

Australian Finance Group Limited

ABN 11 066 385 822

Annual Report  
30 June 2013



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# Australian Finance Group Limited

## Directors' Report

### For the year ended 30 June 2013

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 2013 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: 60	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: 49	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 passed away on 28 June 2013. He was a Non-Executive Director with particular focus on our Property and Insurance operations.
Malcolm Watkins Executive Director	Age: 49	Mr Watkins has responsibility for the Group's technology development programmes, electronic delivery systems and marketing operations.
Kevin Matthews Executive Director	Age: 55	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: 61	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: 58	Mr Atkins is the former head of the Perth office of Freehills and a former 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: 41	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*	-	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

\* Mr McGougan passed away on 28 June 2013 after a long fight with Leukaemia. As a consequence of this illness he was unable to attend any board meetings held during the financial year.

# Australian Finance Group Limited

## Directors' Report (continued)

### For the year ended 30 June 2013

#### Principal Activities

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

The principal activities during the year of entities within the Group were:

- mortgage origination and management of home loans;
- securitisation of mortgages through special purpose entities used to issue residential mortgage backed securities;
- and
- Property development.

#### Trading Results

The Group's net profit after income tax for the year ended 30 June 2013 was \$15,259 thousand (2012: \$18,957 thousand); after an income tax expense of \$7,365 thousand (2012: \$8,720 thousand) including from discontinued operations.

#### Operating Results for the Year

The 2013 trading performance continues to build on the existing strong financial position for the Group. Aided by a particularly strong Aggregation business and underwritten by a trail book which as at the end of the financial year was just under \$80 billion, the Group continued to invest in the growth of its AFG Securities business together with its Property business.

The Directors are pleased with the overall performance of the Group for the 2013 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 2012, 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 again performed extremely well as reflected in both the growth in settlements and the recruitment of new brokers and broker groups. The Residential business remains the underwriter of the growth opportunities regularly presented to the Group. Our continued investment in the AFG Home Loans business, and as a consequence AFG Securities business, gave rise to year on year growth of 53% and this continues to be an area of focused investment in technology and resources for our group.

In terms of funding, the third quarter saw the successful launch of our first term securitisation transaction - AFG 2013-1 and represents the culmination of business plan set in place some 5 years ago. Additional funding from the capital markets remains a focus of the business moving forward.

In addition to our inaugural term out we launched a new Construction warehouse with NAB, which will assist in the growth of our AFG Securities business and also refer to the Subsequent events section about an additional warehouse facility entered into subsequent to the end of the financial year.

The warehouse facility, which was due to expire on 31 December 2013, has been extended after the balance sheet date to 10 July 2014 in substantially the same form as it currently exists as will the Construction warehouse facility which expires on 20 June 2014.

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.

With a majority of the lots now sold within our Lillydale development, the Group's Property business shifted its focus to the management of its Richmond Quarter development in East Fremantle and during the year, sufficient pre-sales were obtained to satisfy debt provider requirements. In addition to the Richmond Quarter initiative there were two new investments in property development opportunities, and the successful completion of the 100 Havelock St commercial building - of which AFG holds a 40% interest, AFG relocated its business in April 2013 into these recently completed premises.

# Australian Finance Group Limited

## Directors' Report (continued)

### For the year ended 30 June 2013

#### Financial results for the year

The Group's cash and cash equivalents as at 30 June 2013 amounted to \$65,145 thousand, which represents a decrease of 8% on 2012.

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. The change in assumptions for 2013 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 \$20,046 thousand (2012: \$22,598). 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:

	2013		2012	
	Total Revenue	Profit before tax	Total Revenue	Profit before tax
Underlying result from operations	282,770	20,046	260,295	22,598
Change in the net present value of trailing commission receivable and payable	49,454	2,577	60,391	5,079
Total result from operations	332,224	22,624	320,686	27,677

#### 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, in the opinion of the Directors, be likely to result in unreasonable prejudice to the Group.

#### Changes in State Of Affairs

Total equity increased to \$79,091 thousand from \$75,828 thousand, an increase of 4%. The movement was largely the result of increased profits.

During the year the Group incorporated AFG Developments 2 Pty Ltd to undertake a new property development on the land acquired post 30 June 2013. See Subsequent Events for further details on the land acquisition.

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 2013 were \$12 million (2012: \$6 million), which included:

- A final fully franked ordinary dividend of \$6 million (3.21 cents per fully paid share) was declared out of profits of the Company for the year ended 30 June 2012 and paid in July 2012
- 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 2013 and paid in December 2012
- 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 2013 and paid in February 2013

# Australian Finance Group Limited

## Directors' Report (continued)

### For the year ended 30 June 2013

#### Subsequent Events

On 1 July 2013 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 2013 is \$3 million. The financial effect of these dividends has not been brought to account in the financial statements for the year ended 30 June 2013.

Subsequent to 30 June 2013 the Group's increased its investment in the Class B2 Notes, subordinated credit enhancement in relation to the residential warehouse facility of AFG 2010-1 Trust, from \$6.5 million to \$8 million.

After the balance sheet date the Group secured a new warehouse facility with another financial institution of \$250 million for a term of 12 months. The Group has the option to extend the term by a further 12 months at the discretion of the lender. The new warehouse facility will provide additional funding required for the issuance of more loans to borrowers and support the growth of the securitisation programme. The funding is provided through the issue of two classes of secured, limited and floating rate notes, with the senior notes being issued to the lender and the junior notes to the Group.

On 10 October 2013, the Group secured an extension to the term of the residential warehouse facility that was due to expire in 31 December 2013. The maturity date has been reset to 10 July 2014.

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.

#### 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*

*Other auditors*

#### Services other than statutory audit:

Auditors of the Group

Taxation advice

*Other assurance services*

	2013	2012
	106,610	94,000
	1,880	-
	<u>108,490</u>	<u>94,000</u>
	-	68,500
	35,000	-
	<u>35,000</u>	<u>68,500</u>

Australian Finance Group Limited  
Directors' Report (continued)  
For the year ended 30 June 2013

**Auditor's Independence declaration**

The auditor's independence declaration is included on page 54 of this financial report for the year ended 30 June 2013.

