

Australian Finance Group Limited

ABN 11 066 385 822

Half-year report for the half-year ended 31 December 2014

Australian Finance Group Limited

Directors' report

As at 31 December 2014

The Directors submit herewith the financial report of Australian Finance Group Limited ('the Company'), and its controlled entities ('the Group'), for the half-year ended 31 December 2014 and the auditor's report thereon.

Directors

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

Name

Mr Tony Gill	Mr James Minto
Mr Brett McKeon	Mr John Atkins
Mr Malcolm Watkins	Mr Craig Carter
Mr Kevin Matthews	

The above named directors held office during the half-year with the exception of:

Mr James Minto – Resigned 28 November 2013 and appointed 1 April 2015

Mr Craig Carter - appointed 25 March 2015

Financial results

For the half-year to 31 December 2014 the Group recorded a net profit after tax of \$9,809 thousand recording an increase of 61% over the same period in 2013.

Review of operations

The first half of the 2015 financial year has seen momentum be maintained with respect to AFG's residential mortgage broking business. The Australian mortgage market continues to be an extremely competitive market and combined with a sustained low interest rate environment, application volumes and resulting settlement volumes remain very strong, particularly on the East Coast.

The settlement volumes achieved by our core residential mortgage business continued to be supported by a successful broker recruitment window and it is pleasing to see recruitment being maintained at these encouraging levels. Whilst the Directors are pleased with the overall performance of the Group for the first half of the 2015 financial year they do note that another six months remain before calling the year a complete success, and with strong yet achievable sales targets set for the balance of the year, the focus remains on maintaining the momentum generated in the first half of the year.

Our own AFG Home Loans business has had somewhat a mixed financial period, with settlement volumes being subdued in the traditional part of the business owing primarily to the level of competition for mortgages from the majority of our panel lenders. With this in mind, the back half of the financial period saw the Group finalise and launch (in pilot mode) a new white label product funded by Advantedge called 'AFGHL Edge'. Initial volumes since the launch of this product have been very encouraging. Subsequent to 31 December, this product has been launched across the country and the uptake gives the Board a high level of confidence around forecast settlements for this product for the balance of the financial year.

The first half of the 2015 financial year also saw the directors put in place the steps to demerge its property assets into a new company called Establish Property Group. A shareholder notice was sent to shareholders on 26 March 2015. As part of this demerger, all shareholders of AFG will retain the same percentage of ownership in Establish Property Group as they hold in AFG. See Subsequent Events note for further details on the demerger.

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

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Directors' report

As at 31 December 2014

Should the warehouse facilities 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.

Non – IFRS financial information

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 the half-year 2015 has increased the earnings beyond 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 after tax is \$8,453 thousand (31 December 2013: \$8,130 thousand). The assessment of the trail loan book and the associated assumptions was undertaken by external actuaries.

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

	31 December 2014		31 December 2013	
	Total Revenue	Profit After Tax	Total Revenue	Profit After Tax
Underlying result from operations	261,370	9,809	227,874	9,259
Change in the net present value of trailing Commission receivable and payable	33,261	1,356	40,552	1,129
Total result from operations	228,109	8,453	187,322	8,130

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.

On behalf of the Directors



B M McKeon
Managing Director

Dated at Perth, this 1 May 2015

Australian Finance Group Limited
Condensed Consolidated Statement of Financial Position
As at 31 December 2014

In thousands of AUD

	Note	31 December 2014	30 June 2014
Assets			
Cash and cash equivalents	4 (iii)	84,463	76,022
Other financial assets		197	196
Trade and other receivables	4 (iv)	554,055	515,741
Loans and advances	4 (v)	1,040,842	1,025,191
Investments in equity-accounted investees		2,551	2,674
Inventories		31,945	24,442
Property, plant and equipment		3,356	3,394
Intangible assets		866	832
Total assets		1,718,275	1,648,492
Liabilities			
Interest-bearing liabilities	4 (vi)	1,065,911	1,034,685
Trade and other payables	4 (iv)	542,912	502,301
Employee benefits		3,091	2,972
Current tax payable		508	211
Deferred income		2,542	4,299
Other financial liabilities		4,690	4,690
Deferred tax liability		12,997	13,479
Provisions		345	385
Total liabilities		1,632,996	1,563,022
Net assets		85,279	85,470
Equity			
Share capital	7	11,434	11,434
Reserves		(61)	(61)
Retained earnings		73,902	74,093
Total equity attributable to equity holders of the Company		85,275	85,466
Non-controlling interest		4	4
Total equity		85,279	85,470

