include specific provisions dealing with rights issues, bonus issues, corporate actions and other capital reconstructions. These provisions are intended to ensure that there is no material advantage or disadvantage to the participant in respect of their Performance Rights as a result of such corporate actions.	

4) Statutory Remuneration Tables

Executive remuneration for the years ended 30 June 2018 and 30 June 2017

		Short-term				Post employment		Other Bonuses	Long-term	Share-based payments		Other Payments	Total Remuneration	Proportion of remuneration
		Salary & fees	Cash bonus	Non monetary benefits	Total	Superannuation	Retirement benefits	Discretionary Bonuses	Long service leave	Rights	Shares	Other Payments		Performance Related
KMP		$	$	$	$	$	$	$	$	$	$	$		%
David Bailey	2018	528,998	192,681	5,667	727,346	20,049	-	-	22,899	143,372	-	-	913,666	37%
	2017	394,327	138,480	5,420	538,227	19,616	-	-	48,281	59,605	-	-	665,729	30%
Brett McKeon[2]	2018	116,895	18,988	5,667	141,550	20,049	-	-	2,099	63,525	-	-	227,223	36%
	2017	472,547	288,500	5,420	766,467	19,288	-	-	(78,829)	66,173	-	-	773,099	46%
Malcolm Watkins[3]	2018	148,367	24,100	6,451	178,918	17,351	-	-	2,841	22,099	-	-	221,209	21%
	2017	168,598	37,528	5,420	211,546	19,012	-	-	777	13,235	-	-	244,570	21%
Lisa Bevan[4]	2018	240,031	74,270	5,667	319,968	20,049	-	-	2,169	55,023	-	-	397,209	33%
	2017	240,464	92,320	5,420	338,204	19,616	-	-	25	31,763	-	-	389,608	32%
Ben Jenkins	2018	254,951	54,739	5,667	315,357	20,049	-	-	-	45,000	-	-	380,406	26%
	2017	255,385	66,355	5,420	327,160	19,616	-	-	-	16,667	-	-	363,443	23%
John Sanger[1]	2018	91,139	36,904	1,817	129,860	5,938	-	-	-	12,857	-	-	148,655	33%
	2017	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	2018	1,380,381	401,682	30,936	1,812,999	103,485	-	-	30,008	341,876	-	-	2,288,368	32%
Total	2017	1,531,321	623,183	27,100	2,181,604	97,148	-	-	(29,746)	187,443	-	-	2,436,449	33%

Notes:

1 John Sanger was appointed COO on 6 March 2018
2 Brett McKeon is employed on a part time basis 2 days per week
3 Malcolm Watkins is employed on a part time basis 2.5 days per week
4 Lisa Bevan is employed on a part time basis 4 days per week

5) Non-Executive Director Remuneration

5.1) Remuneration Policy

The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders. The amount of aggregate remuneration sought to be approved by shareholders and the fee structure is reviewed annually against fees paid to NEDs of comparable companies. The Board considers advice from external consultants when undertaking the annual review process.

The Company's constitution and the ASX listing rules specify that the NED fee pool shall be determined from time to time by a general meeting. The latest determination was the Shareholders' meeting held on 24 April 2015 when shareholders approved an aggregate fee pool of $1,000,000 per year. The Board will not seek any increase to the NED pool at the 2018 AGM.

5.2) Structure

The remuneration of NEDs consists of Directors' fees, which is inclusive of statutory superannuation and Committee fees. The below summarises the NED fees from the date AFG listed on the ASX:

- Chairman: $150,000 inclusive of superannuation
- Non-Executive Directors: $90,000 inclusive of superannuation

NEDs do not receive retirement benefits, other than statutory superannuation contributions, nor do they participate in any incentive programs.

Directors may also be reimbursed for travel and other expenses incurred in attending to the Company's affairs. Some of the NED's have received non-cash benefits arising from their attendance at AFG's conference. The table below outlines the NED remuneration for the years ended 30 June 2018 and 30 June 2017:

	Year	Board and Committee Fees $	Short-term benefits (non-monetary) $	Superannuation $	Total $
Tony Gill	**2018**	**136,986**	**-**	**13,014**	**150,000**
	2017	136,986	19,192	13,014	169,192
Kevin Matthews	**2018**	**82,192**	**-**	**7,808**	**90,000**
	2017	82,192	20,008	7,808	110,008
Craig Carter	**2018**	**82,192**	**-**	**7,808**	**90,000**
	2017	82,192	-	7,808	90,000
James Minto	**2018**	**-**	**-**	**-**	**-**
	2017	82,192	-	7,808	90,000
Melanie Kiely	**2018**	**82,192**	**-**	**7,808**	**90,000**
	2017	82,192	-	7,808	90,000
Jane Muirsmith	**2018**	**82,192**	**-**	**7,808**	**90,000**
	2017	82,192	-	7,808	90,000
Total	**2018**	**465,754**	**-**	**44,246**	**510,000**
Total	2017	547,946	39,200	52,054	639,200

Additional Disclosures Relating to Rights and Shares

5.3) Rights awarded, vested and lapsed during the year

The table below discloses the number of rights granted to Executives as remuneration during FY17 and FY18 as well as the number of rights that vested, lapsed or forfeited during the year. Rights do not carry any voting or dividend rights and shares can be allocated once the vesting conditions have been met until their expiry date.

Following the FY15 plan the Group moved to a 3-year performance period being the 2017 year below, the 2017 plan does not vest until 30 June 2019.

KMP	Year / Tranches (T)	Rights awarded during the year	Grant date	Fair value per rights at award date $	Vesting date	Exercise price	Expiry date	No. forfeited during the year
Brett McKeon	2017 / T1	97,500	1-Jul-16	$1.00	30-Jun-19	-	30-Jun-19	-
	2017 / T2	39,179	1-Jul-16	$0.67	30-Jun-19	-	30-Jun-19	-
	2017 / T3	39,773	1-Jul-16	$0.66	30-Jun-19	-	30-Jun-19	-
	2018 / T1	11,274	1-Jul-17	$1.25	30-Jun-20	-	30-Jun-20	-
	2018 / T2	5,059	1-Jul-17	$0.75	30-Jun-20	-	30-Jun-20	-
	2018 / T3	4,927	1-Jul-17	$0.77	30-Jun-20	-	30-Jun-20	-
Malcolm Watkins	2017 / T1	19,500	1-Jul-16	$1.00	30-Jun-19	-	30-Jun-19	-
	2017 / T2	7,836	1-Jul-16	$0.67	30-Jun-19	-	30-Jun-19	-
	2017 / T3	7,954	1-Jul-16	$0.66	30-Jun-19	-	30-Jun-19	-
	2018 / T1	16,910	1-Jul-17	$1.25	30-Jun-20	-	30-Jun-20	-
	2018 / T2	7,588	1-Jul-17	$0.75	30-Jun-20	-	30-Jun-20	-
	2018 / T3	7,391	1-Jul-17	$0.77	30-Jun-20	-	30-Jun-20	-
Lisa Bevan	2017 / T1	46,800	1-Jul-16	$1.00	30-Jun-19	-	30-Jun-19	-
	2017 / T2	18,806	1-Jul-16	$0.67	30-Jun-19	-	30-Jun-19	-
	2017 / T3	19,091	1-Jul-16	$0.66	30-Jun-19	-	30-Jun-19	-
	2018 / T1	43,680	1-Jul-17	$1.25	30-Jun-20	-	30-Jun-20	-
	2018 / T2	19,600	1-Jul-17	$0.75	30-Jun-20	-	30-Jun-20	-
	2018 / T3	19,091	1-Jul-17	$0.77	30-Jun-20	-	30-Jun-20	-

KMP	Year / Tranches (T)	Rights awarded during the year	Grant date	Fair value per rights at award date $	Vesting date	Exercise price	Expiry date	No. forfeited during the year
David Bailey	2017 / T1	91,000	1-Jul-16	$1.00	30-Jun-19	-	30-Jun-19	-
	2017 / T2	36,567	1-Jul-16	$0.67	30-Jun-19	-	30-Jun-19	-
	2017 / T3	37,121	1-Jul-16	$0.66	30-Jun-19	-	30-Jun-19	-
	2018 / T1	143,000	1-Jul-17	$1.25	30-Jun-20	-	30-Jun-20	-
	2018 / T2	64,167	1-Jul-17	$0.75	30-Jun-20	-	30-Jun-20	-
	2018 / T3	62,500	1-Jul-17	$0.77	30-Jun-20	-	30-Jun-20	-
Ben Jenkins	2017 / T1	32,500	1-Jul-16	$1.00	30-Jun-19	-	30-Jun-19	-
	2017 / T2	13,060	1-Jul-16	$0.67	30-Jun-19	-	30-Jun-19	-
	2017 / T3	13,257	1-Jul-16	$0.66	30-Jun-19	-	30-Jun-19	-
	2018 / T1	44,200	1-Jul-17	$1.25	30-Jun-20	-	30-Jun-20	-
	2018 / T2	19,833	1-Jul-17	$0.75	30-Jun-20	-	30-Jun-20	-
	2018 / T3	19,319	1-Jul-17	$0.77	30-Jun-20	-	30-Jun-20	-
John Sanger	2018 / T1	37,987	6-Mar-18	$1.54	30-Jun-20	-	30-Jun-20	-
	2018 / T2	14,189	6-Mar-18	$1.11	30-Jun-20	-	30-Jun-20	-
	2018 / T3	14,063	6-Mar-18	$1.12	30-Jun-20	-	30-Jun-20	-

T1 – Earnings Per Share allocation

T2 – TSR (Diversified Financials) allocation

T3 – TSR (Small Industrials) allocation

*5.4) Shareholdings of KMP**

Ordinary shares held in Australian Finance Group Limited ASX:AFG (number)

30 June 2018	Balance 1 July 2017	Granted as remuneration	Sold during the period	Net change other	Balance 30 June 2018	Held nominally
Directors						
Tony Gill	2,250,000	-	-	(1,125,000)	1,125,000	1,125,000
Brett McKeon	21,179,773	-	-	-	21,179,773	21,179,773
Malcolm Watkins	19,602,689	-	-	-	19,602,689	19,602,689
Kevin Matthews	15,000,000	-	-	29,516	15,029,516	15,029,516
Craig Carter	500,000	-	-	-	500,000	500,000
Melanie Kiely	-	-	-	67,164	67,164	67,164
Jane Muirsmith	-	-	-	65,000	65,000	65,000
Executives						
Lisa Bevan	1,533,333	-	-	-	1,533,333	83,333
David Bailey	1,066,666	-	-	-	1,066,666	546,666
Ben Jenkins	-	-	-	-	-	-
John Sanger	-	-	-	35,000	35,000	-

* Includes shares held directly, indirectly and beneficially by the KMP

6) Executive service agreements

Remuneration and other terms of employment for Executives are formalised in employment agreements. Each of these employment agreements provides for the payment of fixed and performance-based remuneration and employer superannuation contributions. The following outlines the details of these agreements:

Name	Agreement expires	Notice of termination by Company	Employee notice
Brett McKeon	No expiry, continuous agreement	12 months (or payment in lieu of notice)	12 weeks
Malcolm Watkins	No expiry, continuous agreement	12 months (or payment in lieu of notice)	12 weeks
David Bailey	No expiry, continuous agreement	12 months (or payment in lieu of notice)	12 weeks
Lisa Bevan	No expiry, continuous agreement	12 months (or payment in lieu of notice)	12 weeks
Ben Jenkins	No expiry, continuous agreement	6 months (or payment in lieu of notice)	12 weeks
John Sanger	No expiry, continuous agreement	3 months (or payment in lieu of notice)	12 weeks

7) Remuneration Governance

7.1) Remuneration and Nomination

The Remuneration and Nomination Committee is responsible for ensuring AFG has remuneration strategies and a framework that fairly and responsibly rewards Executives and Non-Executive Directors with regard to performance, the law and corporate governance. The Committee ensures that AFG remuneration policies are directly aligned to business strategy, financial performance and support increased shareholder wealth over the long term.

As at 30 June 2018 the Committee comprised independent Non-Executive Director Melanie Kiely (Chair), and independent Non-Executive Directors Craig Carter and Jane Muirsmith.

Further information on the role of the Remuneration and Nomination Committee is set out in the Committee's Charter available at www.afgonline.com.au and in the Corporate Governance Statement also available on the Company's website.

7.2) Remuneration Philosophy

The performance of the Company depends upon the quality of its Directors and Executives. To prosper, the Company must attract, motivate and retain highly skilled Directors and Executives.

The Board embodies the following principles in its remuneration framework:

- Remuneration levels for KMP are set to attract and retain appropriately qualified and experienced Directors and Executives;
- Alignment of Executive reward with shareholder interest and strategy;
- The relationship between performance, conduct and remuneration of Executives is clear and transparent.

7.3) Use of Independent Consultants

In performing its role, the Remuneration and Nomination Committee can directly commission and receive information and advice from independent external advisors. The Committee has protocols in place to ensure that any advice and recommendations are provided in an appropriate manner and free from undue influence of management.

No remuneration advice or recommendations from independent consultants was received during the financial period ended 30 June 2018.