**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.

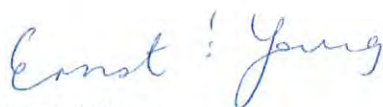


B M McKeon  
Managing Director

Dated at Perth, this 28 October 2013

## 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 2013, 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.



Ernst & Young



F Drummond  
Partner  
28 October 2013



Australian Finance Group Limited  
Statement of Financial Position  
As at 30 June 2013

<i>In thousands of AUD</i>	<b>Note</b>	<b>2013</b>	<b>2012</b>
<b>Assets</b>			
Cash and cash equivalents	13	65,145	70,877
Other financial assets	17	51	5,368
Trade and other receivables	14	453,956	404,009
Loans and advances	15	804,832	255,562
Investments in equity-accounted investees	18	3,224	3,195
Inventories	16	9,515	2,731
Property, plant and equipment	20	3,954	1,034
Intangible assets	21	752	469
<b>Total assets</b>		<b>1,341,429</b>	<b>743,245</b>
<b>Liabilities</b>			
Interest-bearing liabilities	23	804,237	259,522
Trade and other payables	22	436,899	385,643
Employee benefits	24	3,137	3,689
Current tax payable	19	769	2,995
Deferred income	27	3,955	2,445
Deferred tax liability	19	12,398	11,819
Provisions	26	943	1,304
<b>Total liabilities</b>		<b>1,262,338</b>	<b>667,417</b>
<b>Net assets</b>		<b>79,091</b>	<b>75,828</b>
<b>Equity</b>			
Share capital		11,434	11,434
Reserves		(71)	(71)
Retained earnings		67,726	64,467
<b>Total equity attributable to equity holders of the Company</b>		<b>79,089</b>	<b>75,830</b>
Non-controlling interest		2	(2)
<b>Total equity</b>		<b>79,091</b>	<b>75,828</b>

*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 2013

*In thousands of AUD*

	Note	2013	2012
<b>Continuing Operations</b>			
Commission and other income	6	332,224	320,686
Securitisation interest income		27,118	8,918
Securitisation interest expense		(23,952)	(8,143)
Other cost of sales		(290,045)	(276,653)
<b>Gross profit</b>		45,345	44,808
Other income	7	9,878	11,321
Administration expenses		(1,863)	(2,973)
Other expenses	8	(32,567)	(28,669)
<b>Results from operating activities</b>		20,793	24,487
Financial income	11	2,722	3,586
Financial expenses	11	(170)	(201)
<b>Net finance income</b>		2,552	3,385
Share of loss of equity-accounted investees (net of tax)	18	(721)	(195)
<b>Profit before tax from continuing operations</b>		22,624	27,677
Income tax expense	12	(7,365)	(8,720)
<b>Profit from continuing operations</b>		15,259	18,957
<b>Profit for the year</b>		15,259	18,957
<b>Other comprehensive income for the year, net of income tax</b>		-	-
<b>Total comprehensive income for the year</b>		15,259	18,957
<b>Profit attributable to:</b>			
Owners of the Company		15,255	18,959
Non-controlling interests		4	(2)
<b>Profit for the year</b>		15,259	18,957
<b>Total comprehensive income for the year attributable to:</b>			
Owners of the Company		15,255	18,959
Non-controlling interests		4	(2)
<b>Total comprehensive income for the year</b>		15,259	18,957

*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 2013

*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 2011	11,434	(15)	(56)	48,508	59,871	-	59,871
<b>Total comprehensive income for the year</b>							
Profit	-	-	-	18,959	18,959	(2)	18,957
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	18,959	18,959	(2)	18,957
<b>Transactions with owners, recorded directly in equity</b>							
<i>Contributions by and distributions to owners</i>							
Share-based payment transactions	-	-	-	(3,000)	(3,000)	-	(3,000)
Dividends to equity holders							
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
Balance at 1 July 2012	11,434	(15)	(56)	64,467	75,830	(2)	75,828
<b>Total comprehensive income for the year</b>							
Profit /(loss)	-	-	-	15,259	15,259	4	15,263
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	15,259	15,259	4	15,263
<b>Transactions with owners, recorded directly in equity</b>							
<i>Contributions by and distributions to owners</i>							
Dividends to equity holders	-	-	-	(12,000)	(12,000)	-	(12,000)
Share-based payment transactions							
Total contributions by and distributions to owners	-	-	-	(12,000)	(12,000)	-	(12,000)
Total transactions with owners	-	-	-	(12,000)	(12,000)	-	(12,000)
Balance at 30 June 2013	11,434	(15)	(56)	67,726	79,089	2	79,091

*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 2013

<i>In thousands of AUD</i>	<b>Note</b>	<b>2013</b>	<b>2012</b>
<b>Cash flows from operating activities</b>			
Cash receipts from customers		293,774	270,442
Cash paid to suppliers and employees		(286,115)	(244,986)
(Advances)/repayments of customer borrowings		(539,397)	(181,237)
(Repayments of)/proceeds from warehouse facility		283,636	184,098
(Repayments to)/proceeds from bondholders		258,568	-
Interest received		27,117	8,906
Interest paid		(22,876)	(7,763)
Income taxes paid		(9,012)	(6,370)
<b>Net cash from operating activities</b>	13(b)	<b>5,695</b>	<b>23,090</b>
<b>Cash flows from investing activities</b>			
Proceeds from/(Purchase of) investments		5,000	(5,000)
Interest received		2,863	3,402
Interest paid		(155)	(132)
Acquisition of property, plant and equipment		(3,598)	(766)
Investment in intangible assets		(478)	(194)
Acquisition of equity-accounted investees	18	(750)	(986)
Increase in loans from funders		35	581
Proceeds/(Acquisition of) other investments		303	(51)
(Purchase of)/proceeds from preference shares		(6,000)	-
Decrease/(Increase) in other loans and advances		80	1,057
<b>Net cash used in investing activities</b>		<b>(2,700)</b>	<b>(2,089)</b>
<b>Cash flows used in financing activities</b>			
Proceeds from borrowings		3,273	-
Dividends paid to equity holders of the parent	28	(12,000)	(6,000)
<b>Net cash used in financing activities</b>		<b>(8,727)</b>	<b>(6,000)</b>
Net increase in cash and cash equivalents		(5,732)	15,001
Cash and cash equivalents at 1 July		70,877	55,876
<b>Cash and cash equivalents at 30 June</b>	13(a)	<b>65,145</b>	<b>70,877</b>

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

# Australian Finance Group Limited

## Notes to the Financial Statements

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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 2013 comprise of Australian Finance Group Limited (the 'Company'), which is a for profit entity and a company domiciled in Australia and its subsidiaries (together referred to as the 'Group') and the Group's interest in associates and jointly controlled entities. The Group's principal activities in the course of the financial year were mortgage origination and management. The Company's principal place of business is 100 Havelock Street, West Perth, Western Australia.

### 2. Basis of preparation

#### (a) Statement of compliance

The financial report 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 28 October, 2013.

#### (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 25: Measurement of share-based payments
- Note 26: Provisions
- Note 29: Valuation of financial instruments

# Australian Finance Group Limited

## Notes to the Financial Statements

### 2. Basis of preparation (continued)

#### (e) Changes in accounting policies and disclosures

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

##### (i) New and amended Australian Accounting Standards and AASB Interpretations

The Group has adopted the following new and amended Australian Accounting Standards and AASB interpretations as of 1 July 2013:

- AASB 119 *Employee Benefits*
- AASB 116 *Property, Plant and Equipment*
- AASB 112 *Income Taxes (amendment) - Deferred Taxes: Recovery of Underlying Assets*
- AASB 7 *Financial Instruments: Disclosures- Enhanced Derecognition Disclosure Requirements*
- AASB 2011-9 *Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income*
- *Improvements to AASBs (May 2010)*

The adoption of the above standards and interpretations had no effect on the Group's financial position, performance or its disclosures.