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

Australian Finance Group Limited
Condensed Consolidated Statement of Profit or Loss and Other
Comprehensive Income
For the half-year ended 31 December 2014

In thousands of AUD

	Note	31 December 2014	31 December 2013
Continuing Operations			
Commission and other income	4 (i)	227,797	196,638
Securitisation interest income		24,735	22,552
Securitisation interest expense		(19,902)	(17,988)
Other cost of sales		(207,506)	(176,624)
Gross profit		25,124	24,578
Other income	4 (i)	6,278	6,991
Administration expenses		(1,661)	(1,353)
Other expenses	4 (ii)	(18,071)	(18,429)
Results from operating activities		11,670	11,787
Finance income	4 (i)	2,560	1,693
Finance expenses	4 (ii)	(300)	(68)
Net finance income		2,260	1,625
Share of profit / (loss) of equity-accounted investees (net of tax)		183	-
Profit before tax from continuing operations		14,113	13,412
Income tax expense		(4,304)	(4,153)
Profit from continuing operations		9,809	9,259
Profit for the period		9,809	9,259
Other comprehensive income for the period, net of income tax		-	-
Total comprehensive income for the period		9,809	9,259
Profit attributable to:			
Owners of the Company		9,809	9,257
Non-controlling interests		-	2
Profit for the period		9,809	9,259
Total comprehensive income for the period attributable to:			
Owners of the Company		9,809	9,257
Non-controlling interests		-	2
Total comprehensive income for the period		9,809	9,259
Earnings per share			
Basic earnings per share (cents per share)		10.5	9.9
Diluted earnings per share (cents per share)		10.5	9.9

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

Australian Finance Group Limited
Condensed Consolidated Statement of Changes in Equity
For the half-year ended 31 December 2014

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 2013	11,434	(15)	(56)	67,726	79,089	2	79,091
Total comprehensive income for the period							
Profit	-	-	-	9,257	9,257	2	9,259
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income for the period	11,434	(15)	(56)	76,983	88,346	4	88,350
Transactions with owners, recorded directly in equity							
<i>Contributions by and distributions to owners</i>							
Dividends to equity holders	-	-	-	(7,500)	(7,500)	-	(7,500)
Total contributions by and distributions to owners	-	-	-	(7,500)	(7,500)	-	(7,500)
Total transactions with owners	-	-	-	(7,500)	(7,500)	-	(7,500)
Balance at 31 December 2013	11,434	(15)	(56)	69,483	80,846	4	80,850
Balance at 1 July 2014	11,434	(15)	(46)	74,093	85,466	4	85,470
Total comprehensive income for the period							
Profit	-	-	-	9,809	9,809	-	9,809
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income for the period	11,434	(15)	(46)	83,902	95,275	4	95,279
Transactions with owners, recorded directly in equity							
<i>Contributions by and distributions to owners</i>							
Dividends to equity holders	-	-	-	(10,000)	(10,000)	-	(10,000)
Total contributions by and distributions to owners	-	-	-	(10,000)	(10,000)	-	(10,000)
Total transactions with owners	-	-	-	(10,000)	(10,000)	-	(10,000)
Balance at 31 December 2014	11,434	(15)	(46)	73,902	85,275	4	85,279