7.4) Policy for Dealing in Securities

AFG has a policy for dealing in securities to establish best practice procedures that protect AFG, Directors and employees against the misuse of unpublished information that could materially affect the value of AFG securities. Directors, Executives and their connected persons are restricted by trading windows.

7.5) Remuneration Report approval at 2017 AGM

The 30 June 2017 Remuneration Report was presented to shareholders and was approved at the 2017 Annual General Meeting.

8) Other Transactions and Balances with KMP and their Related Parties

(i) During the year, the Group made payments to Genworth Mortgage Insurance Australia Limited, one of our providers of Lenders Mortgage Insurance (LMI). Mr Gill is a Non-Executive Director of Genworth Mortgage Insurance Australia Limited. These dealings were in the ordinary course of business and were on normal terms and conditions. The payments made for the provision of LMI policies were $706k (2017: $427k). These payments are not considered to be material to the financial results of the Group and therefore do not impact on Mr Gill's independence as a Director.

(ii) Mr Gill is an Independent Director of First Mortgage Services (FMS), one of our providers of loan settlement services. During the year, the Group made payments to FMS. These dealings were in the ordinary course of business and were on normal terms and conditions. The payments made for the provision of the settlement services were $333k (2017: $253k). These payments are not considered to be material to the financial results of the Group and therefore do not impact on Mr Gill's independence as a Director.

(iii) As part of the demerger of the property business on 22 April 2015, the Group entered into a shared services agreement with Establish Property Group Ltd (EPG). Mr McKeon, Ms Bevan and Mr Bailey, are Directors of EPG and McCabe Street Limited. Under the terms of the shared services agreement, the Group provided premises, administration, accounting and some company secretarial services to EPG at an agreed arm's length rate for part of the year.

During the year the shared services agreement was terminated when EPG moved out of the AFG office in September 2017. EPG paid $6k (2017: $120k) for services under the shared services agreement for the 2018 financial year.

In addition to the above, the Group's head Office is located at 100 Havelock Street West Perth. The Group leases these premises at commercial arm's length rates from an investee of EPG, Qube Havelock Street Development Pty Ltd (Qube). AFG paid rent of $1,583k which has been paid to Qube (2017: $1,567k).

In addition to the above McCabe Street has an outstanding loan owing to AFG amounting to $209k (2017: $201k), this loan is on commercial terms at arms length.

9) Independent Audit of Remuneration Report

The Remuneration Report has been audited by Deloitte. Please see page 87 of this Annual Report for Deloitte's report on the Remuneration Report.

This Directors' Report, including the Remuneration Report, is signed in accordance with a Resolution of Directors of AFG.

Tony Gill
Chairman

Perth
27 September 2018

Independence declaration under Section 307C of the *Corporations Act 2001*

Deloitte.

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The Board of Directors
Australian Finance Group Limited
Level 4, 100 Havelock Street
West Perth WA 6005

27 September 2018

Dear Directors

Australian Finance Group 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 Australian Finance Group Limited.

As lead audit partner for the audit of the financial statements of Australian Finance Group Limited for the financial year ended 30 June 2018, 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

Consolidated Statement of Financial Position

As at 30 June 2018

In thousands of AUD	Note	2018	2017
Assets			
Cash and cash equivalents	14(a)	88,710	124,801
Trade and other receivables	15	810,117	737,580
Loans and advances	17	1,379,857	1,152,171
Other financial assets		15	31
Investment in associate	18	12,815	-
Property, plant and equipment	19	1,379	1,898
Intangible assets		516	745
Total assets		2,293,409	2,017,226
Liabilities			
Trade and other payables	16	783,676	715,803
Interest-bearing liabilities	20	1,381,761	1,164,478
Employee benefits	21	4,543	4,559
Current tax payable	13(b)	2,074	1,249
Provisions	22	2,855	1,667
Deferred income	23	4,123	2,693
Deferred tax liability	13(c)	21,053	19,482
Total liabilities		2,200,085	1,909,931
Net assets		**93,324**	**107,295**
Equity			
Share capital	25(a)	43,541	43,541
Share-based payment reserve		814	408
Other capital reserves		(87)	(91)
Retained earnings		49,056	63,410
Total equity attributable to equity holders of the Company		93,324	107,268
Non-controlling interest		-	27
Total equity		**93,324**	**107,295**

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

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2018

In thousands of AUD	Note	2018	2017
Continuing Operations			
Commission and other income	7	551,084	539,759
Securitisation interest income		52,312	46,342
Operating income		**603,396**	**586,101**
Commission and other cost of sales		(493,938)	(474,557)
Securitisation interest expense		(36,875)	(31,711)
Gross profit		**72,583**	**79,833**
Other income	8	13,412	16,700
Administration expenses		(3,788)	(2,885)
Other expenses	9	(37,129)	(38,955)
Results from operating activities		**45,078**	**54,693**
Finance income	12	2,463	2,277
Finance expenses	12	(18)	(14)
Share of profit of an associate		186	-
Net finance and investing income		**2,631**	**2,263**
Profit before tax from continuing operations		**47,709**	**56,956**
Income tax expense	13(a)	(14,400)	(17,852)
Profit from continuing operations		**33,309**	**39,104**
Attributable to:			
Owners of the Company		33,336	39,053
Non-controlling interests		(27)	51
		33,309	**39,104**
Other comprehensive income **Items that may be reclassified subsequently to profit or loss**			
Net change in fair value of available-for-sale financial assets		(15)	2
Income tax on other comprehensive income		-	-
Other comprehensive (loss)/income for the year, net of income tax		(15)	2
Total comprehensive income for the year		**33,294**	**39,106**
Total comprehensive income for the year attributable to:			
Owners of the Company		33,321	39,055
Non-controlling interests		(27)	51
Total comprehensive income for the year		**33,294**	**39,106**
Earnings per share			
Basic earnings (cents per share)	26	15.50	18.20
Diluted earnings (cents per share)	26	15.41	18.15

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

Statement of Changes in Equity

For the year ended 30 June 2018

In thousands of AUD	Share capital	Foreign currency translation reserve	Fair value reserve	Share-based payment reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 July 2016	43,541	(14)	(60)	97	44,980	88,544	(24)	88,520
Total comprehensive income for the period								
Profit	-	-	-	-	39,053	39,053	51	39,104
Other comprehensive income	-	-	(17)	-	-	(17)	-	(17)
Total comprehensive income for the period	-	-	(17)	-	39,053	39,036	51	39,087
Transactions with owners, recorded directly in equity								
Dividends to equity holders	-	-	-	-	(20,623)	(20,623)	-	(20,623)
Share-based payment transactions	-	-	-	311	-	311	-	311
Total transactions with owners	-	-	-	311	(20,623)	(20,312)	-	(20,312)
Balance at 30 June 2017	43,541	(14)	(77)	408	63,410	107,268	27	107,295
Balance at 1 July 2017	43,541	(14)	(77)	408	63,410	107,268	27	107,295
Total comprehensive income for the period								
Profit	-	-	-	-	33,336	33,336	(27)	33,309
Other comprehensive income	-	-	4	-	-	4	-	4
Total comprehensive income for the period	-	-	4	-	33,336	33,340	(27)	33,313
Transactions with owners, recorded directly in equity								
Dividends to equity holders	-	-	-	-	(47,690)	(47,690)	-	(47,690)
Share-based payment transactions	-	-	-	406	-	406	-	406
Total transactions with owners	-	-	-	406	(47,690)	(47,284)	-	(47,284)
Balance at 30 June 2018	43,541	(14)	(73)	814	49,056	93,324	-	93,324

The Consolidated Statement of Changes in Equity should be read in conjunction with Notes to the Financial Statements.

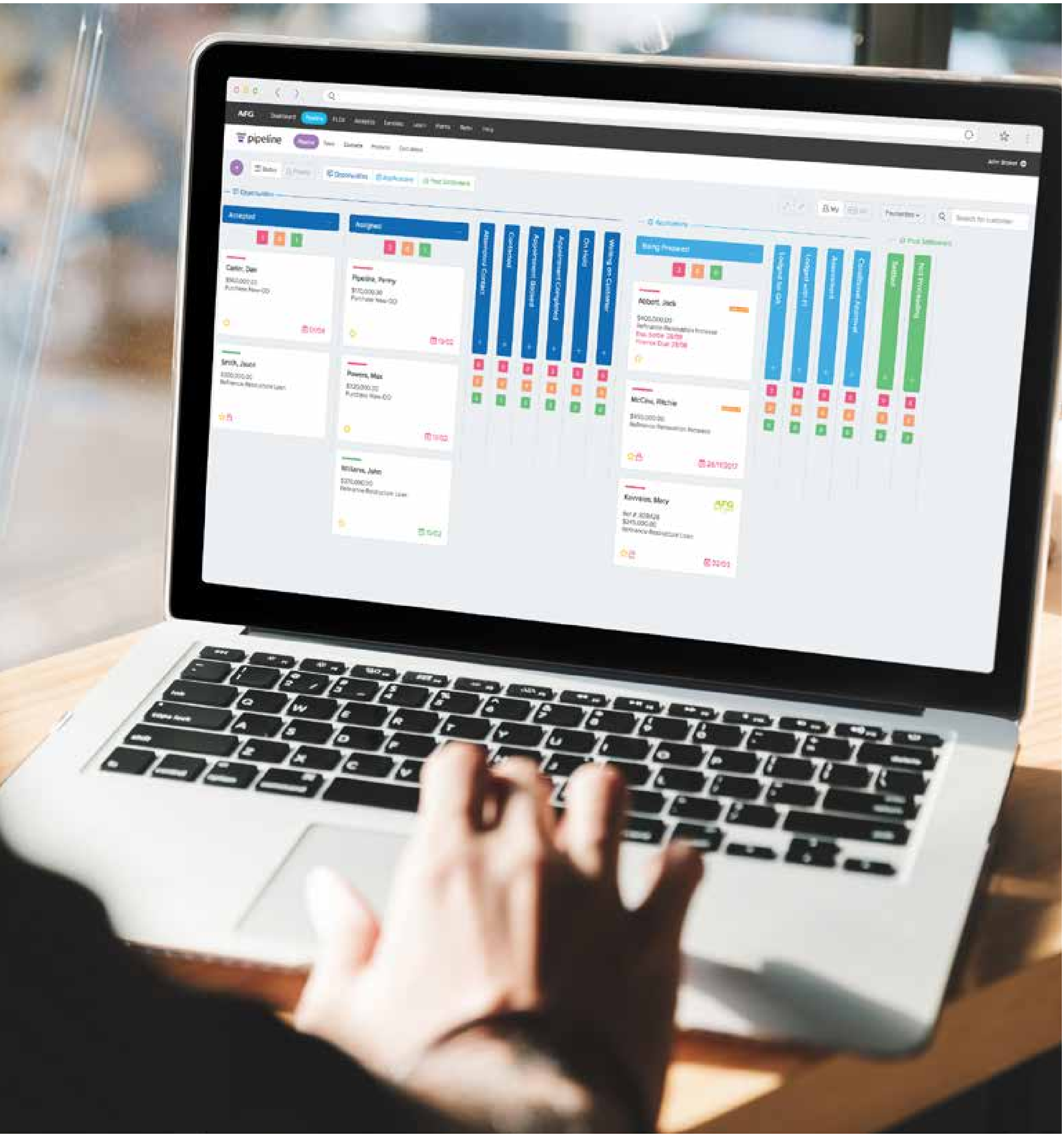
Statement of Cash Flows

For the year ended 30 June 2018

In thousands of AUD	Note	2018	2017
Cash flows from operating activities			
Cash receipts from customers		496,851	462,454
Cash paid to suppliers and employees		(467,799)	(439,031)
Interest received		52,313	46,341
Interest paid		(36,875)	(31,711)
Income taxes paid		(12,004)	(11,536)
Net cash generated by operating activities	14(b)	32,486	26,517
Cash flows from investing activities			
Net interest received		2,429	2,303
Acquisition of property, plant and equipment		(178)	(280)
Investment in intangible assets		-	(150)
Investment in Thinktank		(11,141)	-
Contingent consideration Thinktank		(992)	-
Increase in other loans and advances		(3,267)	(539)
Loans and advances to customer borrowings		(224,763)	(105,608)
Net cash used in investing activities		(237,912)	(104,274)
Cash flows used in financing activities			
Repayments from warehouse facilities		(67,225)	(48,905)
Proceeds from bondholders		284,340	141,677
Decrease in loans from funders		(90)	(257)
Dividends paid to equity holders of the parent	25(c)	(47,690)	(20,622)
Net cash generated by financing activities		169,335	71,893
Net decrease in cash and cash equivalents		(36,091)	(5,864)
Cash and cash equivalents at 1 July		124,801	130,665
Cash and cash equivalents at 30 June	14(a)	88,710	124,801

The Statement of Cash Flows should be read in conjunction with the Notes to the Financial Statements.

Notes to the Financial Statements


pipeline
Accepted
Assigned
Being Prepared

1) Reporting entity

The Consolidated Financial Statements for the financial year ended 30 June 2018 comprise 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 financial year were mortgage origination and lending. The Company's principal place of business is 100 Havelock Street, West Perth, Western Australia.

2) Basis of preparation

(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 ("AASB").