##### (ii) Accounting for cash flows from operating activities

During 2013 financial year the securitisation programme activities have increased in volume and value to become key revenue producing activities. In accordance with AASB 107, cash flows from the securitisation operations have been reclassified as cash flows from operating activities rather than cash flows from investing activities. Consequently, interest income and expense have been included in the results from operating activities rather than from financing activities in the statement of Comprehensive income.

##### (iii) Accounting Standards and Interpretations issued but not yet effective

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 2013, but have not been applied in preparing this financial report:

- AASB 9 *Financial Instruments*, which becomes mandatory for the Group's 30 June 2015 financial statements. 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.
- 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.

# Australian Finance Group Limited

## Notes to the Financial Statements

### 2. Basis of preparation (continued)

- 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* 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.

### 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.

Non-controlling interests are allocated their share of net profit after tax in the Statement of Comprehensive income and are presented within equity in the Statement of Financial Position, separately from the equity of the owners of the Parent.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

##### (ii) Special purpose entities

Special purpose entities are those entities over which the group has no ownership interest but in effect the substance of the relationship is such that the Group controls the entity so as to obtain the majority of benefits from its operation. The Group has established special purpose entities to support its Securitisation and Residential Mortgage Backed Securities issues (RMBS) programmes.

#### Securitisation programme

The Group has established a special purpose entity ('SPE'), AFG 2010-1 Trust, and its Series to conduct securitisation activities on behalf and according to the specific business needs of AFG 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 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.



# Australian Finance Group Limited

## Notes to the Financial Statements

### 3. Significant accounting policies (continued)

#### RMBS programme

The special purpose entity (SPE-RMBS) AFG 2013-1 Trust was established to hold securitised assets and issue Residential Mortgage Backed Securities (RMBS) to support the specific funding needs of the Group's Securitisation Programme. The SPE-RMBS meets the criteria of being a controlled entity under SIC12 and AASB 127 – Consolidated and Separate Financial Statements.

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

- the Group has the majority of the residual interest in the SPE-RMBS
- fees received by the Group from the SPE-RMBS vary on the performance, or non performance of the SPE-RMBS assets
- the Group has the ability to direct decision making accompanied by the objective of obtaining benefits from the SPE-RMBS' activities.

The Group continues to retain control over the financial assets, for which some but not substantially all the risks and rewards have been transferred to the bond holders. The securitised assets and the corresponding liabilities are recorded in the Statement of Financial Position and the interest earned and paid recognised in the Statement of Comprehensive Income.

#### (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.

#### 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.

# Australian Finance Group Limited

## Notes to the Financial Statements

### 3. Significant accounting policies (continued)

#### (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

###### Initial recognition and measurement

Financial assets within the scope of AASB 139 are classified as financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available-for-sale financial assets. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

###### Subsequent measurement

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

###### Financial assets at fair value through profit or loss

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

###### Loans and receivables

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

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

###### Available-for-sale financial assets

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

# Australian Finance Group Limited

## Notes to the Financial Statements

### 3. Significant accounting policies (continued)

#### (c) Financial instruments (continued)

##### (i) Non Derivative financial assets (continued)

###### Derecognition

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

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

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

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

##### (ii) Impairment of financial assets

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

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

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

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. For the SPE loans and advances the present value of estimated cash flows recoverable is determined after taking into account net realisable value from sale of collateral held. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through 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)

#### (c) Financial instruments (continued)

##### (iii) Non-Derivative financial liabilities

###### Initial recognition and measurement

Financial liabilities within the scope of AASB 139 are classified as financial liabilities at fair value through profit or loss, or loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value, in the case of loans and borrowings, net of directly attributable transactions

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

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

###### Subsequent measurement

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

###### Derecognition

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

#### (iv) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

Refer to accounting policy 4 for the financial instruments not traded in an active market fair value determination.

#### (v) 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.

#### (d) Cash and short term-deposits

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

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

# Australian Finance Group Limited

## Notes to the Financial Statements

### 3. Significant accounting policies (continued)

#### (e) 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.

#### (f) 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 21 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)

#### (f) 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 |

##### (g) Impairment of 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) 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.

##### (i) 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.

# Australian Finance Group Limited

## Notes to the Financial Statements

### 3. Significant accounting policies (continued)

#### (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.

#### (j) 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.

#### (k) 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.



# Australian Finance Group Limited

## Notes to the Financial Statements

### **3. Significant accounting policies (continued)**

#### **(k) Revenue (continued)**

##### **(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.

##### **(l) 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.

##### **(m) 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.

##### **(n) 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.

##### **(o) 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.



# Australian Finance Group Limited

## Notes to the Financial Statements

### 3. Significant accounting policies (continued)

#### (o) Income tax expense (continued)

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.

#### (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.

# Australian Finance Group Limited

## Notes to the Financial Statements

### 3. Significant accounting policies (continued)

#### (p) 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.

#### (q) 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.

### 4. Determination of fair values

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

#### *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:

	2013	2012
Average loan life	Between 4.4 and 5.2 years	Between 4.2 and 5.0 years
Discount rate per annum	Between 10% and 13.5%	Between 10.1% and 13.5%
Percentage paid to members	Between 85% and 91%	Between 85% and 90%

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.

# Australian Finance Group Limited

## Notes to the Financial Statements

### 4. Determination of fair values (continued)

#### *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)).

### 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.

# Australian Finance Group Limited

## Notes to the Financial Statements

### 5. Financial risk management (continued)

#### (b) Credit risk (continued)

##### **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.

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.

# Australian Finance Group Limited

## Notes to the Financial Statements

### 5. Financial risk management (continued)

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.

#### (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 2013.

### 6. Revenue

*In thousands of AUD*

	2013	2012
Commissions	280,181	281,743
Interest on commission income receivable	47,177	32,937
Mortgage management services	2,802	1,731
Property development services	1,645	4,040
Securitisation transaction fees	419	235
	<u>332,224</u>	<u>320,686</u>

### 7. Other income

*In thousands of AUD*

	2013	2012
Sponsorship and performance bonus income	3,541	5,891
Software licence fees	1,459	1,386
Professional indemnity insurance	1,405	1,306
Fees for services	2,463	2,121
Other	1,010	617
	<u>9,878</u>	<u>11,321</u>

### 8. Other expenses

*In thousands of AUD*

	Note	2013	2012
Advertising and promotion		2,744	2,398
Consultancy and professional fees		1,374	1,445
Information technology		2,391	1,790
Occupancy costs		507	488
Employee costs	9	22,553	19,576
Depreciation and amortisation		872	781
Operating lease costs		2,095	2,223
(Reversal of) /impairment loss on receivables		29	(43)
Net loss on disposal of property, plant and equipment		2	11
		<u>32,567</u>	<u>28,669</u>