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

Australian Finance Group Limited

Notes to the Financial Statements

<i>In thousands of AUD</i>	Note	31 December 2014	31 December 2013
Cash flows from operating activities			
Cash receipts from customers		193,029	167,176
Cash paid to suppliers and employees		(190,401)	(163,729)
Advances/(repayments) of customer borrowings		9,694	(169,214)
Proceeds from warehouse facilities and bondholders		1,803	183,034
Income taxes paid		(4,488)	(3,566)
Net cash from operating activities		9,637	13,701
Cash flows from investing activities			
Interest received		1,125	968
Interest paid		(44)	(68)
Acquisition of property, plant and equipment		(450)	(148)
Investment in intangible assets		(134)	(97)
Dividend received from equity-accounted investees		306	136
Proceeds from equity-accounted investees		-	465
Decrease in loans from funders		(374)	(296)
Decrease in other loans and advances		(626)	(1,184)
Net cash used in investing activities		(197)	(224)
Cash flows used in financing activities			
Proceeds from borrowings		9,001	870
Dividends paid to equity holders of the parent		(10,000)	(7,500)
Net cash used in financing activities		(999)	(6,630)
Net increase in cash and cash equivalents		8,441	6,847
Cash and cash equivalents at the beginning of the period		76,022	65,145
Cash and cash equivalents at the end of the period		84,463	71,992

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

1. Reporting entity

The consolidated financial statements for the half-year ended 31 December 2014 comprise of Australian Finance Group Limited (the 'Company'), which is a for profit entity and a company domiciled in Australia and its subsidiaries (together referred to as the 'Group') and the Group's interest in associates and jointly controlled entities. The Group's principal activities in the course of the reporting period were mortgage origination and management, and property development. The Company's principal place of business is 100 Havelock Street, West Perth, Western Australia.

2. Basis of preparation and significant accounting policies

(a) Statement of compliance

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

(b) Basis of preparation

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

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

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

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.

(c) Significant accounting policies

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's 2014 annual financial report for the financial year ended 30 June 2014, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

AASB 8 *Operating Segments* (AASB 8)

This Standard applies to for-profit entities whose debt or equity instruments are traded in a public market or that files, or is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market. As the Group is in the process of filing its financial statements for the purpose of issuing shares in the public market, it has adopted AASB 8 and present segment reporting disclosures in the 31 December 2014 financial half year report.

During the half-year, the Group has reviewed and adopted all of the new and revised standards and interpretations issued by the Australian Accounting Standard Board that are relevant to its operations and effective for the annual reporting period beginning on 1 July 2014. There were no material changes to the accounting policies or financial impact on the Group as a result of the adoption of these standards.

The Group has not elected to early adopt any new standards or amendments.

Australian Finance Group Limited

Notes to the Financial Statements

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

(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. Estimates and underlying assumptions are reviewed on an ongoing basis, with any revisions recognised in the period in which the estimate is revised and in any future periods affected.

The key critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are included in the following notes:

- Note 4(iv) - Present value of future trailing commissions: recognition of future trailing commissions receivable and payable.

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

- Note 5 - Determination of fair values: key assumptions used in forecasting and discounting future trailing commissions.
- Taxation - The Group's accounting for taxation require management's judgment in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the Statement of Financial Position. Deferred tax assets are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

Judgments and assumptions are also required about the application of income tax legislation. These judgments and assumptions are subject to risk uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the Statement of Financial Position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in corresponding credit or charge to charge to the Statement of Comprehensive Income.

(e) 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.

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.

(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 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 Group has also established further special purpose entities (SPE-RMBS), AFG 2013-1, AFG 2013-2 and AFG 2014-1 trusts, to hold securitised assets and issue Residential Mortgage Backed Securities (RMBS) to support the specific additional funding needs of the Group's Securitisation Programme. The SPE-RMBS meet the criteria of being controlled entities under AASB 10 – Consolidated and Separate Financial Statements.

Australian Finance Group Limited

Notes to the Financial Statements

3. Segment information

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

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

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

AFG Wholesale Mortgage Broking

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

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

- Upfront commissions on settled loans

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

- Trail commissions on the loan book

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

AFG Home Loans

AFG Home Loans offers the Group's branded mortgage products, funded by third party wholesale funding providers (white label products) and AFG Securities mortgages (Securitised loans issued by AFG Securities Pty Ltd) that are distributed through the Group's broker network. AFG Home Loans sits on the Group's panel of lenders alongside the other over 30 Lenders and competes with them for home loan customers. The segment earns fees for services, largely in the form of upfront and trail commissions, and net interest margin on its securitisation programme