The Financial Report is a general-purpose financial report, for a 'for-profit' entity, which has been prepared in accordance with the requirements of the *Corporations Act 2001 (Cth)* and Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The Financial Report has also been prepared on a historical cost basis, except where noted.

The Financial Statements comprise the Consolidated Financial Statements of the AFG Group of companies.

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

The Consolidated Financial Statements were authorised for issue by the Board of Directors on 27 September 2018.

(b) Basis of measurement

The Consolidated Financial Statements have been prepared on a historical cost basis except for the following material items:

- Receivables and payables relating to trail commission are initially measured at fair value and subsequently at amortised cost;
- Financial instruments at fair value through profit or loss are measured at fair value;
- Available-for-sale financial assets are measured at fair value except for equity instruments that do not have a quoted price in an active market and whose fair value cannot be reliably measured.

(c) Functional and presentation currency

These Consolidated Financial Statements are presented in Australian dollars ("AUD").

The Group is of a kind referred to in *ASIC Corporations Instrument 2016/191* dated 31 March 2016 and in accordance all financial information presented in Australian dollars has been rounded to the nearest thousand dollars unless otherwise stated.

(d) Use of estimates and judgements

The preparation of Financial Statements in conformity with AASB's requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements is included in the following notes:

- Notes 15 and 16 - Net present value of future trail commissions: recognition of future trail commissions receivable and payable
- Note 3(a)(i) - Consolidation of special purpose entities

Information about assumptions and estimates that have a significant risk of resulting in a material adjustment within the next financial years are included in the following:

- Note 4 - Determination of fair value assumptions used in forecasting and discounting future trail commissions
- Note 27 - Measurement of share-based payments
- Note 28 - Valuation of financial instruments

- *Taxation*
  The Group's accounting for taxation requires Management's judgment in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the Statement of Financial Position. Deferred tax assets, including those arising from un-recouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

  Assumptions about the generation of future taxable profits depend on Management's estimates of future cash flows. These depend on estimates of future income, operating costs, capital expenditure, dividends and other capital management transactions. Judgments and assumptions are also required about the application of income tax legislation. These judgments and assumptions are subject to risk uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the Statement of Financial Position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

(e) Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:

(i) 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.

Management assesses the impact of new standards and interpretations. Assessment of the expected impacts of these standards and interpretations is ongoing, however, it is expected that that there will be no significant changes in the Group's accounting policies.

(ii) Accounting Standards and Interpretations Issued But Not Yet Effective

At the date of authorisation of the Financial Statements, the Standards and Interpretations that were issued but not yet effective, which have not been early adopted are listed below:

Affected Standards and Interpretations	Application date*	Application date for Group
AASB 15 'Revenue from Contracts with Customers'	1 January 2018	30 June 2019
AASB 16 'Leases'	1 January 2019	30 June 2020
AASB 9 'Financial instruments' and the relevant amending standards	1 January 2018	30 June 2019

** Reporting period commences on or after the application date*

Management have performed an assessment of the impact of applying the new standards:

AASB 15 'Revenue from Contracts with Customers' a full assessment of AASB 15 on all revenue streams has been performed and the amendments are not expected to have a material impact on the measurement of the trail commission receivable and revenue in the financial statements on implementation. The standard requires trail commissions to be disclosed as contract assets, under AASB 139 trail commissions are disclosed as trail commission receivables. Additional disclosures will be prepared under the new standard.

AASB 16 'Leases' the Group has limited number of operating leases which will result in the recognition of right of use assets and corresponding liabilities. A full assessment has been performed and no significant net impact has been identified. Additional disclosures will be prepared under the new standard.

AASB 9 'Financial Instruments' and the relevant amending standards introduce new requirements for the classification and measurement of financial assets and impairment of financial assets.

The classification and measurement of financial assets is determined on the basis of the contractual cashflow characteristics and the objective of the business model associated with holding the asset. Key changes include:

- the Held to Maturity (HTM) and Available for Sale (AFS) asset categories will be removed;
- a new asset category measured at Fair Value through Other Comprehensive Income (FVOCI) is introduced. This applies to financial asset debt instruments with contractual cashflow characteristics that are solely payments of principal and interest and held in a model whose objective is achieved by both collecting contractual cashflows and selling financial assets;
- a new asset category for non-traded equity investments measured at FVOCI is introduced; and
- all other financial assets and financial liabilities will continue to be measured on the same bases as is currently adopted under IAS 39.

The classification and measurement of financial liabilities will remain largely unchanged. The Group's securitised assets will remain measured at amortised cost due to the contractual cashflows being solely payments of principal and interest (SPPI) and are held for collect principal and interest.

The IFRS 9 impairment requirements are based on an expected credit loss model (ECL) that replaces the incurred loss model under the current accounting standard. The Group will be generally required to recognise either a 12-months' or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition. The ECL model will apply to debt instruments accounted for at amortised cost or at FVOCI. AASB 9 will change the Group's current methodology for calculating the provision for doubtful debts, in particular for collective provisioning. Utilising an expected credit loss model does not have a material impact on the Group's results. This model will be adopted by the Group upon implementation and is expected to result in additional disclosures.

3) Significant accounting policies

Except as expressly described in the Notes to the Financial Statements, the accounting policies set out below have been applied consistently to all periods presented in these Consolidated Financial Statements and have been applied consistently by all Group entities.

(a) Basis of consolidation

The Consolidated Financial Statements incorporate the Financial Statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. 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
- Has the ability to use its power to affect its returns

When the Group has less than a majority of the voting rights or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Right arising from other contractual arrangements
- The Group's voting rights and potential voting rights

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group 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. Subsidiaries are entities controlled by the Group.

When necessary, adjustments are made to the Financial Statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

Non-controlling interest is determined as the non-controlling interest's proportion of the fair value of the recognised identifiable assets, liabilities and contingent liabilities at the date of the original acquisition. Post-acquisition of non-controlling interest in the identifiable assets and liabilities of a subsidiary comprises the non-controlling interest's share of movements in equity since the date of the original controlling acquisition, after eliminating intra-group transactions.

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 intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the Consolidated Financial Statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair values of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in the profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets, and liabilities of the subsidiary and any non-controlling interests. All the amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group has directly disposed of the related assets and liabilities of the subsidiary. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under AASB 139, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

(i) Special purpose entities

Special purpose entities are those entities over which the group has no ownership interest but in effect the substance of the relationship is such that the Group controls the entity so as to obtain the majority of the benefits from its operation.

The Group has established the following special purpose entities to support the specific funding needs of the Group's securitisation programme:

- AFG 2010-1 Trust and its Series (SPE) to conduct securitisation activities funded by short term warehouse facilities provided by reputable lenders
- AFG 2013-2 Trust, AFG 2016-1 Trust, AFG 2017-1 Trust and AFG 2018-1 Trust (SPE-RMBS) to hold securitised assets and issue Residential Mortgage Backed Securities (RMBS)

The special purpose entities meet the criteria of being controlled entities under AASB 10 – *Consolidated Financial Statements*.

The elements indicating control include, but are not limited to, the below:

- The Group has existing rights that gives it the ability to direct relevant activities that significantly affect the special purpose entities' returns
- The Group is exposed, and has rights, to variable returns from its involvement with the special purpose entities
- The Group has all the residual interest in the special purpose entities
- Fees received by the Group from the special purpose entities vary on the performance, or non-performance, of the securitised assets
- The Group has the ability to direct decision making accompanied by the objective of obtaining benefits from the special purpose entities' activities

The Group continues to retain control over the financial assets, for which some, but not substantially all, the risks and rewards have been transferred to the warehouse facilities providers and the bondholders. The securitised assets and the corresponding liabilities are recorded in the Statement of Financial Position and the interest earned and paid recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

(ii) Investments in associates (equity accounted investee)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Investments in associates are accounted for using the equity method (equity accounted investee) and are initially recognised at cost. The cost of the investment includes transaction costs (see Note 18).

The Consolidated Financial Statements include the Group's share of the profit or loss and other comprehensive income of the investee, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

(b) Financial instruments

(i) Non-derivative financial assets

Initial recognition and measurement

Financial assets within the scope of AASB 139 are classified as financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available–for-sale financial assets. The Group determines the classification of its financial assets at initial recognition. All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

Financial assets at fair value through profit or loss

The Group's investments in equity securities are classified as financial assets at fair value through profit or loss. An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such instruments and makes purchase and sale decisions based on their fair value in accordance with the Group's risk management and investment strategy. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are subsequently measured at fair value, and changes therein are recognised in the profit or loss.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less impairment losses.

Loans and receivables comprise trade and other receivables and loans and advances which relate mainly to residential mortgages issued under the securitisation programme.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. Subsequent to initial recognition, available-for-sale financial assets are measured at fair value and changes therein, other than impairment losses (see Note 3(b)(ii)), are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss is transferred to profit or loss.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associate liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

The Group utilises SPE-RMBS to hold securitised assets (financial assets) and issue residential mortgage asset backed securities to investors. After the securitisation transaction, the Group continues to retain control of the financial assets for which some but not substantially all the risks and rewards have been transferred to the investors. Consequently, the securitised assets do not meet the requirements of AASB 139 - Financial Instruments: Recognition and Measurement in respect of the derecognition of financial instruments. The securitised assets have been recorded in the Statement of Financial Position with the related interest recognised through the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

(ii) Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, that has a negative effect on the estimated future cash flows of that asset.

Objective evidence that financial assets are impaired can include failure to meet repayment of principal and interest in accordance with the terms of the governing agreement (loans and advances within the SPE), indications that a debtor or issuer will enter bankruptcy, disappearance of an active market for a security, or wider economic and financial market indicators pertaining to a particular industry sector or local economy. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Significant financial assets and loans and advances within the special purpose entities are individually assessed and regularly tested for impairment. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for Management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Losses are recognised in profit or loss and reflected in an allowance account against receivables. For the SPE loans and advances the present value of estimated cash flows recoverable is determined after taking into account net realisable value from sale of collateral held. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the profit or loss.

An impairment loss in respect of an available-for-sale financial asset is recognised by transferring the cumulative loss that has been recognised previously in equity to profit or loss. When a subsequent event causes the fair value of an impaired available-for-sale asset to increase and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value is recognised in other comprehensive income.

(iii) Non-Derivative financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of AASB 139 are classified as financial liabilities at fair value through profit or loss, or loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value, in the case of loans and borrowings, net of directly attributable transactions.

The Group initially recognises financial liabilities (including liabilities designated at fair value through profit or loss) on the trade date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

The Group's non-derivative financial liabilities include interest-bearing liabilities and trade and other payables.

Subsequent measurement

Subsequent to initial recognition, interest-bearing liabilities are measured at amortised cost using the effective interest rate method.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in respect of the carrying amounts is recognised in the income statement.

(iv) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity at the time of issuance, net of any related income tax benefit.

Repurchase of share capital

When share capital recognised as equity is repurchased the amount of consideration paid, including directly attributable costs, is recognised as a reduction in equity.

Dividends

Dividends are recognised as a liability in the period in which they are declared.

(c) Cash and short-term deposits

Cash and short-term deposits in the Consolidated Statement of Financial Position comprise cash at bank and on hand, short term deposits with a maturity of three months or less, as well as restricted cash such as proceeds and collections in the special purpose entities' accounts which are not available to the shareholders.

For the purpose of the Statement of Cash Flows, cash and cash equivalents consist of the cash and term deposits as defined above, net of outstanding bank overdrafts.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation (see (iii) below) and impairment losses (see accounting policy 3(f)).

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Borrowing costs related to the acquisition or construction of qualifying assets are capitalised as part of the cost of the assets.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for separately.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount and are recognised net within "other income" in profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its costs can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful life unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

(i)	plant and equipment	2-5 years
(ii)	fixtures and fittings	5-20 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

(e) Intangibles

(i) Software development costs

Software development costs are recognised as an expense when incurred, except to the extent that such costs, together with previous unamortised deferred costs in relation to that project, are expected beyond reasonable doubt, to provide future economic benefits. Any deferred development costs are amortised over the estimated useful lives of the relevant assets.

The unamortised balance of software development costs deferred in previous periods is reviewed regularly and at each reporting date, to ensure the criterion for deferral continues to be met. Where such costs are considered to no longer provide future economic benefits they are written-off as an expense in the profit or loss.

(ii) Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation (see above (i)) and impairment losses (see accounting policy 3(f)).

(iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss when incurred.

(iv) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

(i) Capitalised software development costs 2.5 - 5 years

(ii) Software licenses 2.5 - 5 years

(f) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates that have been used to determine the recoverable amount. An impairment loss is reversed only to the extent that the assets carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised.

(g) Employee benefits

(i) Long-term employee benefits

The Group's liability in respect of long-term employee benefits is the amount of future benefits that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. Consideration is given to the expected future wage and salary levels, and periods of service. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency as the Group's functional currency.

(ii) Short-term benefits

Short-term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for employee benefits such as wages, salaries, annual leave and sick leave if the Group has present obligations resulting from employees' services provided to reporting date.

A provision is recognised for the amount expected to be paid under short-term and long-term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(iii) Share-based payment transactions

The grant date fair value of options and shares granted to employees is recognised as an employee expense, with a corresponding increase in equity over the period in which the employees become unconditionally entitled to the options or shares. The amount recognised as an expense is adjusted to reflect the actual number of options or shares that vested, except for those that fail to vest due to market conditions not being met.

