
Australian Finance Group Limited

ABN 11 066 385 822

Annual Report
30 June 2012

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Australian Finance Group Limited

Directors' Report

For the year ended 30 June 2012

The Directors present their report together with the financial report on the consolidated entity consisting of Australian Finance Group Limited ('the Company'), and its controlled entities ('the Group'), for the financial year ended 30 June 2012 and the auditor's report thereon.

DIRECTORS AND COMPANY SECRETARY

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

Tony Gill Chairman Non-Executive Director	Age: 59	Mr Gill is based in Sydney and has relevant experience that spans two decades with expertise in banking, mortgage origination and securitisation. Mr Gill was with Macquarie Bank Ltd for 16 years, most recently serving as the Head of the Banking and Securitisation Group.
Brett McKeon Managing Director	Age: 48	Mr McKeon is responsible for the Group's strategy and is also responsible for the AFG Home Loans and Securitisation lines of business.
Bradley McGougan Non-Executive Director	Age: 56	Mr McGougan is a Non-Executive Director with particular focus on Property and Insurance "programmes".
Malcolm Watkins Executive Director	Age: 48	Mr Watkins has responsibility for the Group's technology development programmes, electronic delivery systems and marketing operations.
Kevin Matthews Executive Director	Age: 54	Mr Matthews is responsible for negotiating and managing relationships with financial institutions, product development and the Commercial line of business.
James Minto Non-Executive Director	Age: 60	Mr Minto is a Chartered Accountant who joined the board in August 2004. He is currently the Managing Director of TAL Life Ltd having served as the CEO for 10 years. He has also been Managing Director/CEO of other TOWER companies since 1988.
John Atkins Non-Executive Director	Age: 57	Mr Atkins is the former head of the Perth office of Freehills and is Chairman Western Australia – ANZ Banking Group Ltd. Mr Atkins was a senior commercial lawyer who has acted for major banks and other financial institutions together with property developers and other commercial enterprises and is an experienced public company director.
<i>Company Secretary</i> Lisa Bevan	Age: 40	Ms Bevan is a Chartered Accountant with over 15 years experience.

DIRECTORS MEETINGS

The number of directors' meetings and number of meetings attended by each of the directors of the Company during the financial year are:

Director	Board Meetings	
	A	B
Tony Gill	9	10
Brett McKeon	10	10
Bradley McGougan	4	10
Malcolm Watkins	7	10
Kevin Matthews	9	10
James Minto	8	10
John Atkins	10	10

A – Number of meetings attended

B – Number of meetings held during the time the director held office during the year

Australian Finance Group Limited

Directors' Report (continued)

For the year ended 30 June 2012

PRINCIPAL ACTIVITIES

The Group's principal activities in the course of the financial year continued to be mortgage origination and management.

TRADING RESULTS

The Group's net profit after income tax for the year ended 30 June 2012 was \$18,957 thousand (2011: \$9,131 thousand); after an income tax expense of \$8,720 thousand (2011: \$4,287 thousand) including from discontinued operations.

OPERATING RESULTS FOR THE YEAR

The Directors are pleased with the overall performance of the Group for the 2012 financial year although do note the significant impact of the non-cash adjustment on the underlying result driven by the trail book accounting treatment. Similar to 2011, this adjustment has been performed in accordance with the Australian Accounting Standards. Further details of this accounting treatment and the impact it had on the underlying result is explained elsewhere in this financial report.

During the year our core business continued to perform very strongly experiencing growth in both settlements and recruitment of new brokers and broker groups. The Residential business remains the underwriter of the growth opportunities regularly presented to the Group. Our desire to grow the AFG Home Loans business, and as a consequence AFG Securities business, continued to gain momentum during the year with an average monthly growth in AFG Securities' settlement volume in particular of 19%.

The Group's Property business line had some success during the year, particularly with sales within the Lilydale development generating sufficient cash to repay the original investment made by the Group. There have been two further sales made within this development subsequent to the end of the financial year. The Directors also view the new project entered into subsequent to year end in East Fremantle, with the asset held as part of a joint venture, as being another rewarding development in a strong location.

It is the expectation of the Directors that the warehouse facility, which expires on 22 December 2012, will be renewed for a further 12 months in substantially the same form as it currently exists.

The security for advances under these facilities is a combination of fixed and floating charges over all assets of the special purpose entity, AFG 2010-1 Trust. 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. .

The Directors are satisfied that the Group's ability to continue as a going concern will not be affected.

FINANCIAL RESULTS FOR THE YEAR

The Group's cash and cash equivalents as at 30 June 2012 amounted to \$70,877 thousand, which represents an increase of 27% on 2011. The Group entered into \$5,000 thousand term deposit with maturity greater than 3 months. This has been classified as other financial assets at the reporting date.

Australian Accounting Standards require us to reflect the fair value of our residential trail book, which is influenced amongst other things by the runoff and discount rates that are applied to this valuation. Unlike in 2011, the change in assumptions for 2012 as well as the growth of the loan book has increased the earnings above the underlying earnings generated by the Group. Excluding the non cash entries to recognise the net present value of the future trailing commission receivable and payable, the underlying profit before tax is \$22,598 thousand (2011: \$17,345). The assessment of the trail loan book and the associated assumptions was undertaken by independent actuaries.

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

	2012		2011	
	Total Revenue	Profit before tax	Total Revenue	Profit before tax
Underlying result from continuing operations	260,295	22,598	236,361	17,345
Change in the net present value of trailing commission receivable and payable	60,391	5,079	(17,287)	(4,034)
Total result from continuing operations	320,686	27,677	219,074	13,311

Australian Finance Group Limited

Directors' Report (continued)

For the year ended 30 June 2012

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Group will continue to focus on its core business whilst also looking to further develop its AFG Securities business with a view to maximizing the long term benefits from this business. Additionally, the Group will look to managing its growing property development interests to maximize returns to the shareholders, and to keep a healthy pipeline of projects in place so as to maintain a stable longer term earnings contribution from this division.

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 likely result in unreasonable prejudice to the Group.

CHANGES IN STATE OF AFFAIRS

Total equity increased to \$75,828 from \$59,871, an increase of 27%. The movement was largely the result of increased profits.

During the year the Group incorporated AFG Home Loans Pty Ltd to conduct the business activities pertaining to the mortgage management services previously offered by a business line of the Group.

There were no other significant changes in the state of affairs of the Group, other than as outlined above.

DIVIDENDS

Total dividends paid or declared during the financial year ended 30 June 2012 were \$6 million (2011: \$9 million), which included:

- A final fully franked ordinary dividend of \$3 million (3.21 cents per fully paid share) was declared out of profits of the Company for the year ended 30 June 2011 and paid in July 2011
- An interim fully franked ordinary dividend of \$3 million (3.21 cents per fully paid share) was declared out of profits of the Company for 2012 and paid in December 2011

SUBSEQUENT EVENTS

On 2 July 2012 the Directors recommended the payment of a dividend of 3.21 cents per fully paid ordinary share, fully franked based on tax paid at 30%. The aggregate amount of the dividends paid out in July out of retained profits at 30 June 2012 is \$6 million. The financial effect of these dividends has not been brought to account in the financial statements for the year ended 30 June 2012.

Subsequent to 30 June 2012 the Company entered into a Deed of Guarantee in favour a lender for the loan obtained by its wholly owned subsidiary, AFG Developments Pty Ltd. The guarantee is for the maximum amount of \$3.3 million and any compounding interest on that amount from the date of demand to the date of payment.

Subsequent to 30 June 2012 the Board of Directors agreed to provide McCabe Street Limited with a loan facility of a maximum amount of \$1.2m for a term of 24 months or until alternative financing is sourced whichever is earlier, on commercial arms length terms. In addition, the Board agreed to re-finance McCabe Street Ltd's current loan, in the event that McCabe Street Ltd is unable to refinance it by the expiry date of February 2013. At this time it is expected that the balance, including capitalised interest, will be approximately \$1.18 million. The security for the initial loan will be a registered second mortgage over McCabe Street Ltd land, which in the event that the refinance of the existing loan is unable to be achieved by February 2013, will become a registered first mortgage. As at the date of this report this arrangement is still being documented.

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.

INDEMNIFICATION 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.

Australian Finance Group Limited

Directors' Report (continued)

For the year ended 30 June 2012

NON-AUDIT SERVICES

During the year Ernst & Young (EY), the Group auditor, has performed certain other services in addition to their statutory duties. The Board of Directors has considered the non-audit services provided during the year by the auditor and in accordance with the advice received from the Audit and Risk Committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 as none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

Details of the amounts paid to the auditors of the Group, Ernst & Young, and its related practices for audit and non-audit services provided during the year are set out below.