# Australian Finance Group Limited

## Notes to the Financial Statements

### 9. Employee costs

<i>In thousands of AUD</i>	<b>2013</b>	<b>2012</b>
Wages and salaries	15,503	13,138
Other associated personnel expenses	4,882	4,997
Change in liability for long service leave	46	151
Change in liabilities for annual and sick leave	91	(62)
Termination benefits	454	-
Superannuation	1,577	1,352
	<u>22,553</u>	<u>19,576</u>

### 10. Auditors' remuneration

<i>In AUD</i>	<b>2013</b>	<b>2012</b>
<b>Audit services</b>		
Amounts due and receivable for:		
Audit of the financial report of the Group and other entities of the Group		
<i>Ernst &amp; Young</i>	106,610	94,000
<i>Other auditors</i>	1,880	-
	<u>108,490</u>	<u>94,000</u>
<b>Other services</b>		
<i>Auditors of the Company</i>		
Taxation advice	-	68,500
<i>Other assurance services</i>	35,000	-
	<u>35,000</u>	<u>68,500</u>

### 11. Finance income and expenses

#### Recognised in profit or loss

<i>In thousands of AUD</i>	<b>2013</b>	<b>2012</b>
Interest income on loans and receivables	98	64
Interest income on bank deposits	2,634	3,501
Net foreign exchange gain	(10)	21
Finance income	<u>2,722</u>	<u>3,586</u>
Net change in fair value of financial assets designated at fair value through profit or loss	(16)	(69)
Interest on loans from funders	(154)	(132)
Finance expense	<u>(170)</u>	<u>(201)</u>
Net finance income and expense	<u>2,552</u>	<u>3,385</u>
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	2,732	3,565
Total interest expense on financial liabilities	<u>(154)</u>	<u>(132)</u>

#### Other finance income and expenses

Revenue includes the interest income of \$47,177 thousand (2012: \$32,937 thousand) from the unwinding of the discount in relation to the net present value of future trailing commission receivable. Refer to note 6 and 14. 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 \$41,314 thousand (2012: \$28,472 thousand).

# Australian Finance Group Limited

## Notes to the Financial Statements

### 12. 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

2013	2012
6,411	7,567
374	41
6,785	7,608
580	1,112
-	-
580	1,112
7,365	8,720
-	-
7,365	8,720

#### Tax recognised in other comprehensive income

Nil income tax was recognised directly in equity (2012: 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%

(2012: 30%)

Non-deductible expenses

Prior year temporary differences

Under provision in prior periods

2013	2012
15,259	18,957
7,365	8,720
22,624	27,677
6,787	8,303
550	273
-	103
28	41
7,365	8,720

### 13. Cash and cash equivalents

#### (a) Cash and cash equivalents

*In thousands of AUD*

Cash at bank

Short term deposits

Cash collections accounts<sup>1</sup>

Cash and cash equivalents

Cash and cash equivalents in the Statement of Cash Flows

2013	2012
53,360	53,488
1,148	13,092
10,637	4,297
65,145	70,877
65,145	70,877

- Discloses amounts held in the special purpose securitised trusts and series on behalf of the warehouse funder and the bondholders

The effective interest rate on at short term deposits in 2013 was 4.57% (2012: 5.27%). The deposits had an average maturity of 90 days (2012: 30 days).

Cash and cash equivalents include cash in Collections Account held in the SPE-RMBS on behalf of the bondholders and is not available for use by the shareholders.

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 29.



# Australian Finance Group Limited

## Notes to the Financial Statements

### 13. Cash and cash equivalents (continued)

#### (b) Reconciliation of cash flows from operating activities

*In thousands of AUD*

#### Cash flows from operating activities

	Note	2013	2012
Profit for the period		15,259	18,957
Adjustments for:			
Depreciation	20	677	593
Amortisation of intangible assets	21	195	188
Loss on sale of property, plant and equipment	8	2	11
Non cash movement in impairment losses on receivables	8	29	(43)
Net change in the fair value of financial assets designated at fair value through profit or loss	11	16	69
Net interest income from investing activities		(2,709)	(3,270)
Non cash net interest expense		1,205	203
Share of profit of equity accounted investees	18	721	195
Net present value of future trailing commission income		(49,454)	(60,392)
Net present value of future trailing commission expense		46,878	55,311
<b>Operating profit before changes in working capital and provisions</b>		<b>12,819</b>	<b>11,822</b>
Increase/(Decrease) in trade and other receivables		(344)	294
Increase in prepayments		(214)	(397)
Increase/(Decrease) in trade and other payables		(1,540)	6,601
Increase/(Decrease) in inventories		(6,783)	2,323
Increase/(Decrease) in deferred income		1,509	(1,449)
Increase/(Decrease) for employee entitlements		(552)	(654)
Increase/(Decrease) in provisions		(359)	610
Increase/(Decrease) in tax provision		(1,648)	2,350
Increase in securitisation lending		(539,397)	(182,685)
Increase in warehouse facility		283,636	184,275
Increase/(Decrease) in bondholders loan		258,568	-
<b>Net cash from operating activities</b>		<b>5,695</b>	<b>23,090</b>

### 14. Trade and other receivables

*In thousands of AUD*

#### Current

	2013	2012
Trade receivables	208	244
Other trade receivables	68	249
Accrued income	1,381	886
	1,657	1,379
Net present value of future trailing commissions receivable <sup>1</sup>	85,473	79,386
Prepayments	2,795	2,581
	89,925	83,346

#### Non-current

Net present value of future trailing commissions receivable <sup>1</sup>	364,031	320,663
	364,031	320,663
	453,956	404,009

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

Trade and other receivables are shown net of a provision for impairment of \$17 thousand (2012: \$14 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 29.



# Australian Finance Group Limited

## Notes to the Financial Statements

### 15. Loans and advances

#### Current

*In thousands of AUD*

	2013	2012
Securitised assets <sup>1</sup>	130,566	42,069
Other secured loans <sup>2</sup>	47	1,760
	130,613	43,829

- (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 10.77% p.a (2012: 14.00% p.a).
  - During 2012 loans and advances secured over the underlying assets and fixed and floating charge over the borrowing entity's assets. Interest was charged on average at 16.44%p.a (2013: Nil).

#### Non-current

*In thousands of AUD*

	2013	2012
Securitised assets <sup>1</sup>	660,743	209,843
Unamortised effective yield fees	5,706	1,739
Other secured loans <sup>2</sup>	1,750	167
Redeemable preference shares (RPS) <sup>3</sup>	6,075	-
Less: Provision for impairment <sup>4</sup>	(55)	(16)
	674,219	211,733
	804,832	255,562

- (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 10.77% p.a (2012:14.00%p.a).
  - Share of the bank loan secured over the assets of The St Peter's Developments joint operation. Interest is charged on average at 3.20% p.a (2012: Nil).
- (3) During the year the Group acquired 6,000 thousand RPS for the amount of \$6,000 thousand (2012: nil). Up to 50% of the RPS are redeemable by mutual agreement at any time 12 months after the initial contribution, with all RPS redeemable on completion of the projects. The RPS are redeemable at the face amount and at a determinable date, and provide an annual fixed rate of return of 20%. During 2013 the accrued interest recognised in the profit or loss amounted to \$75 thousand (2012: nil). Accrued interest is payable on redemption of the RPS.
- (4) Refer to note 29(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 \$55 thousand (2012: \$16 thousand).