(h) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting expected future cash flows at a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

The unwinding of the discount is recognised as a finance cost.

Provision for clawbacks on settlements within the period are raised on both commission received and commission payable. Clawbacks will be re-measured each reporting period.

(i) Revenue

(i) Commission revenues

The Group provides loan origination services and receives origination commission on the settlement of loans. Additionally, the lender normally pays a trail commission over the life of the loan. Commission revenue is recognised as follows:

- Origination commissions: Origination commissions are recognised upon the loans being settled and receipt of commission net of clawbacks.
- Trail commissions: The Group receives trail commissions from lenders on loans they have settled that were originated by the Group. The trail commissions are received over the life of the loans based on the individual loan balance outstanding. The Group also makes monthly trail commission payments to authorised mortgage originators (brokers) based on the individual loan balance outstanding.

On initial recognition, trail commission revenue and receivables are recognised at fair value, being the expected future trail commission receivables discounted to their net present value. In addition, an associated payable and expense to the brokers are also recognised, initially measured at fair value being the future trail commission payable to brokers discounted to their net present value.

Subsequent to initial recognition and measurement both the trail commission asset and trail commission payable are measured at amortised cost. The carrying amount of the trail commission asset and trail commission payable are adjusted to reflect actual and revised estimated cash flows by recalculating the carrying amount by computing the present value of estimated future cash flows at the original effective interest rate. The resulting adjustment is recognised as income or expense in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Where trail commission does not meet the revenue recognition criteria to be recognised at fair value they are recognised in line with the cashflow received.

(ii) Fees for services

Revenue from contracts to provide marketing, compliance and administration services to the brokers is recognised with reference to the stage of completion for the contract of services.

(iii) Rendering of other services

Revenue from contracts to provide other services is recognised by reference to the stage of completion of the contract.

(iv) Securitisation and residential mortgage backed securities programme

Revenue arising from issuing residential loans which are funded by the warehouse facility is initially recognised at the fair value of the consideration received or receivable when it is probable that future economic benefits will flow to the Group and these benefits can be measured reliably.

Loans and advances are initially recognised at fair value. Subsequent to initial recognition, the loans are measured at amortised cost using the effective interest method over the estimated actual (but not contractual) life of the mortgage loan, taking into account all income and expenditure directly attributable to the loan. Interest income is the key component of this revenue stream and it is recognised as it accrues using the effective interest method. The rate at which revenue is recognised is referred to as the effective interest rate and is equivalent to the rate that effectively discounts estimated future cash flows throughout the estimated life to the net carrying value of the loan. Acquisition costs are also spread across the estimated life of the loan.

(j) Other Income

(i) Sponsorship and incentive income

Sponsorship and incentive income is the income generated from sponsorship and incentive payment arrangements with Lenders. The income is brought to account when services relating to the income have been performed.

(k) Lease payments

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Payments made under operating leases are recognised in the profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(l) Finance income and expenses

Finance income comprises interest income on funds invested, changes in the fair value of financial assets at fair value through profit or loss and foreign currency gains. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise interest payable on borrowings and changes in fair value of financial assets at fair value through profit or loss.

(m) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset and subsequently amortised over the life of that asset. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in the profit or loss using the effective interest method.

(n) Income tax expense

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is generally provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised where management consider that it is probable that future taxable profits will be available to utilise those temporary differences. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the profit or loss.

(i) Tax consolidation

The Company and its wholly-owned Australian resident entities have formed a tax consolidated group with effect from 1 July 2004 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is the Company.

Current tax expenses, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate Financial Statements of the members of the tax-consolidated group using the 'group allocation' approach by reference to the carrying amounts of assets and liabilities in the separate Financial Statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries is assumed by the head entity in the tax-consolidated group and are recognised by the Company as amounts payable (receivable) to (from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised. Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

(ii) Nature of tax funding arrangements and tax sharing arrangements

The head entity, in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments/(receipts) to/(from) the head entity equal to the current tax liability (asset) assumed by the head entity and any tax loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an intra-group receivable (payable) equal in amount to the tax liability (asset) assumed. The inter-entity receivables (payables) are at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity in conjunction with other members of the tax-consolidated group has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. 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.

(iii) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Taxation Office (ATO) is included as a current asset or liability or as part of the expense.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as cash flows from operating activities.

(o) Deferred income

Professional indemnity insurance income is deferred to the extent it gives rise to future economic benefits and recognised as income on the stage of completion of the contract.

4) Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values are disclosed in the notes specific to that asset or liability.

Trail commissions

The Group receives trail commissions from lenders on settled loans over the life of the loan based on the loan book balance outstanding. The Group also makes trail commission payments to brokers when trail commission is received from lenders.

The fair value of trail commission receivable from lenders and the corresponding payable to brokers is determined by using a discounted cash flow valuation. These calculations require the use of assumptions which are determined by management using a variety of inputs including external actuarial analysis of historical information. Further assumptions are disclosed in Note 28(d).

Trade and other receivables/payables

All trade and other receivables/payables have a remaining life of less than one year and the notional amount is deemed to reflect the fair value.

Investments in equity instruments

The fair value of financial assets at fair value through profit or loss and available-for-sale assets is determined by reference to their quoted closing bid price at reporting date.

Other financial instruments

The carrying amount of all other financial assets and liabilities recognised in the Statement of Financial Position approximate their fair value, with the exception of the trail commission receivables and payables that are initially recognised at fair value and subsequently carried at amortised cost.

5) Financial risk management

(a) Overview

The Group has exposure to credit, liquidity and market risks from the use of financial instruments.

This note presents information about the Group's exposure to each of the above risks, the objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout the financial report.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Risk and Compliance Committee is responsible for developing and monitoring risk management policies.

Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Risk and Compliance Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company and the Group.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers.

Receivables

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry in which customers operate, has less of an influence on credit risk.

The Group's trade and other receivables relate mainly to high credit quality financial institutions who are the members of the lender panel. New panel entrants are subject to commercial due diligence by the Group's management prior to joining the panel. The Group bears the risk of non-payment of future trail commissions by lenders should they not maintain solvency. However, should a lender not meet its obligations as a debtor then the Group is under no obligation to pay out any future trail commissions to brokers.

Excluding financial institutions on the lender panel, trade and other receivables from other customers are rare given the nature of the Group's business. In the unlikely event that trade and other receivables arise, limits will be established for each customer that represents the maximum open amount without requiring approval from the Group's Board. These limits are reviewed on an ongoing basis by management. The risk limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a cash or prepayment basis. The Group does not require collateral in respect of trade and other receivables.

Loans and advances

To mitigate exposure to credit risk on loans and advances, the Group has adopted the policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or other security where appropriate.

The Group's loans and advances relate mainly to loans advanced through its residential mortgage securitisation programme. Credit risk management is linked to the origination conditions externally imposed on the Group by the warehouse facility provider including geographical limitations. As a consequence, the Group has no significant concentrations of credit risk. The Group has established a credit quality review process to provide early identification of possible changes in credit worthiness of counterparties by the use of external credit agencies, which assigns each counterparty a risk rating. Risk ratings are subject to regular review.

The Group's maximum exposure is the excess of the net realisable value and the carrying amount of the loans, net of any impairment losses. Subsequent to June 2016 all loans with a loan to value ratio of greater than 80% are subject to a lenders mortgage insurance contract.

The Group has established an allowance for impairment that represents the estimate of incurred losses in respect of its receivables. The main component of this allowance is a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics and industry data for similar classes of financial assets. Throughout this financial year and the comparative year no loans that would otherwise be past due or impaired have been renegotiated.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due or will have to do so at an excessive cost. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

To limit this risk, the Group manages assets with liquidity in mind, and monitors future cash flows and liquidity on a regular basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group.

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments.

Currency risk

The Group is exposed to foreign currency risk on cash assets that are denominated in a currency other than AUD. The currencies giving rise to this risk are denominated in US dollars (USD) and New Zealand dollars (NZD). The Group elects not to enter into foreign exchange contracts to hedge this exposure as the net movements would not be material. The Group has no significant exposure to currency risk.

Interest rate risk

Interest rate risk is the risk to the Group's earnings and equity arising from movements in interest rates. Positions are monitored on an ongoing basis to ensure risk levels are maintained within established limits.

The Group's most significant exposure to interest rate risk is on the interest-bearing loans within the SPE which fund the residential mortgage securitisation programme. To minimise its exposure to increases in cost of funding, the Group only lends monies on variable interest rate term. Should there be changes in pricing the Group has the option to review its position and offset those costs by passing on interest rate changes to the end customer.

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected.

The Group's key exposure relates to the net present value of future trail commissions receivable and payable. The Group uses regression models to project the impact of varying levels of prepayment on its net income. The model makes a distinction between the different reasons for repayment and takes into account the effect of any prepayment penalties. The model is back tested against actual outcomes.

For the loans and advances within the SPE and SPE-RMBS, the Group minimises the prepayment risk by passing back all principal repayments to the warehouse facility providers and bondholders.

Other market risk

The Group is exposed to an increase in the level of credit support required within its securitisation programme arising from changes in the credit rating of mortgage insurers used by the SPE, and the composition of the available collateral held. The Group regularly reviews and reports on the credit ratings of those insurers as well as the Company's maximum cash flow requirements should there be any adverse movement in those credit ratings.

(e) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity and aims to maintain a capital structure that ensures the lowest cost of capital available to the Group. The Board of Directors also monitors the level of dividends to ordinary shareholders.

The SPEs are subject to the external requirements imposed by the warehouse facility providers. The terms of the warehouse facilities provide a mechanism for managing the lending activities of the SPE and ensure that all outstanding principal and interest is paid at the end of each reporting period. Similarly, the SPE-RMBS are subject to external requirements imposed by the bondholders and the rating agencies. The terms of the RMBS transactions provide a mechanism for ensuring that all outstanding principal and interest is paid at the end of each reporting period. There were no breaches in the current period.

AFG Securities Pty Ltd is subject to externally imposed minimum capital requirements by the Australian Securities and Investments Commission (ASIC) in accordance with the conditions of their Australian Financial Services Licence.

6) 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;

- 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 residential mortgages outstanding that have been originated by the Group's contracted brokers and are generating trail income.

AFG Home Loans

AFGHL offers the Group's branded mortgage products, funded by third party wholesale funding providers (white label products) or AFG Securities mortgages (securitised loans issued by AFG Securities Pty Ltd) that are distributed through the Group's distribution network. AFGHL sits on the Group's panel of lenders alongside the other residential 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 loans funded by 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

Other/unallocated items are comprised mainly of other operating activities from which the Group earns revenue 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 in the following table.

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

Year ended 30 June 2018				
In thousands of AUD	**AFG Wholesale Mortgage Broking**	**AFG Home Loans**	**Other / Unallocated**	**Total**
Revenue				
External customers	508,670	93,301	1,425	603,396
Inter-segment	29,152	-	(29,152)	-
Other operating income	3,230	-	10,182	13,412
Interest income	-	25	2,438	2,463
Total segment revenue	**541,052**	**93,326**	**(15,107)**	**619,271**
Results				
Segment profit/(loss) before income tax	**33,357**	**18,729**	**(4,377)**	**47,709**
Income tax expense				(14,400)
Net profit after tax				**33,309**
Assets and liabilities				
Total segment assets	**789,370**	**1,474,700**	**29,339**	**2,293,409**
Total segment liabilities	**780,377**	**1,416,783**	**2,925**	**2,200,085**
Other segment information				
Depreciation and amortisation	(168)	(17)	(814)	(999)
Interest expense	-	-	(3)	(3)

Year ended 30 June 2017				
In thousands of AUD	**AFG Wholesale Mortgage Broking**	**AFG Home Loans**	**Other / Unallocated**	**Total**
Revenue				
External customers	492,506	92,224	1,371	586,101
Inter-segment	22,558	-	(22,558)	-
Other operating income	3,857	-	12,843	16,700
Interest income	-	248	2,029	2,277
Total segment revenue	**518,921**	**92,472**	**(6,315)**	**605,078**
Results				
Segment profit before income tax	**35,999**	**28,672**	**(7,715)**	**56,956**
Income tax expense				(17,852)
Net profit after tax				**39,104**
Assets and liabilities				
Total segment assets	**720,439**	**1,228,925**	**67,862**	**2,017,226**
Total segment liabilities	**713,264**	**1,184,995**	**11,672**	**1,909,931**
Other segment information				
Depreciation and amortisation	(182)	(15)	(747)	(944)
Interest expense	-	-	(12)	(12)

7) Revenue

In thousands of AUD	2018	2017
Commissions	500,955	491,358
Interest on commission income receivable	49,040	47,277
Mortgage management services	132	305
Securitisation transaction fees	957	819
	551,084	539,759

8) Other income

In thousands of AUD	2018	2017
Sponsorship and incentive income	3,396	7,544
Software licence fees	2,755	2,413
Professional indemnity insurance	2,213	2,163
Fees for services	4,482	3,904
Other	566	676
	13,412	16,700