In AUD

Audit services:

Amounts due and receivable for:

Audit of the financial report of the Group and other entities of the Group

Ernst & Young

KPMG Australia and Other auditors

Services other than statutory audit:

Auditors of the Group

Taxation advice – *Ernst & Young*

Taxation compliance - *KPMG Australia*

	2012	2011
	94,000	-
	-	98,500
	<u>94,000</u>	<u>98,500</u>
	68,500	2,884
	-	79,800
	<u>68,500</u>	<u>82,684</u>

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 51 of this financial report for the year ended 30 June 2012.

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the class order applies.

This report is made with a resolution of the Directors.


B M McKeon
Managing Director

Dated at Perth, this 25 October 2012

Australian Finance Group Limited
Statement of Financial Position
As at 30 June 2012

<i>In thousands of AUD</i>	Note	2012	2011
Assets			
Cash and cash equivalents	14	70,877	55,876
Other financial assets	18	5,368	387
Trade and other receivables	15	404,009	343,344
Loans and advances	16	255,562	73,885
Investments in equity-accounted investees	19	3,195	2,404
Inventories	17	2,731	5,054
Property, plant and equipment	21	1,034	872
Intangible assets	22	469	463
Total assets		743,245	482,285
Liabilities			
Interest-bearing liabilities	24	259,522	74,665
Trade and other payables	23	385,643	323,351
Employee benefits	25	3,689	4,344
Current tax payable	20	2,995	1,754
Deferred income	28	2,445	3,896
Deferred tax liability	20	11,819	10,710
Provisions	27	1,304	3,694
Total liabilities		667,417	422,414
Net assets		75,828	59,871
Equity			
Share capital		11,434	11,434
Reserves		(71)	(71)
Retained earnings		64,467	48,508
Total equity attributable to equity holders of the Company		75,830	59,871
Non-controlling interest		(2)	-
Total equity		75,828	59,871

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

Australian Finance Group Limited

Statement of Comprehensive Income

For the year ended 30 June 2012

In thousands of AUD

	Note	2012	2011
Continuing Operations			
Revenue	7	320,686	219,074
Cost of sales		(276,653)	(186,818)
Gross profit		44,033	32,256
Other income	8	11,321	6,731
Administration expenses		(2,973)	(2,560)
Other expenses	9	(28,669)	(26,458)
Results from operating activities		23,712	9,969
Financial income	12	12,503	6,167
Financial expenses	12	(8,343)	(2,815)
Net finance income		4,160	3,352
Share of loss of equity-accounted investees (net of tax)	19	(195)	(10)
Profit before tax from continuing operations		27,677	13,311
Income tax expense	13	(8,720)	(4,255)
Profit from continuing operations		18,957	9,056
Discontinued operations			
Profit (loss) from discontinued operations (net of income tax)	6	-	75
Profit for the year		18,957	9,131
Other comprehensive income for the year, net of income tax		-	-
Total comprehensive income for the year		18,957	9,131
Profit attributable to:			
Owners of the Company		18,959	9,131
Non-controlling interests		(2)	-
Profit for the year		18,957	9,131
Total comprehensive income for the year attributable to:			
Owners of the Company		18,959	9,131
Non-controlling interests		(2)	-
Total comprehensive income for the year		18,957	9,131

The Statement of Comprehensive Income should be read in conjunction with the Notes to the financial statements.

Australian Finance Group Limited

Statement of Changes in Equity

For the year ended 30 June 2012

In thousands of AUD

	Share capital	Foreign currency translation reserve	Fair value reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 July 2010	11,345	(15)	(56)	48,377	59,651	-	59,651
Total comprehensive income for the year							
Profit	-	-	-	9,131	9,131	-	9,131
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	9,131	9,131	-	9,131
Transactions with owners, recorded directly in equity							
<i>Contributions by and distributions to owners</i>							
Share-based payment transactions	89	-	-	-	89	-	89
Dividends to equity holders	-	-	-	(9,000)	(9,000)	-	(9,000)
Total contributions by and distributions to owners	89	-	-	(9,000)	(8,911)	-	(8,911)
Total transactions with owners	89	-	-	(9,000)	(8,911)	-	(8,911)
Balance at 30 June 2011	11,434	(15)	(56)	48,508	59,871	-	59,871
Balance at 1 July 2011	11,434	(15)	(56)	48,508	59,871	-	59,871
Total comprehensive income for the year							
Profit /(loss)	-	-	-	18,959	18,959	(2)	18,957
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	18,959	18,959	(2)	18,957
Transactions with owners, recorded directly in equity							
<i>Contributions by and distributions to owners</i>							
Dividends to equity holders	-	-	-	(3,000)	(3,000)	-	(3,000)
Share-based payment transactions	-	-	-	(3,000)	(3,000)	-	(3,000)
Total contributions by and distributions to owners	-	-	-	(3,000)	(3,000)	-	(3,000)
Total transactions with owners	-	-	-	(3,000)	(3,000)	-	(3,000)
Balance at 30 June 2012	11,434	(15)	(56)	64,467	75,830	(2)	75,828

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

Australian Finance Group Limited
Statement of Cash Flows
For the year ended 30 June 2012

<i>In thousands of AUD</i>	Note	2012	2011
Cash flows from operating activities			
Cash receipts from customers		270,442	243,970
Cash paid to suppliers and employees		(243,715)	(226,783)
(Advances)/repayments of customer borrowings		(182,685)	(29,384)
(Repayments of)proceeds from warehouse facility		184,275	33,292
Interest received		8,906	3,236
Interest paid		(7,763)	(2,594)
Income taxes paid		(6,370)	(6,809)
Net cash from operating activities	14(b)	23,090	14,928
Cash flows from investing activities			
Purchase of investments		(5,000)	-
Interest received		3,402	2,844
Interest paid		(132)	(95)
Acquisition of property, plant and equipment		(766)	(316)
Acquisition of equity-accounted investees	19	(986)	(2,414)
Investment in intangible assets		(194)	(331)
Increase in loans from funders		581	569
Acquisition of other investments		(51)	(252)
Decrease/(Increase) in other loans and advances		1,057	(461)
Disposal of discontinued operation, net of cash disposed of	6	-	1,500
Net cash (used in)/from investing activities		(2,089)	1,044
Cash flows used in financing activities			
Repayment of lease liabilities		-	(13)
Dividends paid to equity holders of the parent	29	(6,000)	(6,000)
Net cash used in financing activities		(6,000)	(6,013)
Net increase in cash and cash equivalents		15,001	9,959
Cash and cash equivalents at 1 July		55,876	45,917
Cash and cash equivalents at 30 June	14(a)	70,877	55,876

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

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Notes to the Financial Statements

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Australian Finance Group Limited

Notes to the Financial Statements

1. Reporting entity

The consolidated financial statements for the financial year ended 30 June 2012 comprise, Australian Finance Group Limited (the 'Company') 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 management. The Company's principal place of business is 22 Delhi Street, West Perth, Western Australia.

2. Basis of preparation

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporation Act 2001 and the Australian Accounting Standards ('AASBs') (including Australian Interpretations) as issued by the Australian Accounting Standards Board ('AASB'). The consolidated financial report of the Group also complies with the International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorised for issue by the Board of Directors on 25 October, 2012.

(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 trailing commission are measured at fair value;
- 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 Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, 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 AASBs 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 significant areas of estimation uncertainties and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 4: Determination of fair values
- Note 26: Measurement of share-based payments
- Note 27: Provisions
- Note 30: Valuation of financial instruments

Australian Finance Group Limited

Notes to the Financial Statements

(e) Changes in accounting policies and disclosures

(i) Presentation of transactions recognised in other comprehensive income

From 1 July 2011 the Group has applied amendments to AASB 101 *Presentation of Financial Statements* outlined in *AASB 2010-4 further amendments to Australian Accounting Standards* arising from the *Annual Improvements Project*. The change in accounting policy only relates to disclosures and had no impact on consolidated net income. The changes have been applied retrospectively and allow the Group to disclose transactions recognised in other comprehensive income.

(ii) Accounting for cash flows from operating activities

During 2012 financial year the securitisation program activities have increased in volume and value to become key revenue producing activities. Consequently, and in accordance with AASB 107, cash flows from the securitisation operations have been re-classified as cash flows from operating activities rather than cash flows from investing activities.

(iii) Change in the basis of presentation of the Statement of Financial Position

In line with financial institutions, AFG has determined that the presentation of the Statement of Financial Position is reliable and more relevant on a liquidity basis rather than the current/non-current distinction.

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.

Certain comparative amounts have been reclassified to conform with the current year's presentation.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial results of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed where necessary to align them with the policies adopted by the Group.

(ii) Special purpose entities

The Group has established a special purpose entity ('SPE'), AFG 2010-1 Trust, to conduct activities on behalf and according to the specific business needs of Australian Finance Group Securities Pty Ltd, a wholly owned subsidiary of the Company. The SPE is consolidated based on an evaluation of the substance of its relationship with the Group, and the SPE's risks and rewards. The Group has control over the SPE.