During the financial year, new loans issued in the Group's securitisation programme were \$636,326 thousand (2012: \$211,896).

The Group's exposure to credit, currency and interest rate risks related to loans and advances is disclosed in note 29.

### 16. Inventories

*In thousands of AUD*

#### Current

Finished development stock held for sale	1,360	2,666
Inventories carried at lower of cost and net realisable value	1,360	2,666

#### Non-current

Development work in progress	8,155	65
Inventories carried at lower of cost and net realisable value	8,155	65
	9,515	2,731

# Australian Finance Group Limited

## Notes to the Financial Statements

### 17. 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

	2013	2012
Financial assets designated at fair value through profit or loss	20	337
Short term deposits	-	5,000
	20	5,337
Available-for-sale financial assets	31	31
	31	31
	51	5,368

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 2013 (2012: Nil).

The Group's exposure to credit, currency and market risks related to other investments is disclosed in note 29.

### 18. Investments in equity-accounted investees

The Group's share of loss in its equity-accounted investees for the year was \$721 thousand (2012: \$195 thousand), and the carrying amount was \$3,224 thousand (2012: \$3,195 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:

#### 2013

*In thousands of AUD*

	Reporting date	Ownership	Total assets	Total liabilities	Income	Expenses	Loss	Group share of net assets	Group share of loss
ZincFinance Pty Ltd <sup>1</sup>	30 June	50%	931	-	64	634	(570)	465	(285)
Qube Havelock Street Development Pty Ltd <sup>2</sup>	30 June	40%	25,655	18,808	340	1,431	(1,091)	2,739	(436)
			26,586	18,808	404	2,065	(1,661)	3,204	(721)

#### 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 <sup>1</sup>	30 June	40%	15,024	7,086	17	504	(487)	3,175	(195)

(1) Joint Venture

(2) Associate

# Australian Finance Group Limited

## Notes to the Financial Statements

### 19. Tax assets and liabilities

#### (a) Current tax assets and liabilities

The current tax liability for the Group of \$769 thousand (2012: \$2,995 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>	2013	2012	2013	2012	2013	2012
Property, plant and equipment and intangibles	(35)	(134)	-	-	(35)	(134)
Trade and other receivables	(1,045)	(1,022)	134,862	120,082	133,817	119,060
Employee benefits	(3,395)	(974)	-	-	(3,395)	(974)
Trade and other payables	(117,959)	(106,756)	-	-	(117,959)	(106,756)
Other items	(87)	(252)	57	875	(30)	623
Tax (assets) / liabilities	(122,521)	(109,138)	134,919	120,957	12,398	11,819
Set off of tax	122,521	109,138	(122,521)	(109,138)	-	-
Net tax (assets) / liabilities	-	-	12,398	11,819	12,398	11,819

### 20. Property, plant and equipment

*In thousands of AUD*

#### Cost

	Plant and equipment	Fixtures and fittings	Total
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
Balance at 1 July 2012	4,500	1,655	6,155
Additions	488	3,111	3,599
Disposals	(174)	(1,048)	(1,222)
Balance at 30 June 2013	4,814	3,718	8,532

#### Depreciation

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
Balance at 1 July 2012	4,130	991	5,121
Depreciation charge for the year	603	74	677
Disposals	(1,220)	-	(1,220)
Balance at 30 June 2013	3,513	1,065	4,578

#### Carrying amounts

At 30 June 2012	370	664	1,034
At 30 June 2013	1,301	2,653	3,954

# Australian Finance Group Limited

## Notes to the Financial Statements

### 21. Intangible assets

*In thousands of AUD*

	Software development
<b>Cost</b>	
Balance at 1 July 2011	9,429
Acquisitions – internally developed	194
Balance at 30 June 2012	9,623
Balance at 1 July 2012	9,623
Acquisitions	478
Balance at 30 June 2013	10,101
<b>Amortisation</b>	
Balance at 1 July 2011	8,966
Amortisation for the year	188
Balance at 30 June 2012	9,154
Balance at 1 July 2012	9,154
Amortisation for the year	195
Balance at 30 June 2013	9,349
<b>Carrying amounts</b>	
At 30 June 2012	469
At 30 June 2013	752

### 22. Trade and other payables

*In thousands of AUD*

	Note	2013	2012
<b>Current</b>			
Net present value of future trailing commissions payable	4	75,097	69,059
Other trade payables		37,450	33,953
Non-trade payables and accrued expenses		3,270	2,388
		115,817	105,400
<b>Non-current</b>			
Net present value of future trailing commissions payable		321,082	280,243
		321,082	280,243
		436,899	385,643

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 29.

# Australian Finance Group Limited

## Notes to the Financial Statements

### 23. 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 29.

#### Current

*In thousands of AUD*

	2013	2012
Securitisation warehouse facility	540,852	257,180
Loans from funders	758	689
Secured bond issues	42,664	-
Secured bank loans	3,273	-
	<u>587,547</u>	<u>257,869</u>

#### Non-current

*In thousands of AUD*

	2013	2012
Secured bond issues	215,072	-
Loans from funders	1,618	1,653
	<u>216,690</u>	<u>1,653</u>
	<u>804,237</u>	<u>259,522</u>

#### Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

<i>In thousands of AUD</i>	2013				2012			
	Nominal interest rate	Year of maturity	Face value	Carrying amount	Nominal interest rate	Year of maturity	Face value	Carrying amount
Warehouse facility	4.32%	2014	540,897	540,852	5.43%	2013	257,180	257,180
Loans from funders	6.31%	2014-2018	2,376	2,376	6.45%	2012-2017	2,342	2,342
Secured bond issues	4.22%	2014-2018	258,569	257,736			-	-
Secured bank loans	3.20%	2014	3,273	3,273			-	-
			<u>805,115</u>	<u>804,237</u>			<u>259,522</u>	<u>259,522</u>

During the year a bank loan was obtained to fund the acquisition of land by one of the wholly owned subsidiaries. The loan is secured over land with a carrying amount of \$6,880 thousand (2012: nil).

The carrying amount of the collaterals pledged as security for the warehouse facility and the secured bond issue is \$1,335,226 thousand (2012: \$399,468 thousand).

#### (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 and its Series.

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

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 \$895,452 thousand (2012: \$399,468 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 for both Series is \$152,603 thousand (2012: \$138,739 thousand).

After the balance sheet date the Group secured an extension to the term of the residential warehouse facility that was due to expire in 31 December 2013. The maturity date has been reset to 10 July 2014.