9) Other expenses

In thousands of AUD	Note	2018	2017
Advertising and promotion		1,840	5,014
Consultancy and professional fees		1,451	1,972
Information technology		3,296	3,285
Occupancy costs		426	400
Employee costs	10	26,905	25,285
Depreciation and amortisation		999	944
Operating lease costs		2,030	1,975
Impairment loss on receivables		182	80
		37,129	38,955

10) Employee costs

In thousands of AUD	2018	2017
Wages and salaries	18,572	16,910
Other associated personnel expenses	5,837	6,100
Change in liabilities for employee benefits	229	189
Share-based payment transactions	385	311
Superannuation	1,882	1,775
	26,905	25,285

11) Auditors' remuneration

In AUD	2018	2017
Audit services		
Amounts due and receivable for:		
Audit of the financial report of the Group and other entities of the Group		
Deloitte Touche Tohmatsu	210,000	203,500
	210,000	203,500
Other services - Deloitte Touche Tohmatsu		
Tax compliance services	-	36,750
Other non-audit services	162,600	68,000
	162,600	104,750

12) Finance income and expenses

In thousands of AUD	2018	2017
Recognised in profit or loss		
Interest income on loans and receivables	337	202
Interest income on bank deposits	2,096	2,111
Net foreign exchange gain / (loss)	30	(36)
Finance income	2,463	2,277
Net change in fair value of financial assets designated at fair value through profit or loss	(15)	(2)
Interest expense	(3)	(12)
Finance expense	(18)	(14)
Net finance income and expense	2,445	2,263

13) Income tax

(a) Current tax expense

In thousands of AUD	2018	2017
Income tax recognised in profit or loss		
Current tax expense		
Current period	12,938	11,824
Adjustments for prior periods	(111)	(12)
Deferred tax expense		
Origination and reversal of temporary differences	1,573	6,040
Income tax expense reported in the statement of profit or loss	14,400	17,852

Numerical reconciliation between tax expense and pre-tax accounting profit

In thousands of AUD	2018	2017
Profit before tax from continuing operations	47,709	56,956
Income tax using the Company's domestic tax rate of 30% (2017: 30%)	14,313	17,087
Non-deductible expenses	211	952
Over provision in prior periods	(111)	(12)
Other adjustments	(13)	(175)
	14,400	17,852

(b) Current tax assets and liabilities

The current tax liability for the Group of $2,074k (2017: $1,249k) represents the amount of income taxes payable in respect of current and prior financial years.

(c) Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

In thousands of AUD	Assets		Liabilities		Net	
	2018	2017	2018	2017	2018	2017
Property, plant and equipment and intangibles	-	-	120	455	120	455
Trade and other receivables	-	-	235,120	214,514	235,120	214,514
Employee benefits	(1,237)	(1,714)	-	-	(1,237)	(1,714)
Trade and other payables	(211,281)	(192,147)	-	-	(211,281)	(192,147)
Other items	(1,669)	(1,626)	-	-	(1,669)	(1,626)
Tax (assets) / liabilities	(214,187)	(195,487)	235,240	214,969	21,053	19,482
Set off of tax	214,187	195,487	(214,187)	(195,487)	-	-
Net tax liabilities	-	-	21,053	19,482	21,053	19,482

14) Cash and cash equivalents

(a) Cash and cash equivalents

In thousands of AUD	2018	2017
Cash at bank	48,364	89,559
Short term deposits	1,276	1,276
Unrestricted cash	49,640	90,835
Cash collections accounts[1]	22,055	27,599
Restricted cash[2]	17,015	6,367
Restricted cash	39,070	33,966
Cash and cash equivalents	88,710	124,801
Cash and cash equivalents in the Statement of Cash Flows	88,710	124,801

[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.

The effective interest rate on short term deposits in 2018 was 2.27% (2017: 2.14%). The deposits had an average maturity of 65 days (2017: 85 days).

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 28.

(b) Reconciliation of cash flows from operating activities

In thousands of AUD	2018	2017
Cash flows from operating activities		
Profit for the period from continuing operations	33,309	39,104
Adjustments to reconcile the profit to net cash flows:		
Income tax expense from continuing operations	14,400	17,852
Depreciation and amortisation	999	944
Net interest income from investing activities	(2,432)	(2,314)
Expense recognised in respect of equity-settled share-based payments	381	298
Share of profit in an associate	(186)	-
Present value of future trail commission income	(70,343)	(88,531)
Present value of future trail commission expense	62,832	68,590
Other non-cash movements	226	115
	39,186	36,058
Working capital adjustments:		
Changes in assets and liabilities		
(Decrease)/Increase in receivables and prepayments	(489)	1,315
Increase in trade and other payables	4,700	819
Increase/(Decrease) in deferred income	1,406	(2,177)
(Decrease)/Increase in employee entitlements	(13)	733
(Decrease)/Increase in provisions	(300)	1,346
Cash generated from operations	44,490	38,094
Income tax paid	(12,004)	(11,577)
Net cash generated by operating activities	32,486	26,517

15) Trade and other receivables

In thousands of AUD	2018	2017
Current		
Trade and other receivables	1,329	909
Accrued income	-	98
	1,329	1,007
Net present value of future trail commissions receivable[1]	170,191	152,850
Prepayments	3,735	1,863
	175,255	155,720
Non-current		
Net present value of future trail commissions receivable[1]	634,862	581,860
	634,862	581,860
	810,117	737,580

1 See fair value determinations for trail commissions – Note 4.

Trade and other receivables are shown net of a provision for impairment of $4k (2017: $4k).

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 28.

16) Trade and other payables

In thousands of AUD	Note	2018	2017
Current			
Present value of future trail commissions payable	4	150,340	135,285
Other trade payables		62,632	56,676
Non-trade payables and accrued expenses		2,529	3,444
		215,501	195,405
Non-current			
Net present value of future trail commissions payable		568,175	520,398
		568,175	520,398
		783,676	715,803

Trade payables are non-interest-bearing and are normally settled on 60-day terms.
Non-trade payables are non-interest-bearing and are normally paid on a 60-day basis.
The Group's exposure to liquidity risk related to trade and other payables is disclosed in Note 28.

17) Loans and advances

In thousands of AUD	2018	2017
Current		
Securitised assets[1]	331,372	297,613
Other secured loans[2]	1,916	1,268
Capitalised origination cost	205	235
	333,493	299,116
Non-current	**2018**	**2017**
Securitised assets[1]	1,042,477	851,472
Capitalised origination cost	555	690
Other secured loans[2]	3,755	1,134
Less: Provision for impairment	(423)	(241)
	1,046,364	853,055
	1,379,857	1,152,171

[1] The originated mortgage loans and securitised assets are held as security for the various debt interests in the special purpose securitised trusts and series.

[2] Other secured loans include:

a) Loans and advances to Brokers secured over future trail commissions' payable to the broker and in some cases personal guarantees. Interest is charged on average at 11.06% p.a. (2017: 10.81% p.a.).

b) Loan and advances to McCabe St Limited are secured over its land and assets. Interest is charged on average at 4.08% p.a. (2017: 3.99% p.a.).

Loans and advances that are performing in accordance with the underlying contract are classified as neither past due nor impaired. If a customer fails to make payment that is contractually due then the receivable asset is classified as past due. If subsequently all contractually due payments are made the asset reverts to its neither past due or impaired status.

At the end of the reporting period, the balance of the Group's securitised assets includes a provision for impairment of $423k (2017: $241k).

During the financial year, new loans issued in the Group's securitisation programme were $509,753k (2017: $385,047k).

The Group's exposure to credit, currency and interest rate risks related to loans and advances is disclosed in Note 28.

18) Investment in associate

In thousands of AUD	2018	2017
Non-current		
Cost of investment[1]	11,141	-
Contingent consideration liability	1,488	-
Share of post-acquisition profit	186	-
	12,815	-

[1] Includes transaction costs

On 19th April 2018 AFG announced that it had made a strategic investment of 30.4% (fully diluted) in Think Tank Group Pty Ltd ("Thinktank") for $10.9 million in cash consideration, with additional contingent consideration payable of $1,488k. In connection with the investment AFG will distribute a white label Commercial Property product through its network of brokers. The strategic investment in Thinktank represents the next evolutionary step for AFG to diversify its earnings base. The ongoing success of AFGHL and the introduction of AFG Business are important contributors to the future growth of AFG. The investment in Thinktank allows AFG to participate further in commercial property lending - both directly through the white label opportunity and indirectly through AFG's shareholding to generate further earnings for AFG.

Associates are all entities over which the Group has significant influence but not control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. This investment has been classified as an investment in an associate due to the Group's significant involvement in the financial and operating policy decisions including Board representation of Thinktank.

In thousands of AUD	2018	2017
Thinktank's summarised financial information		
Balance Sheet		
Current assets	29,300	-
Non-current assets	838,170	-
Total Assets	867,470	-
Current liabilities	6,669	-
Non-current liabilities	850,363	-
Total Liabilities	857,032	-
Net assets	10,438	-
Income Statement		
Profit after tax[1]	553	
Reconciliation to carrying amounts:		
Carrying amount of investment	12,815	-
Group's share of profit after tax for the period[1]	186	
Acquisition costs	11,141	-
Contingent consideration liability	1,488	
	12,815	-

[1] Month of May and June only. AFG acquired 33.55% undiluted investment in Thinktank effective 1 May 2018.

19) Property, plant and equipment

In thousands of AUD	Plant and equipment	Fixtures and fittings	Total
Consolidated			
Balance at 1 July 2016	269	2,110	2,379
Acquisitions	105	199	304
Disposals and write-offs	(23)	-	(23)
Depreciation	(141)	(621)	(762)
Balance at 30 June 2017	210	1,688	1,898
Balance at 1 July 2017	210	1,688	1,898
Acquisitions	201	55	256
Disposals and write-offs	(50)	-	(50)
Depreciation	(115)	(610)	(725)
Balance at 30 June 2018	246	1,133	1,379

20) Interest-bearing liabilities

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate risk, see Note 28.

In thousands of AUD	2018	2017
Current		
Securitisation warehouse facilities	496,896	648,541
Loans from funders	20	84
Secured bond issues	261,795	191,191
	758,711	839,816
Non-current		
Secured bond issues	623,049	324,636
Loans from funders	1	26
	623,050	324,662
	1,381,761	1,164,478

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

	2018				2017			
In thousands of AUD	Weighted average effective interest rate	Year of maturity	Face value	Carrying amount	Weighted average effective interest rate	Year of maturity	Face value	Carrying amount
Warehouse facilities	3.12%	2018-2019	496,896	496,896	2.73%	2017	648,541	648,541
Secured bond issues	3.00%	2018-2023	883,425	884,844	3.02%	2018-2019	513,064	515,826
Loans from funders	6.00%	2018-2020	21	21	6.00%	2018-2020	111	111
			1,380,342	1,381,761			1,161,716	1,164,478

(a) Warehouse and secured bond issues

(i) Warehouse facilities

The warehouse facilities provide funding for the financing of loans and advances to customers within the SPE and its Series.

The security for advances under these facilities is a combination of fixed and floating charges over all assets of the SPE. If the warehouse facility is not renewed or should there be a default by the trustee under the existing terms and conditions, the warehouse facility funder will not have a right of recourse against the remainder of the Group.

Customer loans and advances are secured against residential properties only. Up until 1 July 2014, all new loans settled irrespective of their LVR were covered by a separate individual lenders mortgage insurance contract. Subsequent to this date, all new loans settled with an LVR of less than or equal to 80% were settled on the basis that no lenders mortgage insurance policy was required. When purchased, a lender's mortgage insurance contract covers 100% of the principal of the loan.

During the financial year there were no breaches to the agreement that permitted the warehouse facility provider to demand payment of the outstanding value.

As at the reporting date the unutilised securitisation warehouse facility for all Series is $93,364k (2017: $83,150k). The interest is recognised at an effective rate of 3.12% (2017: 2.73%).

The Group has secured an extension to the term of the NAB residential warehouse facilities that were due to expire on 31 December 2018. The Series 4 warehouse facilities that were due to expire have been extended to 10 May 2019.

Liquidity facility

The Liquidity facility is established by the warehouse facility providers to temporarily fund any excess amount of interest, fees and any other charges which may accrue from the date of cash flows calculation, to the date of cash flows payment.

As at the reporting date the unutilised facility has not been drawndown (2017: $10,323k).

Additional credit support includes subordinated credit enhancement held by the Company of $20,740k (2017: $7,414k).

(ii) Secured bond issues

SPE-RMBS were established to provide funding for loans and advances (securitised assets) originated by AFG Securities Pty Ltd. The bond issues have a legal final maturity of 31.5 years from issue and a weighted average life of up to 5 years. The security for loans and advances is a combination of fixed and floating charges over all assets of the SPE-RMBS.

Under the current trust terms, a default by the borrowing customer will not result in the bondholders having a right of recourse against the Group (as Originator, Trust Manager or Servicer). The interest is recognised at a weighted effective rate of 3.00% (2017: 3.02%).

Liquidity facility

Various mechanisms have been put in place to support liquidity within the transaction to support timely payment of interest, including;

- principal draws which are covered by Redraw Notes for redraws that cannot be covered by normal collections (available principal),
- a liquidity facility between 1% and 1.3% of the initial invested amount of all notes,
- $150k Reserve Account which is an Extraordinary Expense Ledger account, and
- available income.