The SPE controlled by the Group was established under terms that impose strict limitations on the decision-making powers of the SPE's management that result in the Group receiving the majority of the benefits related to the SPE's operations and net assets, being exposed to risks incidental to the SPE's activities, and retaining the majority of the residual or ownership risks related to the SPE or its assets.

(iii) 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. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

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.

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.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Australian Finance Group Limited

Notes to the Financial Statements

3. Significant accounting policies (continued)

Jointly controlled operations

A jointly controlled operation is a joint venture carried on by each venturer using its own assets in pursuit of the joint operations. The consolidated financial statements include the assets that the Group controls and the liabilities that it incurs in which there is joint control, in the course of pursuing the joint operation, and the expenses that the Group incurs and its share of the income that it earns from the joint operation.

Non-controlling interests

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 intragroup transactions.

(iv) Transactions eliminated on consolidation

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.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Group at exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate at that date. The foreign exchange gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in the foreign currency translated at the exchange rate at the end of the period.

(ii) Foreign operations

The assets and liabilities of foreign operations are translated to Australian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Australian dollars at the average exchange rates of the relevant period.

Foreign currency differences are recognised in other comprehensive income. Since 1 July 2004, the Group's date of transition to AASBs, such differences have been recognised in the foreign currency translation reserve ("FCTR") in equity.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the FCTR.

(c) Financial instruments

(i) Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

The Group has the following non-derivative financial assets: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets.

Australian Finance Group Limited

Notes to the Financial Statements

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

(i) Non Derivative financial assets (continued)

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 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. Such assets are recognised initially at fair value plus directly attributable transaction costs. 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.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short term deposits with original maturities of 3 months or less.

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(g)), 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. The investments have no quoted prices in an active market and there is insufficient information available to determine fair value. As result of this cost was deemed to represent the best estimate of fair value.

(ii) Non-derivative financial liabilities

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 has the following non-derivative financial liabilities: interest-bearing liabilities and trade and other payables.

Such financial liabilities are recognised initially at fair value, and when relevant, less attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method.

(iii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to 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.

Australian Finance Group Limited

Notes to the Financial Statements

3. Significant accounting policies (continued)

(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(g)).

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 balance of deferred software development costs is disclosed as such in note 22 to the financial statements.

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(g)).

(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.

Australian Finance Group Limited

Notes to the Financial Statements

3. Significant accounting policies (continued)

(e) Intangibles (continued)

(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) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories includes the costs of acquisition, development and holding costs, including such costs as borrowing costs rates and taxes. Holding costs incurred post completion of development are expensed.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(g) Impairment

(i) Financial assets (including receivables)

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 SPE 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 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.

Australian Finance Group Limited

Notes to the Financial Statements

3. Significant accounting policies (continued)

(g) Impairment (continued)

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and 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.

(h) 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. 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.

(i) 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.

Australian Finance Group Limited

Notes to the Financial Statements

3. Significant accounting policies (continued)

(j) 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 trailing 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.
- **Trailing commissions:** The Group receives trailing commissions from lenders on loans they have settled that were originated by the Group. The trailing commissions are received over the life of the loans based on individual loan balance outstanding. The Group also makes trailing commission payments to authorised mortgage originators (members) based on the individual loan balance outstanding.

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

Subsequent to initial recognition and measurement both the trailing commission asset and trailing commission payable are measured at amortised cost. The carrying amount of the trailing commission asset and trailing 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 Statement of Comprehensive Income.

(ii) Mortgage management revenues

The Group provides mortgage management services to its clients as an alternative to traditional bank home loans. Revenue generated includes origination commission, trailing commission and fees associated with loans' settlement and management. Origination commissions are recognised upon the loans being settled and receipt of the commission. Trailing commissions are recognised with reference to the stage of completion for the contract of service. Other fees are recognised in the Statement of Comprehensive Income in proportion to the stage of completion of the transaction at the reporting date.

(iii) Property development services

The Group provides project management services for property syndication projects. The Group receives an ongoing management fee for providing these services. Revenue is recognised by reference to the stage of completion of the contract.

(iv) Sale of goods and disposal of assets

Revenue from the sale of goods and disposal of assets is recognised when the Group has passed control of the goods or other assets to the buyer.

(v) Fees for services

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

(vi) Rendering of other services and sponsorship income

Revenue from contracts to provide other services is recognised by reference to the stage of completion of the contract. Sponsorship income is brought to account when services relating to the income have been performed.

(vii) 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.

Australian Finance Group Limited

Notes to the Financial Statements

3. Significant accounting policies (continued)

(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, unwinding of the discount on provisions, 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. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

(n) Income tax expense

Income tax expense comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for: temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted by the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly to equity

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a set basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the obligation to pay the related dividend is recognised.

Australian Finance Group Limited

Notes to the Financial Statements

3. Significant accounting policies (continued)

(n) Income tax expense (continued)

(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 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 inter-entity 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.

(o) 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 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.

(p) 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.

Sponsorship and other deferred income are brought to account when services relating to the income have been performed.

Australian Finance Group Limited

Notes to the Financial Statements

3. Significant accounting policies (continued)

(q) Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative Statement of Comprehensive Income is re-presented as if the operation had been discontinued from the start of the comparative period.

(r) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2012, but have not been applied in preparing this financial report:

- AASB 9 *Financial Instruments*, which becomes mandatory for the Group's 2015 consolidated financial instruments. It includes requirements for the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.
- AASB 11 *Joint Arrangements*, which becomes mandatory for the Group's 30 June 2014 financial statements and could change the classification and measurement of investments in jointly controlled entities. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.
- Amended AASB 119 *Employee Benefits*, which becomes mandatory for the Group's 30 June 2014 financial statements and could change the definition of short-term and other long-term employee benefits and some disclosure requirements. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.
- AASB 10 *Consolidated Financial Statements* which becomes mandatory for the Group's 30 June 2014 financial statements. This standard introduces a new approach to determining which investees should be consolidated. The standard is still waiting on approval by the AASB but is not expected to have a significant impact on the financial statements. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.
- AASB 12 *Disclosures of Interests in Other Entities* which becomes mandatory for the Group's 30 June 2014 financial statements. This standard contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associated and/or unconsolidated entities. The amendments will require additional disclosure but are not expected to have a significant impact on the financial statements. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.
- AASB 128 *Investments in Associates and Joint Ventures* which becomes mandatory for the Group's 30 June 2014 financial statements. This Standard supersedes AASB 128 Investments in Associates and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.
- AASB 13 *Fair Value Measurement* which becomes mandatory for the Group's 30 June 2014 financial statements. This standard explains how to measure fair value when required to by other IFRSs. It does not introduce new fair value measurements, nor does it eliminate the practicability exceptions to fair value that currently exist in certain standards. The Group has not yet determined the potential effect of the standard.
- AASB 119 *Employee Benefits* (2011) which becomes mandatory for the Group's 30 June 2014 financial statements. This standard is an amended version of AASB 119 Employee Benefits with revised requirements for pensions and other post retirement benefits, termination benefits, short and long term benefits and other changes. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.
- AASB 2011-9 *Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income*, which becomes mandatory for the Group's 30 June 2013 financial statements. This Standard requires entities to group items presented in other comprehensive income on the basis of whether they might be reclassified subsequently to profit or loss and those that will not. There will not be any significant impact on the Group financial statements from the application of this standard.

Australian Finance Group Limited

Notes to the Financial Statements

4. Determination of fair value

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.

Trailing commissions

The Group receives trailing commissions from lenders on settled loans over the life of the loan based on the loan book balance outstanding. The Group is entitled to the trailing commissions without having to perform further services. The Group also makes trailing commission payments to Members when trailing commission is received from lenders.

The fair value of trailing commission receivable from lenders and the corresponding payable to members is determined by using a discounted cash flow valuation. These calculations require the use of assumptions which are determined by management with the assistance of external actuaries. The key assumptions underlying the fair value calculations of trailing commission receivable and the corresponding payable to members at the reporting date is summarised in the following table:

	2012	2011
Average loan life	Between 4.2 and 5.0 years	Between 3.8 and 4.4 years
Discount rate per annum	Between 10.1% and 13.5%	Between 11.5% and 13.5%
Percentage paid to members	Between 85% and 90%	Between 85% and 89%

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

Fixed rate instruments

The carrying amounts of the fixed rate instruments at year end is a reasonable approximation of their fair values with the exception of the net present value of future trailing commissions receivable which are accounted for at amortised cost.

At reporting date a change in interest rate will not affect the fair values of the fixed rate instruments.

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 is determined by reference to their quoted closing bid price at reporting date.

The fair value of available-for-sale asset cannot be measured reliably because it does not have a quoted price in an active market (see note 3(c)(i)).

Australian Finance Group Limited

Notes to the Financial Statements

5. Financial risk management

(a) Overview

The Group has exposure to the following risks from the use of financial instruments:

Credit risk;
Liquidity risk; and
Market risk.