# Australian Finance Group Limited

## Notes to the Financial Statements

### 23. Interest-bearing liabilities (continued)

#### 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 \$16,000 thousand (2012: \$8,000 thousand).

#### (b) Secured bond issues

SPE-RMBS was established to provide funding for loans and advances (securitised assets) originated by AFG Securities Pty Ltd. The 2013 bond issue has a legal final maturity of 31.5 years from issue, and a weighted average life of up to 5 years. The security for loans and advances under this facility is a combination of fixed and floating charges over all assets of the SPE-RMBS. Importantly, all residential mortgages are 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 \$439,773 thousand (2012: Nil).

Under the current trust terms, a default by the borrowers will not result in the bondholders having a right of recourse against the Group (as Originator, Trust Manager or Servicer). The interest is recognised at an effective rate 4.22% (2012: nil).

#### Liquidity facility

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

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

Additional credit support includes subordinated credit enhancement held by the Group (unrated Class C Notes) which had an aggregate initial invested amount of \$1,500 thousand.

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

#### (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 6.31% (2012: 6.45%).

Refer to note 29 for further disclosures on interest-bearing liabilities.

#### (d) Finance facilities

*In thousands of AUD*

Standby facility

Bank guarantee facility

#### Facilities utilised at reporting date

Bank guarantee facility

#### Facilities not utilised at reporting date

Standby facility

Bank guarantee facility

	2013	2012
Standby facility	200	100
Bank guarantee facility	500	500
	700	600
<b>Facilities utilised at reporting date</b>		
Bank guarantee facility	492	336
	492	336
<b>Facilities not utilised at reporting date</b>		
Standby facility	200	100
Bank guarantee facility	8	164
	208	264

The facilities are subject to annual review.

# Australian Finance Group Limited

## Notes to the Financial Statements

### 24. Employee benefits

*In thousands of AUD*

#### Current

	2013	2012
Salaries and wages accrued	816	1,505
Liability for sick leave	20	21
Liability for long service leave	889	866
Liability for annual leave	927	835
	<u>2,652</u>	<u>3,227</u>

#### Non Current

Liability for long-service leave	485	462
	<u>485</u>	<u>462</u>
	<u>3,137</u>	<u>3,689</u>

### 25. 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 2013 (2012: Nil).

#### (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.

# Australian Finance Group Limited

## Notes to the Financial Statements

### 25. Share based payments (continued)

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 2013 (2012: Nil).

No shares were bought back during the financial year from ex-employees, as allowed under the terms of the Scheme (2012: NIL).

### 26. Provisions

	Terminated members	Make good	Legal	Total
<i>In thousands of AUD</i>				
Balance at 1 July 2012	621	83	600	1,304
Provision made during the period	11	18	250	279
Provision reversed during the period	(19)	(21)	(600)	(640)
Balance at 30 June 2013	613	80	250	943
Current	613	-	250	863
Non-current	-	80	-	80
	613	80	250	943

#### 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 \$250 thousand has been made during 2013 for the Group's liability in respect of the excess and the related legal costs on a litigation claim that is expected to be fully indemnified by the insurer.



# Australian Finance Group Limited

## Notes to the Financial Statements

### 27. Deferred income

#### Current

*In thousands of AUD*

	2013	2012
Sponsorship income	1,736	1,429
Lease incentives	1,311	118
Unearned professional indemnity insurance	908	865
Other deferred income	-	33
	<u>3,955</u>	<u>2,445</u>

### 28. Capital and reserves

#### (a) Share capital

##### The Company

*In thousands of shares*

	Ordinary shares ('000)	
	2013	2012
On issue at 1 July	93,340	93,340
Issued for cash or nil consideration	-	-
On issue at 30 June – fully paid	<u>93,340</u>	<u>93,340</u>

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

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

#### (b) 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
<b>2013</b>				
Final 2012 ordinary	3.21	6,000	Franked	04/07/2012
1 <sup>st</sup> interim 2013 ordinary		3,000	Franked	07/12/2012
2 <sup>nd</sup> interim 2013 ordinary		3,000	Franked	26/02/2013
		<u>12,000</u>		
<b>2012</b>				
Final 2011 ordinary	3.21	3,000	Franked	05/07/2011
1 <sup>st</sup> interim 2012 ordinary	3.21	3,000	Franked	20/12/2011
		<u>6,000</u>		

# Australian Finance Group Limited

## Notes to the Financial Statements

### 28. Capital and reserves (continued)

After 30 June 2013 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	3,000	Franked	05/07/2013
		3,000		

Dividends declared or paid during the year or after 30 June 2013 were franked at the rate of 30%.

<i>In thousands of AUD</i>	2013	2012
Dividend franking account	19,867	14,712
30 per cent franking credits available to shareholders of Australian Finance Group Limited for subsequent financial years	66,223	49,039

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 \$66,223 thousand (2012: \$49,039 thousand) franking credits.

### 29. 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>	Carrying amount	
Type of customer	2013	2012
Financial institutions	450,469	401,038
Members	81	50
Other	612	340

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 \$449,504 thousand (2012: \$400,049 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.

# Australian Finance Group Limited

## Notes to the Financial Statements

### 29. Financial instruments (continued)

#### (a) Credit risk (continued)

#### (i) Trade and other receivables (continued)

*In thousands of AUD*

Standard & Poor's Credit rating

	Current 2013	Non Current 2013
AA+	30	128
AA-	59,685	254,200
A+	1,042	4,440
A	11,087	47,220
A-	7	30
BBB+	40	170
BBB	185	787
BBB-	111	470
BB+	220	936
Not rated	13,066	55,650
	<u>85,473</u>	<u>364,031</u>

*In thousands of AUD*

Standard & Poor's Credit rating

	Current 2012	Non Current 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
	<u>79,386</u>	<u>320,663</u>

### 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:

	Gross 2013	Impairment allowance 2013	Gross 2012	Impairment allowance 2012
<i>In thousands of AUD</i>				
Not past due	1,507	-	1,218	-
Past due 0-30 days	64	-	75	-
Past due 30-60 days	14	(7)	4	(4)
Past due more than 61 days	89	(10)	96	(10)
	<u>1,674</u>	<u>(17)</u>	<u>1,393</u>	<u>(14)</u>

During the year ended 30 June 2013 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.

# Australian Finance Group Limited

## Notes to the Financial Statements

### 29. Financial instruments (continued)

#### (a) Credit risk (continued)

##### (i) Trade and other receivables (continued)

During 2013 and 2012 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>	2013	2012
Balance at 1 July	14	20
Impairment loss recognised	3	5
Amounts written off	-	(11)
Balance at 30 June	17	14

##### (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	
<b>Customer type</b>	2013	2012
Residential mortgage borrowers	796,960	253,635
Members	1,797	525
Other	6,075	1,402
	804,832	255,562

#### **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 \$1,335,226 thousands (2012: \$399,468 thousands). During the year ended 30 June 2013 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 \$200 thousand (2012: \$355 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 July 2013.