Additional credit support includes subordinated credit enhancement held by the Company (unrated Class C Notes) of $2,460k (2017: $3,200k).

During the financial year there were no breaches to the terms of the SPE-RMBS that gave right to the bondholders to demand payment of the outstanding value.

(b) Loans from funders

Some of the upfront commissions received from specific funders at the point of loan origination are refunded by the Group via reduced ongoing management fees over a period of 5 years. The Group recognises the upfront commission from these funders as a loan, and interest is charged on this facility by the funders. The principal and interest will be paid back over the 5-year period. Interest is recognised at an effective rate of 6.00% (2017: 6.00%).

(c) Other finance facilities

In thousands of AUD	2018	2017
Standby facility	200	200
Bank guarantee facility	276	276
	476	476
Facilities utilised at reporting date		
Standby facility	113	82
Bank guarantee facility	276	276
	389	358
Facilities not utilised at reporting date		
Standby facility	87	118
Bank guarantee facility	-	-
	87	118

The facilities are subject to annual review.

21) Employee benefits

In thousands of AUD	2018	2017
Current		
Salaries and wages accrued	1,788	2,031
Liability for long service leave	1,405	1,312
Liability for annual leave	1,235	1,141
	4,428	4,484
Non Current		
Liability for long-service leave	115	75
	115	75
	4,543	4,559

22) Provisions

In thousands of AUD	2018	2017
Provision for Clawbacks	1,206	1,450
Provision for Contingent Payment[1]	1,488	-
Other	161	217
	2,855	1,667

[1] Provision for contingent payment to Thinktank (see note 18).

23) Deferred income

In thousands of AUD	2018	2017
Current		
Sponsorship income	3,352	1,669
Lease incentives	369	577
Unearned professional indemnity insurance	402	447
	4,123	2,693

24) Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

In thousands of AUD	2018	2017
Less than one year	2,223	2,168
Between one and five years	2,041	4,143
	4,264	6,311

The Group leases a number of office facilities under operating leases. The leases run for a period of up to 6 years, with an option to renew the lease after that date. Lease payments are generally increased every year to at least reflect Consumer Price Index (CPI) movements, with regular adjustments to reflect market rentals.

During the financial year ended 30 June 2018 $2,030k was recognised as an expense in the Consolidated Statement of Profit or Loss and Other Comprehensive Income in respect of operating leases (2017: $1,975k).

25) Capital and reserves

(a) Share capital

	Share Capital ($'000)		Ordinary shares ($'000)	
The Company	**2018**	**2017**	**2018**	**2017**
On issue at 1 July	43,541	43,541	214,813	214,813
On issue at 30 June – fully paid	43,541	43,541	214,813	214,813

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid and rank equally with regard to the Company's residual assets.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

(b) Fair value reserve

The fair value reserve comprises the cumulative net change in fair value of available-for-sale financial assets until the investments are derecognised or impaired.

(c) Dividends

Dividends paid in the current year by the Group are:

	Cents per share	Total amount ($'000)	Franked / unfranked	Date of payment
2018				
Final 2017 ordinary	5.5	11,816	100%	28/09/2017
1st interim 2018 ordinary	4.7	10,096	100%	29/03/2018
Special dividend	12.0	25,778	100%	29/03/2018
		47,690		

2017				
1st interim 2017 ordinary	4.2	9,023	100%	31/03/2017
Final 2016 ordinary	5.4	11,600	100%	30/09/2016
		20,623		

Declared and unrecognised as a liability:

2018				
Final 2018 ordinary	5.7	12,244	100%	27/09/2018
		12,244		

Dividends declared or paid during the year or after 30 June 2018 were franked at the rate of 30%.

In thousands of AUD	**2018**	**2017**
Dividend franking account	12,763	20,998
30 per cent franking credits available to shareholders of Australian Finance Group Limited for subsequent financial years	29,780	48,995
	42,543	69,993

The ability to utilise the franking credits is dependent upon the ability to declare dividends. In accordance with the tax consolidation legislation the Company as the head entity in the tax-consolidated group has also assumed the benefit of $42,543k (2017: $69,993k) franking credits.

26) Earnings per share (EPS)

Basic EPS amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of Australian Finance Group Limited by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS amounts are calculated by dividing the profit attributable to ordinary equity holders of Australian Finance Group Limited by the weighted average number of ordinary shares during the year 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:

In thousands of AUD	**30 June 2018**	**30 June 2017**
Profit attributable to ordinary equity holders of the Company	33,336	39,053
	Thousands	Thousands
Weighted average number of ordinary shares for basic EPS (thousands)	214,813	214,813
Effect of dilution:		
Performance rights	1,289	593
Weighted average number of ordinary shares adjusted for the effect of dilution	216,102	215,406

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.

27) Share based payments

Executive Rights plan (Long-Term Incentive Plan)

The Group has in place an Executive Long-Term Incentive Plan (LTIP) which grants rights to certain Executives subject to the achievement of performance and service requirements. Eligible Executives are granted rights to a value determined by the Board that is benchmarked against direct industry peers and other Australian listed companies of a similar size and complexity.

Executives participating in the plan will not be required to make any payment for the acquisition of rights.

The rights lapse if the performance and service criteria are not met. The rights granted under the plan are subject to instalment vesting over a three-year period. The rights are subject to Total Shareholder Return (TSR) and Earnings Per Share (EPS) performance hurdles in addition to continuous service vesting conditions. The Board has the full discretion to determine whether some or all of the rights vest or lapse or whether unvested rights remain subject to vesting conditions in the event of a change of control. Refer to section 3.5 of the remuneration report for further detail.

In any event, any rights that remain unvested will lapse immediately after the end of the relevant vesting period.

The following table outlines performance rights that are conditionally issued under LTIP:

Offer Date	Vesting date	Balance at start of the year	Granted during the year	Vested during the year	Expired during the year	Forfeited during the year	Balance at end of the year
1/07/2016	30/06/2019	-	593,136	-	-	-	593,196
1/07/2017	30/06/2020	593,136	695,396	-	-	-	1,288,592

28) Financial instruments

(a) Credit risk

Exposure to credit risk

The carrying amount of the Group's financial assets represents the maximum credit exposure.

(i) Trade and other receivables

Exposure to credit risk

The Group's maximum exposure to credit risk for trade and other receivables by type of customer is detailed below:

	Carrying amount	
In thousands of AUD	**2018**	**2017**
Type of customer		
Financial institutions	804,779	735,291
Brokers	201	446
Other	1	5

All outstanding trade and other receivables are with customers located within Australia. The amounts owing from financial institutions include the net present value of trail commissions' receivable of $805,053k (2017: $734,710k).

The majority of the Group's net present value of future trail commission receivable is from counterparties that are rated between AA+ and A-. The following table provides information on the credit ratings at the reporting date according to the Standard & Poor's counterparty credit with AAA and BBB being respectively the highest and the lowest possible ratings.

	Current	Non-Current	Current	Non-Current
In thousands of AUD	**2018**	**2018**	**2017**	**2017**
Standard & Poor's Credit rating				
AA+	10	37	12	47
AA-	128,253	478,420	116,517	443,550
A+	7,262	27,088	-	-
A	2,076	7,746	9,144	34,807
A-	7,411	27,644	8,108	30,866
BBB+	3,481	12,986	2,044	7,782
BBB	11,940	44,541	515	1,962
BBB-	2,097	7,823	1,508	5,742
Not rated	7,661	28,577	15,002	57,104
	170,191	634,862	152,850	581,860

(ii) Loans and advances

Exposure to credit risk

The Group's maximum exposure to credit risk for loans and advances at the reporting date by customer type are summarised as follows:

	Carrying amount	
In thousands of AUD	**2018**	**2017**
Customer type		
Residential mortgage borrowers	1,373,849	1,149,086
Brokers	5,462	2,201
Other	546	884
	1,379,857	1,152,171

Residential mortgage borrowers

The Group minimises credit risk by obtaining security over residential mortgage property for each loan. The estimated value of collateral held at balance date was $2,551,566k (2017: $2,165,326k). During the year ended 30 June 2018 the Group has taken possession of three additional residential properties that were held as security for loans issued by the Group. The carrying amount of the repossessed residential property was $287k (2017: $752k). Three properties have been sold before the end of the financial year, with the shortfall repaid by our lender's mortgage insurance.

In monitoring the credit risk, mortgage securitisation customers are grouped according to their credit characteristics using credit risk classification systems. This includes the use of the Loan to Value Ratio (LVR) to assess its exposure to credit risk from loans originated through the securitisation programme.

The table below summarises the Group exposure to residential mortgage borrowers by current LVR, with the valuation used determined as at the time of settlement of the individual loan.

	Carrying amount	
In thousands of AUD	**2018**	**2017**
Loan to value ratio		
Greater than 95%	1,324	2,393
Between 90%-95%	51,734	55,042
Between 80%-90%	204,896	181,976
Less than 80%	1,115,895	909,675
	1,373,849	1,149,086

The Group exposure to credit risk by geographic region at reporting date is limited to Australia.

Impairment Losses

The aging of the Group's loans and advances at the reporting date was:

In thousands of AUD	Gross 2018	Impairment allowance 2018	Gross 2017	Impairment allowance 2017
Not past due	1,370,251	-	1,143,899	-
Past due 31-120 days	1,718	-	3,519	-
Past due 121 days to one year	1,568	-	1,191	-
Past due more than one year	312	(312)	477	(241)
	1,373,849	(312)	1,149,086	(241)

The impairment loss provision as at 30 June 2018 of $312k (2017: $241k) is a specific provision for loans that are past due.

Securitisation loans

Loans and advances of SPEs: The Group is required to provide the warehouse facility provider with a level of subordination or Credit Support. The Group's maximum exposure to credit risk on securitised loans at reporting date is the carrying amount of subordinated notes.

The SPE-RMBS loans and advances: Under the current trust terms, a default by the customers will not result in the bond holders having a right of recourse against the Group (as Originator, Trust Manager or Servicer). Importantly, all residential mortgages under SPE-RMBS with an LVR exceeding 80% are insured by a lender's mortgage insurance contract which covers 100% of the principal.

The Group's maximum exposure is the loss of future interest income on its Class C notes investment, which eliminate on consolidation.

No impairment loss was recognised during 2018 (2017: Nil).

Other secured loans

The Group has minimal exposure to credit risk for loans made during the year.

No impairment loss was recognised during 2018 (2017: Nil).

(b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Board of Directors reviews the rolling cash flow forecast on a monthly basis to ensure that the level of its cash and cash equivalents is at an amount in excess of expected cash outflows over the proceeding months. Excess funds are generally invested in at call bank accounts with maturities of less than 90 days. Within the special purpose entities, the Group also maintains sufficient cash reserves to fund redraws and additional advances on existing loans.

The following are the contractual maturities of financial liabilities based on undiscounted payments, including estimated interest payments and excluding the impact of netting agreements for the Group.

2018

In thousands of AUD	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Securitisation warehouse facilities	496,896	517,636	517,636	-	-	-	-
Secured bond issues[1]	885,885	909,479	164,363	100,899	155,385	488,832	-
Loans from funders	22	22	14	6	2	-	-
Net present value of future trail commissions payable	718,515	862,335	98,906	90,676	157,501	315,903	199,349
Trade and other payables	65,161	64,612	64,612	-	-	-	-
	2,166,479	2,354,084	845,531	191,581	312,888	804,735	199,349

[1] Excludes set up costs amortisation

2017

In thousands of AUD	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Securitisation warehouse facilities	648,541	655,955	655,955	-	-	-	-
Secured bond issues	515,827	531,253	68,169	127,096	136,596	199,392	-
Loans from funders	111	114	56	30	25	3	-
Net present value of future trail commissions payable	655,683	796,078	90,408	83,186	145,554	293,515	183,415
Trade and other payables	60,120	60,120	60,120	-	-	-	-
	1,880,282	2,043,520	874,708	210,312	282,175	492,910	183,415

The obligation in respect of the net present value of future trail commission only arises if and when the Group receives the corresponding trail commission revenue from the lenders.

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

Securitisation warehouse facilities

Secured bond issuances are based on expected cashflows rather than contractual as each must be repaid to secured bondholders on receipt of funds from underlying mortgage customers. The warehouse facilities are short term funding facilities that are generally renewable bi-annually or annually. If the warehouse facility is not renewed or should there be a default by the trustee under the existing terms and conditions, the warehouse facility funder will not have a right of recourse against the remainder of the Group. Should the warehouse facility not be renewed then the maximum exposure to the Group would be the loss of future income streams from excess spread, being the difference between the Group's mortgage rate and the underlying cost of funds and inability to fund new loans.

On 9 May 2018, the Group secured an extension to the term of the jointly funded ANZ/NAB residential warehouse facility to 10 May 2019. The funding continues to be provided through the issue of four classes of secured, limited and floating rate notes, with the senior notes being issued jointly to NAB/ANZ, mezzanine notes to Deutsche Bank and the subordinated notes to AFG.