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 Audit and Risk 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 Audit and Risk 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 and country, 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 trailing 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 trailing commissions to members.

Excluding financial institutions on the lender panel, limits are established for each customer, which represents the maximum open amount without requiring approval from the Group's Directors. These limits are reviewed on an ongoing basis. 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 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. Importantly, all residential mortgages are covered by a lender's mortgage insurance contract which covers 100% of the principal.

Australian Finance Group Limited

Notes to the Financial Statements

5. Financial risk management (continued)

(b) Credit risk (continued)

The Group has established an allowance for impairment that represents the estimate of incurred losses in respect of its receivables. The main components of this allowance are 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 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 daily 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. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

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 or later than expected.

The Group's key exposure relates to the net present value of future trailing 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, the Group minimises the prepayment risk by passing back all principal repayments to the warehouse facility provider. Deferred establishment fees are charged to the customer on early repayment of loans to minimise losses on the costs of acquisition.

Other market risk

The Group is exposed to an increase in the securitisation programme credit support loan from changes in the credit rating of mortgage insurers used by the SPE, and the composition of the available collateral held. The Group uses reputable valuers and management to regularly review and report 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.

Australian Finance Group Limited

Notes to the Financial Statements

5. Financial risk management (continued)

(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 SPE managing the securitisation programme is subject to the external requirements imposed by the warehouse facility provider. The terms of the warehouse facility 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.

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 its Australian Financial Services Licence. There was no breach of the requirements for the year ended 30 June 2012.

6. Discontinued operations

In September 2009 the Group sold 100% of its ordinary shares in its wholly owned subsidiary, Australian Finance Group Financial Planning Pty Ltd; and the comparative Statement of Comprehensive Income has been re-presented to show the discontinued operation separately from continuing operations.

In thousands of AUD

	<i>Note</i>	2012	2011
Results of discontinued operations			
Revenue		-	-
Expenses		-	-
Results from operating activities		-	-
Income tax expense	13	-	-
Results from operating activities, net of income tax		-	-
Gain on sale of discontinued operations	14(b)	-	107
Income tax expense on gain on sale of discontinued operations	13	-	(32)
Profit for the period		-	75

The profit from discontinued operations in 2011 of \$75 thousand is attributable entirely to the owners of the Group.

In thousands of AUD

	2012	2011
Cash flows from discontinued operations		
Net cash used in operating activities	-	-
Net cash from investing activities	-	1,500
Net cash from financing activities	-	-
Net cash from discontinued operations	-	1,500

Effect of disposal on the financial position of the Group

In thousands of AUD

	2012	2011
Trade and other receivables	-	-
Cash and cash equivalents	-	-
Trade and other payables	-	-
Net assets and liabilities	-	-
Consideration received, satisfied in cash	-	1,500
Cash and cash equivalents disposed of	-	-
Net cash inflow	-	1,500

Australian Finance Group Limited

Notes to the Financial Statements

7. Revenue

In thousands of AUD

	2012	2011
Commissions	281,743	176,506
Interest on commission income receivable	32,937	40,996
Mortgage management services	1,731	1,383
Property development services	4,040	43
Securitisation transaction fees	235	146
	320,686	219,074

8. Other income

In thousands of AUD

	2012	2011
Sponsorship and performance bonus income	5,891	1,482
Software licence fees	1,386	1,332
Professional indemnity insurance	1,306	1,522
Fees for services	2,121	1,671
Other	617	724
	11,321	6,731

9. Other expenses

In thousands of AUD

	Note	2012	2011
Advertising and promotion		2,398	1,577
Consultancy and professional fees		1,445	925
Information technology		1,790	1,648
Occupancy costs		488	405
Employee costs	10	19,576	18,678
Depreciation and amortisation		781	1,350
Operating lease costs		2,223	1,851
(Reversal of) /impairment loss on receivables		(43)	14
Net loss on disposal of property, plant and equipment		11	10
		28,669	26,458

10. Personnel expenses

In thousands of AUD

	Note	2012	2011
Wages and salaries		13,138	12,169
Other associated personnel expenses		4,997	4,782
Change in liability for long service leave		151	195
Change in liabilities for annual and sick leave		(62)	154
Equity-settled share based payment transactions	26	-	89
Superannuation		1,352	1,289
		19,576	18,678

Australian Finance Group Limited

Notes to the Financial Statements

11. Auditors' remuneration

In AUD

Audit services

Amounts due and receivable for:

Audit of the financial report of the Group and other entities of the Group

Ernst & Young

KPMG Australia and Other auditors

Other services

Auditors of the Company

Taxation advice- *Ernst & Young*

Taxation compliance services- *KPMG Australia*

	2012	2011
	94,000	-
	-	98,500
	94,000	98,500
	68,500	2,884
	-	79,800
	68,500	82,684

12. Finance income and expenses

Recognised in profit or loss

In thousands of AUD

Interest income on loans and receivables

Interest income on bank deposits

Net foreign exchange gain

Finance income

Interest expense on finance liabilities measured at amortised cost

Net change in fair value of financial assets designated at fair value through profit or loss

Interest on loans from funders

Finance expense

Net finance income and expense

The above financial income and expense include the following in respect of assets (liabilities) (not at fair value through profit or loss):

Total interest income on financial assets

Total interest expense on financial liabilities

	2012	2011
	8,981	3,333
	3,501	2,834
	21	-
	12,503	6,167
	(8,142)	(2,689)
	(69)	(32)
	(132)	(94)
	(8,343)	(2,815)
	4,160	3,352
	12,503	6,167
	(8,274)	(2,783)

Other finance income and expenses

Revenue includes the interest income of \$32,937 thousand (2011: \$40,996 thousand) from the unwinding of the discount in relation to the net present value of future trailing commission receivable. Refer to note 7 and 15. Cost of sales includes the interest expense from the unwinding of the discount in relation to the net present value of future trailing commission payable of \$28,472 thousand (2011: \$35,327 thousand).

Australian Finance Group Limited

Notes to the Financial Statements

13. Income tax expense

Current tax expense

In thousands of AUD

Income tax recognised in profit or loss

Current tax expense

Current period

Adjustments for prior periods

Deferred tax expense

Origination and reversal of temporary differences

Adjustments for prior periods

Income tax from continuing operations

Income tax expense on gain on sale of discontinued operations

Total income tax expense

2012	2011
7,567	5,316
41	180
7,608	5,496
1,112	(1,243)
-	2
1,112	(1,241)
8,720	4,255
-	32
8,720	4,287

Tax recognised in other comprehensive income

Nil income tax was recognised directly in equity (2011: nil).

Numerical reconciliation between tax expense and pre-tax accounting profit

In thousands of AUD

Profit for the period

Total income tax expense

Profit excluding income tax

Income tax using the Company's domestic tax rate of 30%
(2011: 30%)

Non-deductible expenses

Prior year temporary differences

Under provision in prior periods

2012	2011
18,957	9,131
8,720	4,287
27,677	13,418
8,303	4,025
273	79
103	-
41	183
8,720	4,287

Australian Finance Group Limited

Notes to the Financial Statements

14. Cash and cash equivalents

(a) Cash and cash equivalents

In thousands of AUD

	2012	2011
Cash at bank	57,785	49,738
Short term deposits	13,092	6,138
Cash and cash equivalents	70,877	55,876
Cash and cash equivalents in the Statement of Cash Flows	70,877	55,876

The effective interest rate on at short term deposits in 2012 was 5.27% (2011: 5.80%). The deposits had an average maturity of 30 days (2011: 30 days).

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 30.

(b) Reconciliation of cash flows from operating activities

In thousands of AUD

	Note	2012	2011
Cash flows from operating activities			
Profit for the period		18,957	9,131
<i>Adjustments for:</i>			
Depreciation	21	593	694
Amortisation of intangible assets	22	188	656
Loss on sale of property, plant and equipment	9	11	10
Non cash movement in impairment losses on receivables	9	(43)	14
Net change in the fair value of financial assets designated at fair value through profit or loss	12	69	32
Net interest income from investing activities		(3,270)	(2,749)
Non cash net interest expense		203	47
Equity-settled share-based payments	10	-	89
Share of profit of equity accounted investees	19	195	10
Gain on sale of discontinued operation	6	-	(107)
Net present value of future trailing commission income		(60,392)	17,332
Net present value of future trailing commission expense		55,311	(13,254)
Operating profit before changes in working capital and provisions		11,822	11,905
Increase in trade and other receivables		294	(92)
Increase in prepayments		(397)	(758)
Increase in trade and other payables		6,601	3,361
Increase/(Decrease) in inventories		2,323	(1,147)
Increase/(Decrease) in deferred income		(1,449)	911
Increase/(Decrease) for employee entitlements		(654)	(611)
Increase/(Decrease) in provisions		610	(27)
Increase/(Decrease) in tax provision		2,350	(2,522)
Increase in securitisation lending		(182,685)	(29,384)
Increase in warehouse facility		184,275	33,292
Net cash from operating activities		23,090	14,928

Australian Finance Group Limited

Notes to the Financial Statements

15. Trade and other receivables

In thousands of AUD

Current

Trade receivables

Other trade receivables

Accrued income

Net present value of future trailing commissions receivable¹

Prepayments

Non-current

Net present value of future trailing commissions receivable¹

	2012	2011
Trade receivables	244	389
Other trade receivables	249	83
Accrued income	886	1,031
	1,379	1,503
Net present value of future trailing commissions receivable ¹	79,386	73,608
Prepayments	2,581	2,184
	83,346	77,294
Net present value of future trailing commissions receivable ¹	320,663	266,050
	320,663	266,050
	404,009	343,344

(1) See fair value determinations for trailing commissions – note 4

Trade and other receivables are shown net of a provision for impairment of \$14 thousand (2011: \$20 thousand).