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

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

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

Australian Finance Group Limited

Notes to the Financial Statements

3. Segment information (continued)

Half-year ended 31 December 2014

	AFG Wholesale Mortgage Broking	AFG Home Loans	Other / Unallocated	Total
<i>In thousands of AUD</i>				
Revenue				
External customers	221,802	30,070	656	252,528
Inter-segment	3,480	-	(3,480)	-
Other operating income	3,019	-	3,380	6,399
Interest income	-	510	1,933	2,443
Total segment revenue	228,301	30,580	2,489	261,370
Results				
Segment profit before income tax	16,998	(90)	(2,795)	14,113
Income tax expense				(4,304)
Net profit after tax				9,809
Total segment assets	556,656	1,088,907	72,713	1,718,276
Other segment information				
Depreciation and amortisation	(60)	(13)	(511)	(584)
Interest expense	-	-	(339)	(339)
Share of profit of equity accounted investees	-	-	183	183

Half-year ended 31 December 2013

	AFG Wholesale Mortgage Broking	AFG Home Loans	Other / Unallocated	Total
<i>In thousands of AUD</i>				
Revenue				
External customers	188,689	28,635	1,866	219,190
Inter-segment	4,142	-	(4,142)	-
Other operating income	3,780	-	3,211	6,991
Interest income	-	381	1,312	1,693
Total segment revenue	196,611	29,016	2,247	227,874
Results				
Segment profit before income tax	17,675	454	(4,717)	13,412
Income tax expense				(4,153)
Net profit after tax				9,259
Total segment assets as at 30 June 2014	515,973	1,066,086	66,433	1,648,492
Other segment information				
Depreciation and amortisation	(54)	(15)	(507)	(576)
Interest expense	-	-	(68)	(68)
Share of profit of equity accounted investees	-	-	-	-

Australian Finance Group Limited

Notes to the Financial Statements

4. Results for the period

(i) Revenue

In thousands of AUD

Commission and other income

	31 December 2014	31 December 2013
Commissions	202,980	169,205
Interest on commission income receivable	24,005	24,988
Mortgage management services	411	1,093
Property development services	-	957
Securitisation transaction fees	401	395
	<u>227,797</u>	<u>196,638</u>

Other income

Sponsorship and incentive payments	3,019	3,780
Software licence fees	825	756
Professional indemnity insurance	860	768
Fees for services	1,348	1,341
Other	226	346
	<u>6,278</u>	<u>6,991</u>

Finance income

Interest income on loans and receivables	1,339	702
Interest income on bank deposits	1,104	991
Net foreign exchange gain	117	-
Finance income	<u>2,560</u>	<u>1,693</u>

(ii) Expenses

In thousands of AUD

Other expenses

	31 December 2013	31 December 2013
Advertising and promotion	(2,340)	(2,167)
Consultancy and professional fees	(1,046)	(991)
Information technology	(1,431)	(1,453)
Occupancy costs	(212)	(207)
Employee costs	(11,429)	(11,973)
Depreciation and amortisation	(584)	(576)
Operating lease costs	(1,059)	(983)
(Reversal of) /impairment loss on receivables	33	(76)
Net loss on disposal of property, plant and equipment	(3)	(3)
	<u>(18,071)</u>	<u>(18,429)</u>

Finance expenses

Net change in fair value of financial assets designated at fair value through profit or loss	(1)	-
Interest expense on loans and borrowings	(256)	-
Interest on loans from funders	(43)	(68)
	<u>(300)</u>	<u>(68)</u>

Australian Finance Group Limited

Notes to the Financial Statements

4. Results for the period (continued)

(iii) Cash and cash equivalents

<i>In thousands of AUD</i>	31 December 2014	30 June 2014
Cash at bank	30,898	36,884
Short term deposits	11,270	4,678
Cash collections accounts ¹	33,115	26,602
Restricted cash ²	9,180	7,858
Cash and cash equivalents	84,463	76,022
Cash and cash equivalents in the Statement of Cash Flows	84,463	76,022

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

(2) Discloses cash collateralised standby letter of credit and cash provided in trust by the warehouse providers to fund pending settlements.

(iv) Trade and other receivables and payables

Trade and other receivables include the present value of future trailing commission receivables of \$551 million (30 June 2014: \$511 million).

Trade and other payables include the present value of future trailing commission payables of \$494 million (30 June 2014: \$455 million).

(v) Loans and advances

Included in the loans and advances is the carrying value of the securitised assets that are held as security for the various debt interests in the special purpose securitised trusts and series of \$1,021 million (30 June 2014: \$1,005 million).