On 28 June 2018, the Group secured a short-term extension of the NAB residential warehouse facility that was due to expire on 10 July 2018 to 28 September 2018. Subsequent to this, the NAB warehouse was terminated and a new warehouse established with NAB and Deutsche Bank AG Sydney Branch, effective 10 August 2018. The new warehouse comprises four classes of secured, limited and floating rate notes, with the senior notes being issued to NAB, Deutsche Bank holding the two mezzanine notes and AFG the subordinated Class C Notes. The new warehouse availability period expires on the 31 December 2018.

Secured bond issues

The securities are issued by the SPE-RMBS with an expected weighted average life of 4 to 5 years. They are pass through securities that may be repaid early (at the call date) by the issuer (the Group) in certain circumstances. The above maturity assumes that the securities will be paid at the securities call date.

The Directors are satisfied that the Group's ability to continue as a going concern will not be affected. For terms and conditions relating to trade payables and net present value of future trail commissions payable refer to Note 16.

(c) Market risk

(i) Currency risk

Exposure to currency risk

As at reporting date the Group held cash assets denominated in NZD and USD. Fluctuations in foreign currencies are not expected to have material impact on the Consolidated Statement of Profit or Loss and Other Comprehensive Income and equity of the Group and have therefore not formed part of the disclosures.

(ii) Interest rate risk

Profile

The table below summarises the profile of the Group's interest-bearing financial instruments at reporting date.

	Carrying amount	
In thousands of AUD	**2018**	**2017**
Fixed rate instruments[1]		
Financial assets	805,053	734,710
Financial liabilities	718,515	655,683
	86,538	79,027
Variable rate instruments		
Financial assets	1,468,332	1,276,738
Financial liabilities	1,381,761	1,164,478
	86,571	112,260

The Group's main interest rate risk arises from securitised assets, cash deposits and interest-bearing facilities. All the Group's borrowings are issued at variable rates, however the vast majority pertains to the warehouse facility which is arranged as 'pass through' facilities, and therefore the exposure to the interest rate risk is mitigated by the ability to pass any rate increases onto borrowers.

[1] Discount rate for trail commission receivable and payable is fixed for the life of the loan.

Cash flow sensitivity analysis for variable rate instruments

Due to the market conditions existing at 30 June 2018, the Group does not expect that interest rates will move in excess of 100 basis points (bps) from current conditions in the next reporting period. This has therefore formed the basis for the sensitivity analysis.

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2017.

	After tax profit		Equity	
Effect in thousands of AUD	**100bp increase**	**100bp decrease**	**100bp increase**	**100bp decrease**
30 June 2018				
Variable rate financial assets	10,239	(10,239)	10,239	(10,239)
Variable rate financial liabilities	3,478	(3,478)	3,478	(3,478)
Cash flow sensitivity (net)	6,761	(6,761)	6,761	(6,761)
30 June 2017				
Variable rate financial assets	8,922	(8,922)	8,922	(8,922)
Variable rate financial liabilities	4,541	(4,541)	4,541	(4,541)
Cash flow sensitivity (net)	4,381	(4,381)	4,381	(4,381)

(iii) Prepayment risk

Net present value of future trailing commissions receivable and payable

Exposure to prepayment risk

The Group will incur financial loss if customers or counterparties repay or request repayment earlier or later than expected. A change in the pattern of repayment by end consumers will have an impact on the fair value of future trail commissions receivable and payable. Refer to Note 28 (d) for more details.

Sensitivity analysis

Management have engaged the use of actuaries for the purposes of reviewing the run-off rate of the loans under management. Management does not expect the run-off rate to change in excess of 5% positive or 5% negative of the rates revealed from the actuarial analysis. The change estimate is calculated based on historical movements of the prepayment rate.

The effect from changes in prepayment rates, with all other variables held constant, is as follows:

In thousands of AUD	2018		2017	
	+5%	-5%	+5%	-5%
After tax profit	(3,746)	3,960	(2,939)	3,122

Securitised assets

The Group is exposed to prepayment risk on its securitised assets. The warehouse facilities and the secured bond issues funding the securitisation operations are pass through funding facilities in nature. All principal amounts prepaid by residential mortgage borrowers are passed through to the warehouse facility provider or the bond holders as part of the monthly payment terms. Consequently, the Group has no material exposure to prepayment risk on its securitised assets.

(iv) Equity price risk

Exposure to equity price risk

The Group's maximum exposure to this risk, deemed insignificant, is presented by the carrying amounts of its financial assets designated at fair value through profit or loss and available-for-sale financial asset carried in the Statement of Financial Position.

(v) Other market risks

The Group is exposed to other market risks on the credit support (securitisation loan receivable) provided by the Group in relation to the warehouse facilities. The value of the loan is dynamic in that it can change due to circumstances including the credit ratings of mortgage insurers. The Group has assessed that if this were to occur, it would not have a material impact on the Group's profit after tax and equity.

(d) 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)

With the exception of the trail commission receivables and payables that are initially recognised at fair value and subsequently carried at amortised cost, the carrying amount of all financial assets and liabilities recognised in the Statement of Financial Position approximate their fair value.

Trail 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 trail commissions and the Group also makes trail commission payments to Brokers when trail 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. Refer to Note 3 for the accounting policies regarding trail commissions receivables and payables.

The trail commission assets and liabilities at 30 June 2018 relate to the Residential and the AFGHLs white label loan books. No trail commission asset or liability is recognised for the commercial loan book due to the volatility of key assumptions required to value the asset and liability.

	30 June 2018		30 June 2017	
In thousands of AUD	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Future Trail commission receivables	805,053	832,315	734,710	768,604
Financial liabilities				
Future Trail commission payables	718,515	742,368	655,683	685,316

The fair value of trail commission receivable from lenders and the corresponding payable to brokers is determined by using a discounted cash flow valuation. These calculations require the use of assumptions which are determined by the management, using a variety of inputs including external actuarial analysis of historical information, by reference to market observable inputs. The valuation is classified as level 2 in the fair value measurement hierarchy.

The key assumptions underlying the fair value calculations of trail commission receivable and the corresponding payable to brokers at the reporting date is summarised in the following table:

	30 June 2018	30 June 2017
Average loan life	Between 3.2 and 5.0 years	Between 3.1 and 5.0 years
Discount rate per annum[1]	Between 5% and 13.5%	Between 5% and 13.5%
Percentage paid to brokers[2]	Between 85% and 93.4%	Between 85% and 93%

[1] Discount rates once set are not adjusted during the life of the loan. The spread in discount rate captures loans settled in previous financial years as well as the current financial year.

[2] The percentage paid to brokers is fixed by the terms of their respective agreement with the Group. As a consequence, management does not expect changes to the percentage paid to brokers to be reasonably possible.

29) Group entities

Composition of the Group

	Country of incorporation	Ownership interest	
		2018	2017
Parent entity			
Australian Finance Group Limited	Australia	100	100
Significant subsidiaries			
Australian Finance Group (Commercial) Pty Ltd	Australia	`100	100
Australian Finance Group Securities Pty Ltd	Australia	100	100
AFG Securities Pty Ltd	Australia	100	100
AFG 2010-1 Trust	Australia	100	100
AFG 2013-1 Trust	Australia	-	100
AFG 2013-2 Trust	Australia	100	100
AFG 2014-1 Trust	Australia	-	100
AFG 2016-1 Trust	Australia	100	100
AFG 2017-1 Trust	Australia	100	-
AFG 2018-1 Trust	Australia	100	-
New Zealand Finance Group Ltd	New Zealand	100	100
AFG Home Loans Pty Ltd	Australia	100	100
Venture Lending Pty Ltd	Australia	-	51
Investment in associates			
Think Tank Group Pty Ltd*	Australia	33.55	-

Venture Lending Pty Ltd, AFG 2013-1 Trust and AFG 2014-1 Trust were shutdown during the year ended 30 June 2018.

AFG 2017-1 Trust and AFG 2018-1 Trust were opened during the year ended 30 June 2018.

* On 19th April 2018 AFG announced that it had made a strategic investment of 30.4% (fully diluted) in Think Tank Group Pty Ltd ("Thinktank") for $10.9M in cash consideration, with additional contingent consideration payable of $1,488k (see Note 18).

Additional disclosures with respect to Consolidated Structured Entities

Subscription of Subordinated Notes within the Trust Structures

As part of the funding arrangement for the Group's Securitisation business the Company has subscribed for the subordinated note in each of the independent funding structures. These notes represent the first loss position for each of the securitisation vehicles. In the event that a loss is incurred in the relevant structure, then the balance of subordinated note is first applied against such losses. A loss would only be incurred within the respective Trust in the event that the sale of the underlying security was not sufficient to cover the loan balance, there was no mortgage insurance policy in existence and the loss could not be covered out of the excess spread generated by the respective Trust.

The weighted average loan to value ratio of all outstanding loans as at time of settlement was below 70% and as at year end, approximately 65% (2017: 61%) of the loans (in dollar value) have a lenders mortgage insurance policy which have been individually underwritten by a mortgage insurer. With respect to those loans which do not have mortgage insurance, the weighted average loan to value ratio for all of these loans is 45% (2017: 59%).

At no point since the inception of the Securitisation business has the subordinated note been required to be accessed to cover any lending losses within the respective Trusts.

In thousands of AUD	**2018**	**2017**
Subordinated notes held in AFG 2010-1 Trust and Series[1]	20,740	7,414
Subordinated notes held in SPE-RMBS trusts following a term transaction:		
• AFG 2013-1	-	1,500
• AFG 2013-2	750	750
• AFG 2014-1	-	500
• AFG 2016-1	450	450
• AFG 2017-1	560	-
• AFG 2018-1	700	-

[1] The level of subordination subscribed by the company will increase or decrease over time depending upon a number of factors including the size of the warehouse or RMBS term structure as well as the ratings methodology used for these warehouse facilities

Subsequent to year end the Group secured a new residential warehouse facility, replacing its existing NAB warehouse. The new warehouse comprises four classes of secured, limited and floating rate notes, with the senior note being issued to NAB, mezzanine notes issued to Deutsche Bank AG Sydney Branch and AFG holding the subordinated notes. The maturity date for this new facility is 31 December 2018.

Other

Holders of RMBS are limited in their recourse to the assets of the Securitisation vehicle (subject to limited exceptions). AFG Group companies may however incur liabilities in connection with RMBS which are not subject to the limited recourse restrictions (for example where an AFG Group company acts as a trust manager or servicer of a Securitisation vehicle).

30) Parent entity

Throughout the financial year ending 30 June 2018, the parent Company of the Group was Australian Finance Group Limited.

In thousands of AUD	2018	2017
Results of the parent entity		
Profit for the period	20,975	19,259
Other comprehensive income	(15)	2
Total comprehensive income for the period	20,960	19,261

In thousands of AUD	2018	2017
Financial position of parent entity at year end		
Current assets	202,286	235,504
Total assets	863,306	819,415
Current liabilities	224,774	202,439
Total liabilities	807,370	737,157
Total equity of the parent entity comprising of:		
Share capital	43,542	43,542
Reserves	690	298
Retained earnings	11,704	38,418
Total equity	55,936	82,258

See Notes 31 and 32 for the parent entity capital and other commitments, and contingencies.

Refer to Note 20 (c) for the parent entity's guarantees.

31) Capital and other commitments

There are no capital commitments as at the reporting date.

32) Contingencies

Third Party Guarantees

Bank guarantees have been issued by third party financial institutions on behalf of the Group and its subsidiaries for items in the normal course of business such as operating lease contracts. The amounts involved are not considered to be material to the Group.

Contingent Liability

The contingent liability refers to the contingent consideration payable of $1,488k in relation to the Thinktank strategic investment.

Other than above, no material claims against these warranties have been received by the Group at the date of this report, and the Directors are of the opinion that no material loss will be incurred.

33) Related parties

(a) Other related parties

A number of key management personnel held positions in other entities that result in them having control over the financial or operating policies of these entities.

A number of these entities transacted with the Group in the reporting period. The terms and conditions of the transactions with the other related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

The aggregate amounts recognised during the year relating to other related parties were as follows:

(i) During the year, the Group made payments to Genworth Mortgage Insurance Australia Limited, one of our providers of Lenders Mortgage Insurance (LMI). Mr Gill is a Non-Executive Director of Genworth Mortgage Insurance Australia Limited. These dealings were in the ordinary course of business and were on normal terms and conditions. The payments made for the provision of LMI policies were $706k (2017: $427k). These payments are not considered to be material to the financial results of the Group and therefore do not impact on Mr Gill's independence as a Director.

(ii) Mr Gill is an Independent Director of First Mortgage Services (FMS), one of our providers of loan settlement services. During the year, the Group made payments to FMS. These dealings were in the ordinary course of business and were on normal terms and conditions. The payments made for the provision of the settlement services were $333k (2017: $253k). These payments are not considered to be material to the financial results of the Group and therefore do not pact on Mr Gill's independence as a Director.

(iii) As part of the demerger of the property business on 22 April 2015, the Group entered into a shared services agreement with Establish Property Group Ltd (EPG). Mr McKeon, Ms Bevan and Mr Bailey, are Directors of EPG and McCabe Street. Under the terms of the shared services agreement, the Group provided premises, administration, accounting and some company secretarial services to EPG at an agreed arm's length rate for part of the year.

During the year the shared services agreement was terminated when EPG moved out of the AFG Office on 1 September 2017. EPG paid $6k (2017: $120k) for services under the shared services agreement for the 2018 financial year.