The non-current receivables represent the net present value of future trailing commissions receivable.

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 30.

16. Loans and advances

Current

In thousands of AUD

Securitised assets¹

Other secured loans²

	2012	2011
Securitised assets ¹	42,069	12,809
Other secured loans ²	1,760	2,780
	43,829	15,589

(1) The securitised assets are held security for the various debt interests in the special purpose securitised trusts and series.

(2) Other secured loans include:

- Loans and advances to members secured over future trailing commissions' payable to the member and in some cases personal guarantees. Interest is charged on average at 14.00% p.a (2011: 14.54% p.a).
- Loans and advances secured over the underlying assets and fixed and floating charge over the borrowing entity's assets. Interest is charged on average at 16.44% p.a (2011: 14.88%).

Non-current

In thousands of AUD

Securitised assets¹

Unamortised effective yield fees

Other secured loans²

Less: Provision for impairment³

	2012	2011
Securitised assets ¹	209,843	57,866
Unamortised effective yield fees	1,739	291
Other secured loans ²	167	203
Less: Provision for impairment ³	(16)	(64)
	211,733	58,296
	255,562	73,885

(1) The securitised assets are held as security for the various debt interests in the special purpose securitised trusts and series.

(2) Other secured loans include loans and advances to Members secured over future trailing commissions payable to the member and in some cases personal guarantees. Interest is charged on average at 14.00%p.a (2011:14.54%p.a).

(3) Refer to note 30(a)(ii) for the split between collective and individual provision

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 nor impaired status.

At the end of the reporting period, the balance of the Group's non-current loans and advances includes a provision for impairment of \$16 thousand (2011: \$64 thousand).

During the financial year, new loans issued in the Group's securitisation program were \$211,896 thousand (2011: \$38,738).

The Group's exposure to credit, currency and interest rate risks related to loans and advances is disclosed in note 30.

Australian Finance Group Limited

Notes to the Financial Statements

17. Inventories

In thousands of AUD

Current

Cost of acquisition and work in progress
 Finished development stock held for sale
 Inventories carried at lower of cost and net realisable value

Non-current

Development work in progress
 Inventories carried at lower of cost and net realisable value

	2012	2011
	-	5,054
	2,666	-
	2,666	5,054
	65	-
	65	-
	2,731	5,054

18. Other financial assets

In thousands of AUD

Current

Financial assets designated at fair value through profit or loss
 Short term deposits

Non-current

Available-for-sale financial assets

	2012	2011
	337	356
	5,000	-
	5,337	356
	31	31
	31	31
	5,368	387

The financial assets designated at fair value through profit or loss are equity securities that otherwise would have been classified as available-for-sale.

No change in the fair value of available-for-sale financial assets has been recognised in 2012 (2011: Nil).

The Group's exposure to credit, currency and market risks related to other investments is disclosed in note 30.

19. Investments in equity-accounted investees

The Group's share of loss in its equity-accounted investees for the year was \$195 thousand (2011: \$10 thousand), and the carrying amount was \$3,195 thousand (2011: \$2,404 thousand).

None of the Group's equity-accounted investees are publicly listed entities and consequently do not have published price quotations.

Summary financial information for equity-accounted investees, not adjusted for the percentage ownership held by the Group:

2012

In thousands of AUD

	Reporting date	Ownership	Total assets	Total liabilities	Income	Expenses	Loss	Group share of net assets	Group share of loss
Qube Havelock Street Development Pty Ltd ¹	30 June	40%	15,024	7,086	17	504	(487)	3,175	(195)

(1) Associate

2011

In thousands of AUD

	Reporting date	Ownership	Total assets	Total liabilities	Income	Expenses	Loss	Group share of net assets	Group share of loss
Qube Havelock Street Development Pty Ltd ¹	30 June	40%	8,699	2,733	1	(26)	(25)	2,387	(10)

The Group's share of the equity-accounted investees for 2011 was \$10 thousand, being 40% of the unadjusted loss of \$28 thousand.

Australian Finance Group Limited

Notes to the Financial Statements

20. Tax assets and liabilities

(a) Current tax assets and liabilities

The current tax liability for the Group of \$2,995 thousand (2011: \$1,754 thousand) represents the amount of income taxes payable in respect of current and prior financial periods.

(b) Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
<i>In thousands of AUD</i>	2012	2011	2012	2011	2012	2011
Property, plant and equipment and intangibles	(134)	(256)	-	-	(134)	(256)
Trade and other receivables	(1,022)	(3,777)	120,082	102,037	119,060	98,260
Employee benefits	(974)	(1,339)	-	-	(974)	(1,339)
Trade and other payables	(106,756)	(89,180)	-	3,240	(106,756)	(85,940)
Other items	(252)	(69)	875	54	623	(15)
Tax (assets) / liabilities	(109,138)	(94,621)	120,957	105,331	11,819	10,710
Set off of tax	109,138	94,621	(109,138)	(94,621)	-	-
Net tax (assets) / liabilities	-	-	11,819	10,710	11,819	10,710

21. Property, plant and equipment

In thousands of AUD

Cost

	Plant and equipment	Fixtures and fittings	Total
Balance at 1 July 2010	3,837	1,737	5,574
Additions	303	13	316
Disposals	(76)	-	(76)
Balance at 30 June 2011	4,064	1,750	5,814
Balance at 1 July 2011	4,064	1,750	5,814
Additions	678	88	766
Disposals	(242)	(183)	(425)
Balance at 30 June 2012	4,500	1,655	6,155

Depreciation

	Plant and equipment	Fixtures and fittings	Total
Balance at 1 July 2010	3,386	928	4,314
Depreciation charge for the year	689	5	694
Disposals	(66)	-	(66)
Balance at 30 June 2011	4,009	933	4,942
Balance at 1 July 2011	4,009	933	4,942
Depreciation charge for the year	352	241	593
Disposals	(231)	(183)	(414)
Balance at 30 June 2012	4,130	991	5,121

Carrying amounts

	Plant and equipment	Fixtures and fittings	Total
At 30 June 2011	55	817	872
At 30 June 2012	370	664	1,034

Australian Finance Group Limited

Notes to the Financial Statements

22. Intangible assets

In thousands of AUD

Cost

Balance at 1 July 2010	
Acquisitions – internally developed	
Balance at 30 June 2011	
Balance at 1 July 2011	
Acquisitions	
Balance at 30 June 2012	

Software development

9,098
331
9,429
9,429
194
9,623

Amortisation

Balance at 1 July 2010	
Amortisation for the year	
Balance at 30 June 2011	
Balance at 1 July 2011	
Amortisation for the year	
Balance at 30 June 2012	

8,311
655
8,966
8,966
188
9,154

Carrying amounts

At 30 June 2011	
At 30 June 2012	

463
469

23. Trade and other payables

In thousands of AUD

Current

Net present value of future trailing commissions payable	
Other trade payables	
Non-trade payables and accrued expenses	

Note	2012	2011
4	69,059	63,490
	33,953	17,595
	2,388	11,766
	105,400	92,851

Non-current

Net present value of future trailing commissions payable	
--	--

280,243	230,500
280,243	230,500
385,643	323,351

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 30.

Australian Finance Group Limited

Notes to the Financial Statements

24. 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 30.

Current

In thousands of AUD

Securitisation warehouse facility
Loans from funders

2012	2011
257,180	13,377
689	1,307
257,869	14,684

Non-current

In thousands of AUD

Securitisation warehouse facility
Loans from funders

2012	2011
-	59,528
1,653	453
1,653	59,981
259,522	74,665

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

<i>In thousands of AUD</i>	2012				2011			
	Nominal interest rate	Year of maturity	Face value	Carrying amount	Nominal interest rate	Year of maturity	Face value	Carrying amount
Warehouse facility	5.43%	2013	257,180	257,180	5.99%	2012	72,905	72,905
Loans from funders	6.45%	2012-2017	2,342	2,342	6.22%	2011-2016	1,760	1,760
			259,522	259,522			74,665	74,665

(a) Warehouse and liquidity facilities - Securitised mortgage borrowings

Warehouse facility

The warehouse facility provides funding for the financing of loans and advances to customers within the SPE.