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>	Carrying amount	
<b>Loan to value ratio</b>	2013	2012
Greater than 95%	367	2,933
Between 90%-95%	57,668	32,249
Between 80%-90%	127,579	47,158
Less than 80%	605,695	169,572
	791,309	251,912

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

# Australian Finance Group Limited

## Notes to the Financial Statements

### 29. Financial instruments (continued)

#### (a) Credit risk (continued)

##### (ii) Loans and advances (continued)

#### Impairment Losses

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

	Gross	Impairment allowance	Gross	Impairment allowance
<i>In thousands of AUD</i>	2013	2013	2012	2012
Not past due	802,002	(1)	255,115	(8)
Past due 31-120 days	2,259	(14)	463	(8)
Past due 121 days to one year	617	(31)	-	-
Past due more than one year	9	(9)	-	-
	804,887	(55)	255,578	(16)

The impairment loss at 30 June 2013 of \$55 thousand (2012: \$16 thousand) includes:

- \$54 thousand specific provision for loans that are past due; and
- \$1 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 2011	52	12
Charge for the year	8	-
Utilised	-	-
Unused amounts reversed	(52)	(4)
Balance as at 30 June 12	8	8
Balance as at 1 July 2012	8	8
Charge for the year	46	-
Utilised	-	-
Unused amounts reversed	-	(7)
Balance at 30 June 13	54	1

#### Securitisation loans

AFG 2010-1 Trust loans and advances: The Group is required to provide the warehouse facility provider with a level of subordination or Credit Support. The Group's maximum exposure to credit risk on this securitisation loan at reporting date is the carrying amount.

AFG 2013-1 Trust loans and advances: Under the current trust terms, a default by the borrowers will not result in the bond holders having a right of recourse against the Group (as Originator, Trust Manager or Servicer). Importantly, all residential mortgages are covered by a lender's mortgage insurance contract which covers 100% of the principal.

The Group's maximum exposure is the loss of future interest income on its Class C Notes investment.

No impairment loss was recognised during 2013 (2012: NIL).

#### Other secured loans

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

No impairment loss was recognised during 2013 (2012: NIL).

# Australian Finance Group Limited

## Notes to the Financial Statements

### 29. Financial instruments (continued)

#### (b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Board of Directors reviews the cash flows' rolling forecast on a monthly basis to ensure that the level of its cash and cash equivalents is at an amount in excess of expected cash outflows over the succeeding months. Excess funds are generally invested in at call bank accounts with maturities of less than 90 days. Within the special purpose entities the Group also maintains sufficient cash reserves to fund redraws and additional advances on existing loans. As stated in note 23, the Group has unused warehouse facilities at the reporting date.

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.

#### 2013

<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	540,852	552,589	552,589	-	-	-	-
Secured bond issues	257,736	260,975	21,783	21,783	37,129	180,280	-
Secured bank loans	3,273	3,307	3,307	-	-	-	-
Loans from funders	2,376	2,562	418	364	698	1,082	-
Net present value of future trailing commissions payable	396,179	544,907	58,203	55,088	97,613	199,334	134,668
Trade and other payables	40,720	40,720	40,570	150	-	-	-
	1,241,136	1,405,060	676,870	77,385	135,440	380,696	134,668

#### 2012

Securitisation warehouse facility	257,180	264,245	264,245	-	-	-	-
Bonds	-	-	-	-	-	-	-
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

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

#### Securitisation warehouse facility

The warehouse facility is a short term funding facility that is generally renewable annually. The Group is in the process of extending the exiting warehouse facility which will expire on 31 December 2013. 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.

#### Secured bond issues

The securities are issued by the SPE-RMBS with an expected weighted average life of 5 years. They are a pass through type of securities that may be repaid early (at the call date) by the issuer (the Group) in certain circumstances. The above maturity assumes that the securities will be paid at their respective maturity dates and that the Group will not opt to repay the securities at the call date.

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

For terms and conditions relating to trade payables and net present value of future trailing commissions payable refer to notes 4 and 22.

# Australian Finance Group Limited

## Notes to the Financial Statements

### 29. Financial instruments (continued)

#### (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).

Fluctuations in NZD 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.

##### (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	
	2013	2012
<b>Fixed rate instruments</b>		
Financial assets	457,377	401,976
Financial liabilities	396,179	349,302
	61,198	52,674
<b>Variable rate instruments</b>		
Financial assets	862,105	329,512
Financial liabilities	804,237	259,522
	57,868	69,990

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

##### 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 2013, 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 2012.

<i>Effect in thousands of AUD</i>	After tax profit		Equity	
	100bp increase	100bp decrease	100bp increase	100bp decrease
<b>30 June 2013</b>				
Variable rate financial assets	4,226	(4,226)	4,226	(4,226)
Variable rate financial liabilities	2,620	(2,620)	2,620	(3,924)
Cash flow sensitivity (net)	1,606	(302)	1,606	(302)
<b>30 June 2012</b>				
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)

# Australian Finance Group Limited

## Notes to the Financial Statements

### 29. Financial instruments (continued)

#### (c) Market risk (continued)

##### 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:

In thousands of AUD	Note	2013		2012	
		Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets carried at fair value</b>					
Financial assets designated at fair value through profit or loss	17	20	20	337	337
Available-for-sale financial assets	17	31	31	31	31
<b>Assets carried at amortised cost</b>					
Cash and cash equivalents	13(a)	65,145	65,145	70,877	70,877
Trade and other receivables	14	451,161	451,161	401,429	401,429
Loans and advances	15	804,832	804,832	255,562	255,562
Other financial assets	17	-	-	5,000	5,000
<b>Liabilities carried at amortised cost</b>					
Trade and other payables	22	(436,899)	(436,899)	(385,643)	(385,643)
Interest-bearing liabilities	23	(804,237)	(804,237)	(259,522)	(259,522)
		80,053	80,053	88,071	88,071

##### 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>	<b>Fair value measurement at end of the reporting period using :</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>30 June 2013</b>				
Available-for-sale financial assets	-	-	31	31
Financial assets designated at fair value through profit or loss	20	-	-	20
	<b>20</b>	<b>-</b>	<b>31</b>	<b>51</b>
<b>30 June 2012</b>				
Available-for-sale financial assets	-	-	31	31
Financial assets designated at fair value through profit or loss	337	-	-	337
	<b>337</b>	<b>-</b>	<b>31</b>	<b>368</b>

There have been no transfers between levels during the year ended 30 June 2013 (2012: no transfers in either direction).



# Australian Finance Group Limited

## Notes to the Financial Statements

### 29. Financial instruments (continued)

#### (c) Market risk (continued)

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 2012	31	337
Total gains and losses recognised in comprehensive income	-	-
Purchases and disposals	-	(317)
Balance at 30 June 2013	31	20

#### (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 6% positive or 6% negative of the rates revealed from the actuarial analysis. The change estimate is calculated based on historical movements of the prepayment rate.