In addition to the above, the Group's head Office is located at 100 Havelock Street West Perth. The Group leases these premises at commercial arm's length rates from an investee of EPG, Qube Havelock Street Development Pty Ltd (Qube). AFG paid rent of $1,583k which has been paid to Qube (2017: $1,567k).

In addition to the above McCabe Street has an outstanding loan owing to AFG amounting to $209k (2017: $201k), this loan is on commercial terms at arms length.

(b) Subsidiaries

Loans are made by the parent entity to wholly owned subsidiaries to fund working capital and purchases of shares from one subsidiary to the other subsidiary. Loans outstanding between the Company and its subsidiaries are unsecured, have no fixed date of repayment and are non-interest bearing. Interest-free loans made by the parent entity to all its subsidiaries are payable on demand.

34) Subsequent events

On 10 August 2018, the Group secured a new residential warehouse facility, replacing its existing NAB warehouse. The new warehouse comprises four classes of secured, limited and floating rate notes, with the senior note being issued to NAB, mezzanine notes issued to Deutsche Bank AG Sydney Branch and AFG holding the subordinated notes. The maturity date for this new facility is 31 December 2018.

On 23 August 2018, the Directors recommended the payment of a dividend of 5.7 cents per fully paid ordinary share, fully franked based on tax paid at 30%. The dividend has a record date of 3 September 2018 and a payment date of 27 September 2018. The aggregate amount of the proposed dividend expected to be paid out of retained earnings at 30 June 2018 is $12,244k. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2018.

On 14 September 2018 AFG Trust 2013-2 was successfully redeemed with all investors having been repaid in full. AFG Trust 2013-2 will now be shutdown.

Other than the above, 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.

Directors' Declaration

In accordance with a resolution of the Directors of Australian Finance Group Limited, I state that:

In the opinion of the Directors:

a. The Financial Statements and Notes to the Financial Statements of Australian Finance Group Limited are in accordance with the *Corporations Act 2001*, including:

(i) Giving a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance for the year ended on that date

(ii) Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*

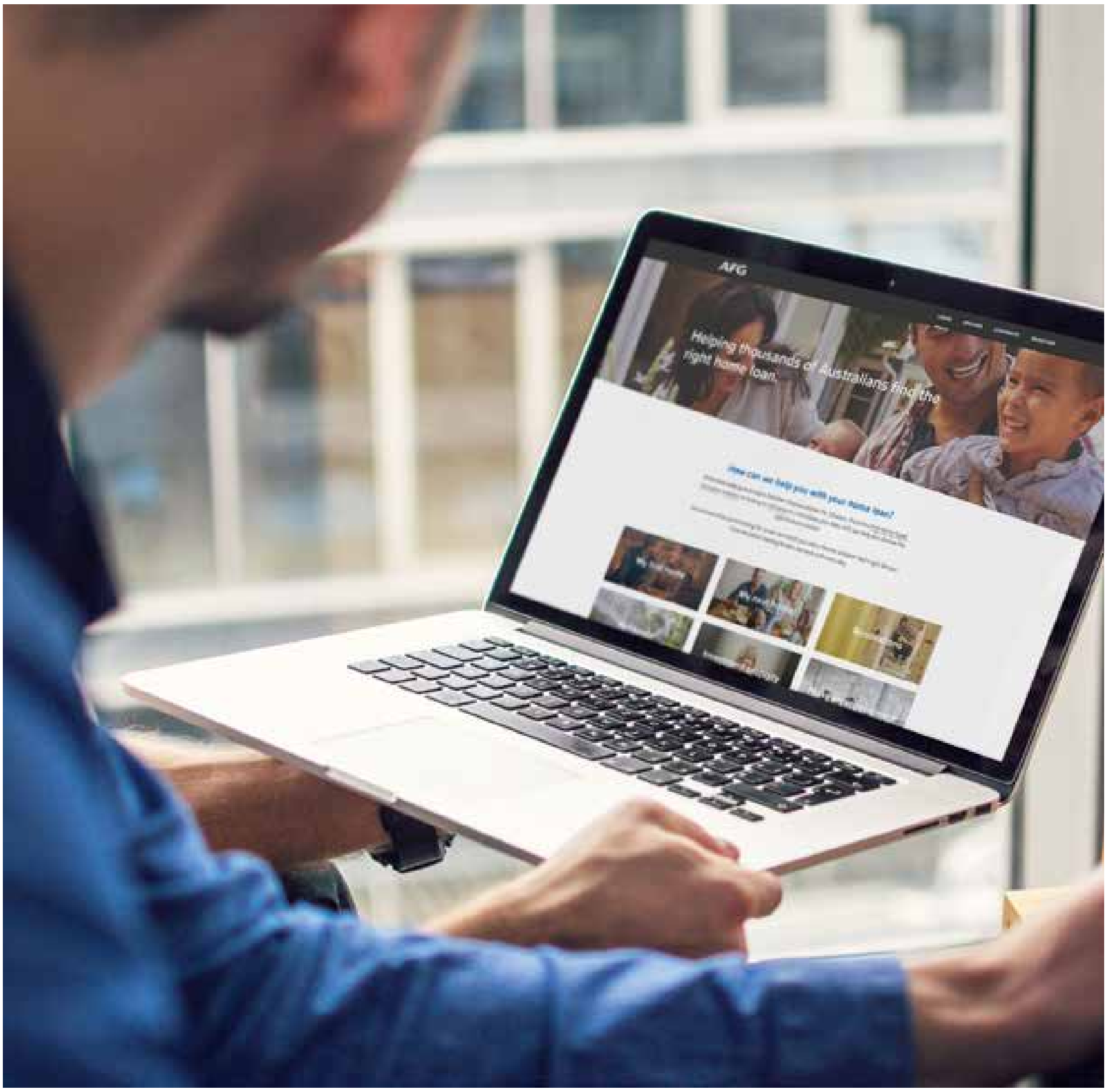
b. The Financial Statements and Notes to the Financial Statements also comply with International Financial Reporting Standards as disclosed in Note 2(a)

c. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations by the Chief Executive Officer, and the Chief Financial Officer required by Section 295A of the *Corporations Act 2001*.

On behalf of the Board

Tony Gill
Chairman
Dated at Perth, Western Australia on 27 September 2018.


AFG
Helping thousands of Australians find the right home loan.

Independent Audit Report

to the members of Australian Finance Group Limited

Deloitte.

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Independent Auditor's Report to the members of Australian Finance Group Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Australian Finance Group Limited (the "Entity") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 30 June 2018, 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 other explanatory information, 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 2018 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 and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (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 Entity, 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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Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Trail commission receivable and payable As at 30 June 2018 the Group has recognised trail commissions receivable of $805.1 million (2017: $734.7 million) and trail commissions payable of $718.5 million (2017: $655.7 million) as disclosed in notes 15 and 16. As disclosed in note 28, the determination of the fair value of the trail commissions receivable and payable at initial recognition and the subsequent measurement at amortised cost requires management to exercise significant judgements including: • the estimation of the discount rate, • the percentage paid to members, and • run off rate assumptions.	Our procedures included, but were not limited to: • Evaluating the key controls and processes management have in place to determine the trail commission receivable and payable; • Challenging the reasonableness of management's assumptions in the determination of the trail commission receivable and payable based on industry comparative run off rates and market observable inputs for the discount rate; • Agreeing the percentage of trail commission due to members to a sample of member agreements; • Comparing previously forecast trail commission income and expense by management to the actual results to assess historical accuracy of managements estimates; • Engaging internal experts to independently develop a model, using the inputs and assumptions applied by management, to recalculate the valuation of the trail commission receivable and payable. This was compared to management's valuation, in order to test the integrity and mathematical accuracy of management's model; • Assessing the extraction of loan data used in management's model for completeness; and • Evaluating the accuracy of the loan data by matching a sample of loans listed on the external Lender Commission Statements from the lenders to applications submitted by the Brokers. We also assessed the appropriateness of the disclosures included in Note 28 to the financial statements.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, 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.

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Responsibilities of the Directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or 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's 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.

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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, related safeguards.

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 14 to 26 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Australian Finance Group Limited, for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Entity 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

Leanne Karamfiles
Partner
Chartered Accountants
Perth, 27 September 2018

Shareholder Information

Additional information required by the Australian Stock Exchange Ltd (ASX) and not disclosed elsewhere in this report is set out below. The information is current as at 31 August 2018.

(a) Number of holders of equity securities

Ordinary share capital

214,812,671 fully paid ordinary shares are held by 2,827 individual shareholders

All issued ordinary shares carry one vote per share.

(b) Distribution of holders of equity securities

The number of shareholders by size of holding is set out below:

Range	Securities	%	No. of holders	%
100,001 and Over	179,513,200	83.57	61	2.16
10,001 to 100,000	27,352,025	12.73	1,058	37.4
5,001 to 10,000	5,445,004	2.53	679	24.02
1,001 to 5,000	2,346,699	1.09	749	26.49
1 to 1,000	155,743	0.07	280	9.90
Total	**214,812,671**	**100**	**2,827**	**100**
Unmarketable Parcels*	1,440	0.00	57	2.02

*An unmarketable parcel is considered to be a shareholding of 319 shares or less, being a value of $500 or less in total, based on the Company's last sale price on the ASX at 31 August 2018 of $1.57.

(c) Substantial shareholders

The names and the number of securities held by substantial shareholders are set out below:

	# Shares	% of issued capital
Commonwealth Bank of Australia and its related bodies corporate	23,585,931	10.98%
MBM Investments ATF The Brett McKeon Family Trust	21,179,773	9.86%
MSW Investments ATF The Malcolm Stephen Watkins Family Trust	19,602,689	9.13%
Oceancity Investments ATF The Matthews Family Trust and Finequest Corporation Pty Ltd	15,029,516	7.00%
Banyard Holdings Pty Ltd ATF The B&K McGougan Trust	14,788,765	6.88%
Australian Ethical Investment Limited	13,461,256	6.27%

(d) Twenty largest holders of quoted equity securities

Top holders		# Shares	% of issued capital
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED		41,137,074	19.15
CITICORP NOMINEES PTY LIMITED		25,905,090	12.06
NATIONAL NOMINEES LIMITED		25,562,730	11.90
MBM INVESTMENTS PTY LTD	THE BRETT MCKEON FAMILY	21,179,773	9.86
OCEANCITY INVESTMENTS PTY LTD	THE MATTHEWS FAMILY	15,000,000	6.98
BANYARD HOLDINGS PTY LTD	B & K MCGOUGAN	14,788,765	6.88
J P MORGAN NOMINEES AUSTRALIA LIMITED		5,907,823	2.75
TAL DISTRIBUTION HOLDINGS LIMITED		4,577,180	2.13
MRS KAREN JANE MCGOUGAN	<B&K MCGOUGAN NO 2 A/C>	4,000,000	1.86
ZERO NOMINEES PTY LTD		2,400,000	1.12
ASSURED FINANCIAL SERVICES PTY LTD		2,000,000	0.93
LISA BEVAN		1,450,000	0.68
EDI NOMINEES PTY LTD	<THE BUFFALO CREEK SUPER A/C>	1,200,000	0.56
ADRIEN MANN (SOUTH PACIFIC) PTY LTD		1,110,000	0.52
ANGELA MIDDLETON		1,000,250	0.47
NEWECONOMY COM AU NOMINEES PTY LIMITED	<900 ACCOUNT>	850,916	0.40
WOODROSS NOMINEES PTY LTD		819,488	0.38
NOLDEX PTY LTD		655,000	0.30
DAVID BAILEY		505,000	0.24
J & P CHICK PTY LIMITED	<J & P CHICK PTY LTD S/F A/C>	500,000	0.23
EGMONT PTY LTD	<CRAIG CARTER SUPER FUND A/C>	500,000	0.23

Company Secretary

Ms L. Bevan

Registered Office

Level 4, 100 Havelock Street, West Perth WA 6005

Share Registry

Link Market Service - Level 12, 680 George Street, Sydney NSW 2000

Corporate Directory

Directors

Anthony (Tony) Gill
(Non-Executive Chairman)

Kevin Matthews
(Non-Executive Director)

Melanie Kiely
(Non-Executive Director)

Brett McKeon
(Executive Director)

Craig Carter
(Non-Executive Director)

Jane Muirsmith
(Non-Executive Director)

Malcolm Watkins
(Executive Director)

Company Secretary

Lisa Bevan
Company Secretary

Notice of AGM

The annual general meeting of Australian Finance Group Limited will be held on Friday 23 November 2018 at 9.00am WST at Level 4, 100 Havelock Street, West Perth WA 6005.

Corporate Office

Australian Finance Group Limited
Level 4
100 Havelock Street
West Perth WA 6005

Postal Address
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Email
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Website
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Share Registry

Link Market Services
Level 12
680 George Street
Sydney NSW 2000

Postal Address
Locked Bag A14
Sydney South NSW 1235

Phone
1300 554 474

Email
registrars@linkmarketservices.com.au

Stock Listing
Australian Finance Group Limited's ordinary shares are listed on the Australian Securities Exchange (ASX code: AFG).

www.afgonline.com.au

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Australian Finance Group Ltd.
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ACN: 066 385 822