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.

Borrowings are secured against residential properties only, and each mortgage is covered by a lender's mortgage insurance contract which covers 100% of the principal of the loan. The carrying amount of the collaterals pledged as security is \$399,468 thousand (2011: \$98,593 thousand).

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 is \$138,739 thousand (2011: \$67,325 thousand).

The Group is in the process of extending the term of the existing warehouse facility for another term of 12 months from 22 December 2012.

Liquidity facility

The Liquidity facility is established by the warehouse facility provider 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 is \$8,000 thousand (2011: \$2,760).

Australian Finance Group Limited

Notes to the Financial Statements

24. Interest-bearing liabilities (continued)

(b) Finance facilities

In thousands of AUD

	2012	2011
Standby facility	100	20
Bank guarantee facility	500	500
	600	520
Facilities utilised at reporting date		
Bank guarantee facility	336	408
	336	408
Facilities not utilised at reporting date		
Standby facility	100	20
Bank guarantee facility	164	92
	264	112

The facilities are subject to annual review.

(c) 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 6.45% (2011: 6.22%).

Refer to note 30 for further disclosures on interest-bearing liabilities.

25. Employee benefits

In thousands of AUD

Current

	2012	2011
Salaries and wages accrued	1,505	2,249
Liability for sick leave	21	18
Liability for long service leave	866	718
Liability for annual leave	835	900
	3,227	3,885

Non Current

	2012	2011
Liability for long-service leave	462	459
	462	459
	3,689	4,344

26. Share based payments

(a) Options

At 29 August 2001, the Group established a share option programme that grants key management personnel and employees shares in the entity.

No options were issued to key management personnel or employees during 2012 (2011: Nil).

Australian Finance Group Limited

Notes to the Financial Statements

26. Share based payments (continued)

(b) Employee share scheme

An employee share scheme has been established where the Group may, at the discretion of management, grant ordinary shares in the Group to certain members of staff of the Group. The shares issued for nil consideration, are granted in accordance with the performance guidelines established by the directors of the Group.

With respect to the share scheme:

- (i) Unless the Board otherwise determines, all issues of Plan Shares are made subject to the following restrictions:
 - an Eligible Participant may not deal with 1/2 of the Plan Shares prior to the expiration of 24 months from the issue date.
 - an Eligible Participant may not deal with 1/2 of the Plan Shares prior to the expiration of 12 months from the issue date; and
- (ii) No issues may be made under the Plan at a time when the number of Plan Shares exceeds 5% of the total number of issued ordinary shares in the capital of the Company.

Each Plan Share will rank equally with other fully paid ordinary shares of the Company in respect of voting rights and dividends, and will be entitled to participate in any Bonus Issues and Entitlement Issues made by the Company on the same basis as other issued fully paid ordinary shares in the Company, save as regards any rights attaching to shares by reference to a record date prior to the Issue Date.

Issue Date	Number Issued	Vested	Non Vested	Total	Value per Share	Total Value
28 Sep 2001	234,000	234,000	-	234,000	\$0.031	\$7,254
31 Dec 2001	562,500	562,500	-	562,500	\$0.027	\$15,187
27 May 2002	50,000	50,000	-	50,000	\$0.014	\$700
30 Sep 2003	77,000	77,000	-	77,000	\$0.011	\$847
31 Oct 2003	146,000	146,000	-	146,000	\$0.011	\$1,606
8 July 2004	53,000	53,000	-	53,000	\$0.150	\$7,950
25 Aug 2004	60,000	60,000	-	60,000	\$0.150	\$9,000
28 July 2005	10,000	10,000	-	10,000	\$0.200	\$2,000
25 Nov 2005	95,000	95,000	-	95,000	\$0.180	\$17,100
24 Jan 2006	66,667	66,667	-	66,667	\$0.200	\$13,333
18 July 2006	50,000	50,000	-	50,000	\$0.150	\$7,500
4 May 2009	650,000	650,000	-	650,000	\$0.300	\$195,000

The fair values of services received in return for the issue of shares under the Scheme are measured by reference to the fair value of the shares issued under the Scheme. The valuation of the shares issued under the Scheme considered the following factors:

- The Group is a non listed group and as such the relative liquidity of the shares
- The number of shares held or controlled by directors, related entities and other significant shareholders
- The net tangible assets of the Group as at the time of the issue of shares under the scheme

No amount was expensed to employee expenses for the fair value of shares issued under the terms of the Employee Share Scheme in 2012 (2011: \$89,375).

No shares were bought back during the financial year from ex-employees, as allowed under the terms of the Scheme (2011: NIL).

Australian Finance Group Limited

Notes to the Financial Statements

27. Provisions

	Dividend	Terminated members	Make good	Legal	Total
<i>In thousands of AUD</i>					
Balance at 1 July 2011	3,000	612	82	-	3,694
Provision made during the period	-	16	9	1,000	1,025
Provision reversed during the period	(3,000)	(7)	(8)	(400)	(3,415)
Balance at 30 June 2012	-	621	83	600	1,304
Current	-	621	-	600	1,221
Non-current	-	-	83	-	83
	-	621	83	600	1,304

Provision for terminated members

The provision for terminated members relates mainly to commission currently disputed with terminated members and as such have been withheld. The provision has been raised in certain circumstances where it is expected that there is a possibility of legal action from the terminated member.

Provision for make good

It is a condition of the lease of the Group's premises to return the property in its original condition at the end of the lease term. The Group recognises a provision for make good as the expected cost of the refurbishment over the life of the lease.

Legal

A provision of \$600 thousand has been made during 2012 for the Group's liability in respect of a litigation claim that is not fully indemnified by the insurer.

28. Deferred income

Current

In thousands of AUD

	2012	2011
Sponsorship income	1,429	1,010
Lease incentives	118	13
Unearned professional indemnity insurance	865	831
Other deferred income	33	2,042
	2,445	3,896

29. Capital and reserves

(a) Share capital

The Company

In thousands of shares

	Ordinary shares ('000)	
	2012	2011
On issue at 1 July	93,340	93,340
Issued for cash or nil consideration	-	-
On issue at 30 June – fully paid	93,340	93,340

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.

Australian Finance Group Limited

Notes to the Financial Statements

29. Capital and reserves (continued)

(b) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

(c) 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.

(d) Dividends

Dividends paid in the current year by the Group are:

	Cents per share	Total amount (\$'000)	Franked / unfranked	Date of payment
2012				
Final 2011 ordinary	3.21	3,000	Franked	05/07/2011
1 st interim 2012 ordinary	3.21	3,000	Franked	20/12/2011
		<u>6,000</u>		
2011				
Final 2010 ordinary	3.21	3,000	Franked	03/09/2010
1 st interim 2011 ordinary	3.21	3,000	Franked	15/12/2010
		<u>6,000</u>		

The 2011 final dividends on ordinary shares paid in 2012 have been declared and recognised in 2011.

After 30 June 2012 the following dividends were declared and paid. The dividends have not been provided for in the financial statements and there are no income tax consequences.

	Cents per share	Total amount (\$'000)	Franked / unfranked	Date of payment
Final ordinary	3.21	6,000	Franked	05/07/2012
		<u>6,000</u>		

Dividends declared or paid during the year or after 30 June 2012 were franked at the rate of 30%.

In thousands of AUD

Dividend franking account

30 per cent franking credits available to shareholders of Australian Finance Group Limited for subsequent financial years

	2012	2011
Dividend franking account	14,712	9,628
30 per cent franking credits available to shareholders of Australian Finance Group Limited for subsequent financial years	49,039	32,092

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 \$49,039 thousand (2011: \$32,092 thousand) franking credits.

Australian Finance Group Limited

Notes to the Financial Statements

30. Financial instruments

(a) Credit risk

Exposure to credit risk

The carrying amount of the Group 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:

<i>In thousands of AUD</i> Type of customer	Carrying amount	
	2012	2011
Financial institutions	401,038	340,949
Members	50	89
Other	340	122

All outstanding trade and other receivables are with customers located within Australia. The amounts owing from financial institutions include the net present value of trailing commissions' receivable of \$400,049 thousand (2011: \$339,658 thousand).