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

<i>In thousands of AUD</i>	2013		2012	
	+6%	-6%	+8%	-8%
After tax profit	(1,625)	1,717	(2,121)	2,288
Equity	(1,625)	1,717	(2,121)	2,288

##### Securitised assets

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

#### (iv) Equity price risk

##### Exposure to equity price risk

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

At 30 June 2013 a decrease in the fair value of financial assets designated at fair value through profit or loss of \$16 thousand (2012: \$69 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.

# Australian Finance Group Limited

## Notes to the Financial Statements

### 30. Operating leases

#### Leases as lessee

Non-cancellable operating lease rentals are payable as follows:  
*In thousands of AUD*

	2013	2012
Less than one year	2,048	2,046
Between one and five years	5,956	697
	<u>8,004</u>	<u>2,743</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 2013, \$2,095 thousand was recognised as an expense in the Statement of Comprehensive Income in respect of operating leases (2012: \$2,223 thousand).

Parts of the leased properties were sublet by the Group during 2013. The sublease expired in 31 December 2012.

### 31. Group entities

#### Significant subsidiaries

	Country of incorporation	Ownership interest	
		2013	2012
<b>Parent entity</b>			
Australian Finance Group Limited	Australia	100	100
<b>Significant subsidiaries</b>			
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
AFG 2013-1 Trust	Australia	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	100
Venture Lending Pty Ltd	Australia	51	51
Cambridge WA Pty Ltd	Australia	100	100
AFG Developments Pty Ltd	Australia	100	100
AFG Developments 2 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.

# Australian Finance Group Limited

## Notes to the Financial Statements

### 32. Parent entity

Throughout the financial year ending 30 June 2013, the parent Company of the Group was Australian Finance Group Limited.

<i>In thousands of AUD</i>	<b>2013</b>	<b>2012</b>
<b>Results of the parent entity</b>		
Profit for the period	18,879	18,024
Other comprehensive income	-	-
Total comprehensive income for the period	18,879	18,024
<i>In thousands of AUD</i>	<b>2013</b>	<b>2012</b>
<b>Financial position of parent entity at year end</b>		
Current assets	147,261	150,310
Total assets	535,953	479,819
Current liabilities	120,840	113,262
Total liabilities	455,092	405,837
<b>Total equity of the parent entity comprising of:</b>		
Share capital	11,435	11,435
Reserves	(85)	(85)
Retained earnings	69,511	62,632
<b>Total equity</b>	80,861	73,982

See notes 33 and 34 for the parent entity capital and other commitments, and contingencies.

Refer to note 23 (d) 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 \$6.5 million.

### 33. Capital and other commitments

#### Property, plant and equipment commitments

During the year ended 30 June 2013 the Group entered into a contract to purchase a land for \$1,740 thousand (2012:\$6,545). Settlement on the land occurred on 26 July 2013.

### 34. 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.

# Australian Finance Group Limited

## Notes to the Financial Statements

### 35. Related parties

#### (a) Key management personnel compensation

The key management personnel compensation paid and payable as at the reporting date comprised:

<i>In AUD</i>	<b>2013</b>	<b>2012</b>
Short-term employee benefits <sup>1</sup>	2,727,595	2,530,647
Other long term benefits – long service leave	326,290	337,440
Post-employment benefits-superannuation	166,046	162,976
	<b>3,219,931</b>	<b>3,031,063</b>

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 accrued short term entitlements 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 25).

The balance outstanding to key management personnel and other related parties at reporting date arising from the above transactions is a payable amount of \$104,330 (2012: \$479,341).

#### (b) Loans to key management personnel

There was no loan balance outstanding at the reporting date to key management personnel. The principal and interest charges were fully repaid in July 2013.

#### (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>	<b>Transactions value year ended</b>	
	<b>2013</b>	<b>2012</b>
	<b>30 June</b>	
Gill Family Pty Ltd - Provision of chairman services	95,000	70,000

- (i) McCabe Street Limited is a special purpose company incorporated for development of a specific property. Mr B McKeon, Ms L Bevan, and the Chief Financial Officer, Mr Bailey, are directors of McCabe Street Limited. AFG Property division is responsible for the project management of the development. During the year 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. The outstanding balance as at reporting date is \$49,331 and the interest charged during 2013 is \$5,626 (2012: nil).
- (ii) 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 \$706 thousand (2012 : \$613 thousand).

# Australian Finance Group Limited

## Notes to the Financial Statements

### 35. Related parties (continued)

- (iii) 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 \$3,874 thousand (2012:\$ 943 thousand).
- (iv) On the 1 August 2012, First Mortgage Services (FMS) acquired Perpetual Services Pty Ltd our providers of loan settlement services. Tony Gill is an Independent Director of FMS. During the year the Group made payments to FMS. These dealings were in the ordinary course of business and were on normal terms and conditions. The payments made for the provision of the settlement services were \$277,300.

### (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. 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 by / (to) the subsidiaries are detailed below:

<i>In AUD</i>	Parent entity	
	2013	2012
Australian Finance Group Securities Pty Ltd	5,842,261	2,655,011
AFG Securities Pty Ltd	7,740,461	692,726
New Zealand Finance Group Ltd ('NZFG')	329,596	328,792
Lilydale Pastures Estate Pty Ltd	833,634	2,226,481
Longford Road Pty Ltd	(122)	(47,431)
AFG Home Loans Pty Ltd	3,282,925	(913,863)
Cambridge Pty Ltd	(36)	8,728
AFG Developments Pty Ltd	5,167,218	484,603
Venture Lending Pty Ltd	19,534	18,904
AFG Developments 2 Pty Ltd	(100)	-
Less provision for impairment	(4,220,898)	(4,802,643)
	<u>18,994,473</u>	<u>651,308</u>

### 36. Subsequent events

On 1 July 2013 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 2013 is \$3 million. The financial effect of these dividends has not been brought to account in the financial statements for the year ended 30 June 2013.

Subsequent to 30 June 2013 the Group's increased its investment in the Class B2 Notes, subordinated credit enhancement in relation to the residential warehouse facility of AFG 2010-1 Trust, from \$6.5 million to \$8 million.

After the balance sheet date the Company secured a new warehouse facility with another financial institution of \$250 million for a term of 12 months. The Company has the option to extend the term by a further 12 months at the discretion of the lender. The new warehouse facility will provide additional funding required for the issuance of more loans to borrowers and support the growth of the securitisation programme. The funding is provided through the issue of two classes of secured, limited and floating rate notes, with the senior notes being issued to the lender and the junior notes to the Group.

On 10 October 2013, the Group secured an extension to the term of the residential warehouse facility that was due to expire in 31 December 2013. The maturity date has been reset to 10 July 2014.

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

### Notes to the Financial Statements

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 2013 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 28 day of October 2013.



## 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 2013, 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 2013 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.



Ernst & Young

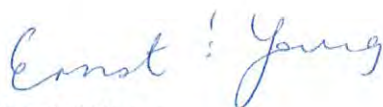


F Drummond  
Partner  
Perth  
28 October 2013



## 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 2013, 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.



Ernst & Young



F Drummond  
Partner  
28 October 2013