The Group has established an allowance for impairment that represents the estimate of losses in respect of its securitisation loans and receivables. The main component of this allowance is a specific loss component that relates to individually significant exposures in respect of losses that are yet to be established.

(vi) Interest bearing liabilities

Included in the interest bearing liabilities are the carrying values of the below debt facilities:

Warehouse facilities

The facilities provide funding for the financing of loans and advances made by AFG Home Loans to customers within the SPE and its Series. The carrying amount as at the end of the reporting period is \$410 million (30 June 2014: \$281 million). 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.

The Company is required by the warehouse facility providers to provide a liquidity facility 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 \$6,680 thousand (30 June 2014: \$4,960 thousand).

Additional credit enhancement is required by the warehouse facility providers in the form of subordinated credit notes held by the Company (Class B2 and B Notes). The aggregate amount of the subordinated notes is \$9,750 thousand (30 June 2014: \$9,500 thousand). See Subsequent Events note for further details on the credit enhancement.

The warehouse facility that was due to expire on 6 September 2014 was extended on 13 August 2014 to 14 August 2015. Credit approval has been obtained to extend the warehouse that is due to expire on 30 June 2015 to 31 December 2015, with the aim to negotiate further extension in the second half of the financial year.

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

Australian Finance Group Limited

Notes to the Financial Statements

4. Results for the period (continued)

(vi) Interest bearing liabilities (continued)

Secured bond issues

Residential Mortgage Backed Securities issued to provide additional funding needed by AFG Home Loans branded originations. The carrying amount as at the end of the reporting period is \$633 million (30 June 2014: \$739m). The security for loans and advances under this facility is a combination of fixed and floating charges over all assets of the SPE-RMBS.

A host of mechanisms to support liquidity within the transaction and credit enhancements were put in place to ensure a smooth cash flow stream to the Bondholders and to provide added protection against losses; these include subordination, liquidity facility and 100% Lender's Mortgage Insurance coverage taken on all the residential mortgages.

Additional credit support includes subordinated credit enhancement held by the Company (unrated Class C Notes) which had an aggregate initial invested amount of \$2,750 thousand (30 June 2014: \$2,750 thousand).

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

5. Change in accounting estimates

Fair values have been determined for measurement and/or disclosure purposes based on the following methods.

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 initial 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:

	31 December 2014	30 June 2014
Average loan life	Between 4.3 and 5.2 years	Between 4.4 and 5.3 years
Discount rate per annum	Between 5% and 13.5%	Between 9.15% and 13.5%

6. Dividends

During the half-year, the Company made the following dividend payments:

	Half-year ended 31 December 2014		Half-year ended 31 December 2013	
	Cents per share	Total \$'000	Cents per share	Total \$'000
Fully paid ordinary shares				
Final dividend	-	-	3.21	3,000
Interim dividend	10.71	10,000	4.82	4,500

7. Share capital

Share capital as at 31 December 2014 amounted to \$93,340 thousand (93,340,444 ordinary shares). There were no movements in the share capital of the Company in either the current or the prior half-year.

8. Change in the composition of the Group

On 22 December 2014 the Group incorporated Establish Property Group Pty Ltd, a wholly owned subsidiary, with the purpose of establishing a vehicle to manage the property assets post demerger. See Subsequent Events note for further details on the demerger.

There were no other changes in the composition of the Group, other than as outlined above.

Australian Finance Group Limited

Notes to the Financial Statements

9. Financial instruments

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

<i>In thousands of AUD</i>	31 December 2014		30 June 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Future Trailing commission receivables	551,468	616,744	510,916	527,858
Financial liabilities				
Future Trailing commission payables	494,186	551,889	455,246	469,961

10. Contingencies

Performance guarantees

The Group has provided a performance guarantee to AFG Developments Pty Ltd's debt facility provider of \$5 million in relation to the due performance of Richmond Quarter development project (Project). In the event that the Project's costs exceed the facility obtained from the funder of \$51,510 thousand and the equity contributed to the project, the Group is obligated to pay for the cost overrun that the Bank will not meet from the loan. The guarantee is payable in the event of the Group failing to meet its obligations in respect of the cost overrun, or should there be a default on the loan repayment. Given the timely progress of the project and the presales secured at balance sheet date, the Group expects to meet all of its obligations under the terms of facility. Accordingly, no provision for any liability has been made in these financial statements.