The majority of the Group's net present value of future trailing commission receivable is from counterparties that are rated between BB+ 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:

<i>In thousands of AUD</i> Standard & Poor's Credit rating	Current	Non Current
	2012	2012
A	11,025	44,531
A-	1,338	5,406
AA-	50,112	202,416
BBB+	88	356
BBB	160	647
BBB-	141	568
BB+	130	527
Not rated	16,392	66,212
	79,386	320,663

<i>In thousands of AUD</i> Standard & Poor's Credit rating	Current	Non Current
	2011	2011
AA	46,561	168,290
A+	8,153	29,468
A	2,723	9,841
A-1+	784	2,835
BBB+	1,327	4,795
BBB	635	2,295
BBB-	153	555
Not rated	13,272	47,971
	73,608	266,050

Australian Finance Group Limited

Notes to the Financial Statements

30. Financial instruments (continued)

(a) Credit risk (continued)

(i) Trade and other receivables (continued)

Impairment losses

The ageing of the Group's trade and other receivables (excluding the net present value of future trailing commissions), at the reporting date was:

<i>In thousands of AUD</i>	Gross 2012	Impairment allowance 2012	Gross 2011	Impairment allowance 2011
Not past due	1,218	-	1,110	-
Past due 0-30 days	75	-	262	-
Past due 30-60 days	4	(4)	4	(4)
Past due more than 61 days	96	(10)	146	(16)
	1,393	(14)	1,523	20

During the year ended 30 June 2012 the Group has not renegotiated or entered into any agreement to renegotiate a trade receivable that would otherwise be past due or impaired.

The allowance accounts in respect of trade and other receivables are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and is written off against the receivable account.

During 2012 and 2011 there were no individual impairment allowances raised. The movement in the allowance for collective impairments in respect of trade and other receivables during the year was as follows:

<i>In thousands of AUD</i>	2012	2011
Balance at 1 July	20	18
Impairment loss recognised	5	6
Amounts written off	(11)	(4)
Balance at 30 June	14	20

(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:

<i>In thousands of AUD</i>	Carrying amount	
Customer type	2012	2011
Residential mortgage borrowers	253,635	70,902
Members	525	489
Other	1,402	2,494
	255,562	73,885

Australian Finance Group Limited

Notes to the Financial Statements

30. Financial instruments (continued)

(a) Credit risk (continued)

(ii) Loans and advances (continued)

Residential mortgage borrowers

The Group minimises credit risk by obtaining security over residential mortgage property for each loan. The estimated value of collaterals held at balance date was \$399,468 thousands (2011: \$98,593 thousands). During the year ended 30 June 2012 the Group has taken possession of one residential property that was held as security for a loan issued by the Group. The carrying amount of the repossessed residential property was \$355 thousand (2011: \$457 thousand). The property has been sold before the end of the financial year, and all outstanding amounts have been fully 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 LVR.

<i>In thousands of AUD</i> Loan to value ratio	Carrying amount	
	2012	2011
Greater than 95%	2,933	4,793
Between 90%-95%	32,249	9,717
Between 80%-90%	47,158	19,676
Less than 80%	169,572	36,489
	251,912	70,675

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:

<i>In thousands of AUD</i>	Gross	Impairment allowance	Gross	Impairment allowance
	2012	2012	2011	2011
Not past due	255,115	(8)	72,721	(12)
Past due 31-120 days	463	(8)	769	-
Past due 121 days to one year	-	-	459	(52)
Past due more than one year	-	-	-	-
	255,578	(16)	73,949	(64)

The impairment loss at 30 June 2012 of \$16 thousand (2011: \$64 thousand) includes:

- \$8 thousand specific provision for loans that are past due; and
- \$8 thousand collective provision.

The movement in the allowance for impairment in respect of loans and advances for the Group during the year was as follows:

<i>In thousands of AUD</i>	Individual	Collective
Balance at 1 July 2010	27	12
Impairment loss allowance recognised	52	-
Impairment loss written off	(27)	-
Balance as at 30 June 11	52	12
Balance as at 1 July 2011	52	12
Impairment loss allowance recognised	8	-
Impairment loss written off	(52)	(4)
Balance at 30 June 12	8	8

Australian Finance Group Limited

Notes to the Financial Statements

30. Financial instruments (continued)

(a) Credit risk (continued)

(ii) Loans and advances (continued)

Securitisation loans

The Group is required to provide the warehouse facility provider with a level of subordination or Credit Support. The Company's maximum exposure to credit risk on this securitisation loan at reporting date is the carrying amount.

No impairment loss was recognised during 2012 (2011: NIL).

Other secured loans

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

No impairment loss was recognised during 2012 (2011: 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 Group aims to maintain the level of its cash and cash equivalents at an amount in excess of expected cash outflows on financial liabilities over the succeeding 60 days. The Group also monitors the expected cash inflows on trade and other receivables.

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

2012

<i>In thousands of AUD</i>	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Securitisation warehouse facility	257,180	264,245	264,245	-	-	-	-
Loans from funders	2,342	2,481	373	338	644	1,126	-
Net present value of future trailing commissions payable	349,302	480,949	53,501	50,226	88,185	176,365	112,672
Trade and other payables	36,341	36,341	36,221	120	-	-	-
	645,165	784,016	354,340	50,684	88,829	177,491	112,672

2011

Securitisation warehouse facility	72,905	77,138	7,326	6,629	63,183	-	-
Loans from funders	1,760	1,863	271	256	491	845	-
Net present value of future trailing commissions payable	293,990	404,728	48,714	44,978	76,840	146,451	87,745
Trade and other payables	29,361	29,361	29,241	120	-	-	-
	398,016	513,090	85,552	51,983	140,514	147,296	87,745

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

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

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 trailing commissions payable refer to notes 4 and 23.

(c) Market risk

(i) Currency risk

Exposure to currency risk

As at reporting date the Group held cash assets denominated in New Zealand dollars (NZD) and US dollars (USD).

Fluctuations in both currencies are not expected to have material impact on the Statement of Comprehensive Income and equity of the Group and have therefore not formed part of the disclosures.

Australian Finance Group Limited

Notes to the Financial Statements

30. Financial instruments (continued)

(c) Market risk (continued)

(ii) Interest rate risk

Profile

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

<i>In thousands of AUD</i>	Carrying amount	
	2012	2011
Fixed rate instruments		
Financial assets	401,976	342,641
Financial liabilities	349,302	293,990
	52,674	48,651
Variable rate instruments		
Financial assets	329,512	126,779
Financial liabilities	259,522	74,665
	69,990	52,114

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss therefore a change in interest rates at reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

Due to the market conditions existing at 30 June 2012, 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 2011.

<i>Effect in thousands of AUD</i>	After tax profit		Equity	
	100bp increase	100bp decrease	100bp increase	100bp decrease
30 June 2012				
Variable rate financial assets	1,573	(1,551)	1,573	(1,551)
Variable rate financial liabilities	1,057	(1,055)	1,057	(1,055)
Cash flow sensitivity (net)	516	(496)	516	(496)
30 June 2011				
Variable rate financial assets	710	(710)	710	(710)
Variable rate financial liabilities	325	(324)	325	(324)
Cash flow sensitivity (net)	385	(386)	385	(386)

Fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the Statement of Financial Position, are as follows:

<i>In thousands of AUD</i>	Note	2012		2011	
		Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at fair value					
Financial assets designated at fair value through profit or loss	18	337	337	356	356
Available-for-sale financial assets	18	31	31	31	31
Assets carried at amortised cost					
Cash and cash equivalents	14(a)	70,877	70,877	55,876	55,876
Trade and other receivables	15	401,429	401,429	341,161	343,344
Loans and advances	16	255,562	255,562	73,885	73,885
Other assets	18	5,000	5,000	-	-
Liabilities carried at amortised cost					
Trade and other payables	23	(385,643)	(385,643)	(323,351)	(323,351)
Interest-bearing liabilities	24	(259,522)	(259,522)	(74,665)	(74,665)
		88,071	88,071	73,293	75,476

Australian Finance Group Limited

Notes to the Financial Statements

30. Financial instruments (continued)

(c) Market risk (continued)

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method.

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).

<i>Effect in thousands of AUD</i>	Fair value measurement at end of the reporting period using :			
	Level 1	Level 2	Level 3	Total
30 June 2012				
Available-for-sale financial assets	-	-	31	31
Financial assets designated at fair value through profit or loss	337	-	-	337
	337	-	31	368
30 June 2011				
Available-for-sale financial assets	-	-	31	31
Financial assets designated at fair value through profit or loss	356	-	-	356
	356	-	31	387

There have been no transfers between levels during the year ended 30 June 2012 (2011: no transfers in either direction).

Reconciliation of movement per class pertaining to Level 3 financial instruments for the period:

<i>In thousands of AUD</i>	Available-for-sale financial assets	Financial assets designated at fair value through profit or loss
Balance at 1 July 2011	31	356
Total gains and losses recognised in comprehensive income	-	-
Purchases and disposals	-	(19)
Balance at 30 June 2012	31	337

(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 trailing commissions receivable and payable. Refer to note 4 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 8% positive or 8% negative of the rates revealed from the actuarial analysis. The change estimate is calculated based on historical movements of the prepayment rate.

Australian Finance Group Limited

Notes to the Financial Statements

30. Financial instruments (continued)

(c) Market risk (continued)

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

<i>In thousands of AUD</i>	2012		2011	
	+8%	-8%	+14%	-14%
After tax profit	(2,121)	2,288	(3,600)	4,161
Equity	(2,121)	2,288	(3,600)	4,161

Securitised assets

The Group is exposed to prepayment risk on its securitised assets. The warehouse facility financing the securitisation operations is a pass through funding facility in nature. All principal amounts prepaid by residential mortgage borrowers are passed through to the warehouse facility provider 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.

At 30 June 2012 a decrease in the fair value of financial assets designated at fair value through profit or loss of \$69 thousand (2011: \$32 thousand decrease) was recognised.

(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 facility. 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.

31. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

In thousands of AUD

	2012	2011
Less than one year	2,046	2,162
Between one and five years	697	1,292
	<u>2,743</u>	<u>3,454</u>

The Group leases a number of office facilities under operating leases. The leases run for a period of up to 7 years, with an option to renew the lease after that date. Lease payments are generally increased every year to at least reflect CPI movements, with regular adjustments to reflect market rentals.

During the financial year ended 30 June 2012, \$2,223 thousand was recognised as an expense in the Statement of Comprehensive Income in respect of operating leases (2011: \$1,851 thousand). The lease expires in 31 March 2013.

Parts of the leased properties have been sublet by the Group. Sublease payments of \$196 thousand are expected to be received during the following financial year. The sublease expires in 31 December 2012.

Australian Finance Group Limited

Notes to the Financial Statements

32. Group entities

Significant subsidiaries

	Country of incorporation	Ownership interest 2012	2011
Parent entity			
Australian Finance Group Limited	Australia	100	100
Significant subsidiaries			
Australian Finance Group (Commercial) Pty Ltd	Australia	100	100
Australian Finance Group Insurance Brokers 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
New Zealand Finance Group Ltd	New Zealand	100	100
Lilydale Pastures Estate Pty Ltd	Australia	100	100
Longford Road Pty Ltd	Australia	100	100
AFG Home Loans Pty Ltd	Australia	100	-
Venture Lending Pty Ltd	Australia	51	51
Cambridge WA Pty Ltd	Australia	100	-
AFG Developments Pty Ltd	Australia	100	-

The Group holds a 51% interest in Venture Lending Pty Ltd, has majority representation on the entity's board of directors, and has control over its operating and financial decisions. Consequently, the Group has consolidated this entity into its financial statements.

33. Parent entity

Throughout the financial year ending 30 June 2012, the parent Company of the Group was Australian Finance Group Limited.

In thousands of AUD

Results of the parent entity

	2012	2011
Profit for the period	18,024	8,753
Other comprehensive income	-	-
Total comprehensive income for the period	18,024	8,753

In thousands of AUD

Financial position of parent entity at year end

	2012	2011
Current assets	150,310	136,492
Total assets	479,819	408,111
Current liabilities	113,262	107,004
Total liabilities	405,837	349,153

Total equity of the parent entity comprising of:

Share capital	11,435	11,435
Reserves	(85)	(85)
Retained earnings	62,632	47,608
Total equity	73,982	58,958

See notes 34 and 35 for the parent entity capital and other commitments, and contingencies.

Refer to note 24 (b) for the parent entity's guarantees.

As at reporting date the credit support facility provided by the parent entity to AFG 2010-1 Trust was \$4 million.

Australian Finance Group Limited

Notes to the Financial Statements

34. Capital and other commitments

Property, plant and equipment commitments

During the year ended 30 June 2012 the Group entered into a contract to purchase a land for \$6,545 thousand (2011: nil). Settlement on the land occurred on 1 August 2012.

35. Contingencies

Third Party Guarantees

Bank guarantees have been issued by third parties 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.

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.

36. Related parties

(a) Key management personnel compensation

The key management personnel compensation comprised:

<i>In AUD</i>	Note	2012	2011
Short-term employee benefits ¹		2,530,647	2,445,155
Other long term benefits – long service leave		337,440	352,792
Post-employment benefits-superannuation		162,976	164,404
Share-based payments	26	-	89,375
		<u>3,031,063</u>	<u>3,051,726</u>

In addition to their salaries, the Group also provides non-cash benefits to key management personnel.

- (1) Short-term employee benefits include salaries and other payments in relation to key management personnel's services rendered to the Group.

Executive officers may also participate in the Group's employee share scheme (see note 26).

The balance outstanding to key management personnel and other related parties at reporting date arising from the above transactions is a payable amount of \$479,341 (2011: \$597,627).

(b) Loans to key management personnel

The loan balance outstanding at the reporting date to key management personnel is \$101,222 (2011: \$100,623). The loan is unsecured and the interest is charged at 7.8% p.a. (2011: 7.8% p.a.). The principal and interest charges were fully repaid in July 2012.

(c) 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>In AUD</i>	Transactions value year ended	
	30 June	
	2012	2011
Gill Family Pty Ltd - Provision of chairman services	70,000	65,000

Australian Finance Group Limited

Notes to the Financial Statements

36. Related parties (continued)

- (i) During the year the Group received payments from TAL Life Ltd. Jim Minto is a director of TAL Life Ltd and also a non-executive director of the Company. These dealings were in the ordinary course of business and were on normal terms and conditions. These payments were received as commission for life and risk insurance products provided by TAL Life Ltd. Total commissions received during the financial year was \$613 thousand (2011 : \$426 thousand).
- (ii) During the year the Group made payments to Genworth Financial, one of our providers of Lenders Mortgage Insurance (LMI). On 24 May 2011 Tony Gill was appointed as a non-executive director of Genworth Australia. These dealings were in the ordinary course of business and were on normal terms and conditions. The payments made for the provision of LMI products were \$943 thousand (2011:\$96 thousand).

(e) 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. With the exception of the specific transactions noted below, 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. Each of the individual loans owed to/by the subsidiaries are detailed below:

<i>In AUD</i>	Parent entity	
	2012	2011
Loan to Australian Finance Group Securities Pty Ltd	2,655,011	655,011
Loan to AFG Securities Pty Ltd	692,726	2,103,211
Loan to New Zealand Finance Group Ltd ('NZFG')	328,792	328,792
Loan to Lilydale Pastures Estate Pty Ltd	2,226,481	5,082,140
Loan to Longford Road Pty Ltd	(47,431)	58,513
AFG Home Loans Pty Ltd	(913,863)	-
Cambridge Pty Ltd	8,728	-
AFG Developments Pty Ltd	484,603	-
Venture Lending Pty Ltd	18,904	3,791
Less provision for impairment	(4,802,643)	(3,238,392)
	<u>651,308</u>	<u>4,993,066</u>

37. Subsequent events

On 2 July 2012 the Directors recommended the payment of a dividend of 3.21 cents per fully paid ordinary share, fully franked based on tax paid at 30%. The aggregate amount of the dividends paid out in July out of retained profits at 30 June 2012 is \$6 million. The financial effect of these dividends has not been brought to account in the financial statements for the year ended 30 June 2012.

Subsequent to 30 June 2012 the Company entered into a Deed of Guarantee in favour a lender for the loan obtained by its wholly owned subsidiary, AFG Development Pty Ltd. The guarantee is for the maximum amount of \$3.3 million and any compounding interest on that amount from the date of demand to the date of payment.

Subsequent to 30 June 2012 the Board of Directors agreed to provide McCabe Street Limited with a loan facility of a maximum amount of \$1.2m for a term of 24 months or until alternative financing is sourced whichever is earlier, on commercial arms length terms In addition, the Board agreed to re-finance McCabe Street Ltd's current loan, in the event that McCabe Street Ltd is unable to refinance it by the expiry date of February 2013. At this time it is expected that the balance, including capitalised interest, will be approximately \$1.18 million. The security for the initial loan will be a registered second mortgage over McCabe Street Ltd land. which in the event that the refinance of the existing loan is unable to be achieved by February 2013, will become a registered first mortgage. As at the date of this report this arrangement is still being documented.

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.

Australian Finance Group Limited

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 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 2012 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 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.

On behalf of the board



B M McKeon
Director

Dated at Perth, Western Australia on 25 day of October 2012.

Independent auditor's report to the members of Australian Finance Group Limited

Report on the financial report

We have audited the accompanying financial report of Australian Finance Group Limited, which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Opinion

In our opinion:

- a. the financial report of Australian Finance Group Limited is 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 2012 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

A handwritten signature in blue ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in blue ink, likely belonging to F Drummond.

F Drummond
Partner
Perth
25 October 2012

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

In relation to our audit of the financial report of Australian Finance Group Limited for the financial year ended 30 June 2012, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

A stylized signature of 'Ernst & Young' in blue ink.

Ernst & Young

A stylized signature of 'F Drummond' in blue ink.

F Drummond
Partner
25 October 2012