In relation to Project, the Group is also the guarantor under a former joint venture arrangement. The Group as a guarantor has agreed to guarantee the payment and performance obligations of AFG Developments Pty Ltd in relation to the termination of the joint venture arrangement up to a maximum amount of approximately \$4.69 million. As a guarantor the Group has also agreed to indemnify the former joint venture partner against all loss paid, suffered or incurred relating directly or indirectly to any failure by the Group to pay the guaranteed money or to comply with any of its obligations under the agreement.

The Group has also provided performance guarantee to AFG Developments 2 Pty Ltd debt facility provider of \$870 thousand in relation to the Parklink property project. The Guarantee becomes payable in the event of a breach of obligation and other costs and expenses. The Group expects to meet all of its obligations under the terms of facility. Accordingly, no provision for any liability has been made in these financial statements.

11. Subsequent events

On 20 February 2015 the Directors recommended the payment of a dividend of 10.71 cents per fully paid ordinary share, fully franked based on tax paid at 30%, out of profits of the Company for the half-year ended 31 December 2014. The aggregate amount of the dividends paid out on 27 February 2015 of retained earnings at 31 December 2014 is \$10 million. The financial effect of these dividends has not been brought to account in the financial statements for the half-year ended 31 December 2015.

On 20 February 2015 the board of directors recommended and agreed that the Group would subscribe for 2 million fully paid ordinary shares at \$1 in Establish Property Group Ltd. The transferred funds will provide Establish Property Group Ltd with sufficient capital to cover expenses and funding requirements after the demerger.

On 16 March 2015, The Group agreed to have one of the warehouse facilities reduced from \$250 million to \$150 million, consequently the Company's credit support in the form of subordinated notes has reduced from \$5 million to \$3 million.

Australian Finance Group Limited

Notes to the Financial Statements

11. Subsequent events (continued)

Subsequent to balance sheet date, the board of directors has recommended a demerger of the property business, which involves the establishment of a sale agreement between the Company and Establish Property Group Ltd pursuant to which the Group has agreed, amongst other things, to transfer the Group's property development interests to Establish Property Group Ltd in consideration for the issue of Establish Property Group Ltd shares to the Company (subject to receiving Member approval of the ordinary resolution). On 26 March 2015 the Group called a General Meeting to pass an ordinary resolution to make a pro-rata distribution of all of its shares in Establish Property Group Ltd to the members of the Company and to approve the subsequent share capital reduction from divesting its property development interests to Establish Property Group Ltd. On 20 April 2015 the ordinary resolution was passed by the members and the demerger became effective on 22 April 2015.

As part of this demerger the Group has also agreed to continue in its role as guarantor under the debt funding arrangements of AFG Developments 2 Pty Ltd and a former joint venture arrangement in relation to Richmond Quarter development project.

Subsequent to 31 December 2014 the Group granted 500 thousand ordinary shares in the Company for nil consideration to key executive managers in recognition of their contribution. The shares were valued at \$2.75 for the purpose of the grant.

On 30 April 2015 the Directors declared the payment of an unconditional dividend of 5.32 cents per fully paid ordinary share, fully franked based on tax paid at 30%. The aggregate amount of the dividends to be paid out on 4 May 2015 of retained earnings at declaration date is \$10 million. The financial effect of these dividends has not been brought to account in the financial statements for the half-year ended 31 December 2015.

On 30 April 2015 the Directors declared the payment of a conditional dividend of 4.26 cents per fully paid ordinary share, fully franked based on tax paid at 30%, subject to the Group's successful listing on the Australian Securities Exchange. The aggregate amount of the dividends to be paid on or prior to 5 June 2015 of retained earnings at declaration date is \$8 million. The financial effect of these dividends has not been brought to account in the financial statements for the half-year ended 31 December 2015.

At a general meeting of shareholders held on 24 April, shareholders approved the adoption of a new constitution which aligns itself to the constitution of a listed company. In addition, shareholders approved a two for one share split of all issued capital. Under the terms of the share split, shareholders will now hold two shares for every AFG Limited share they formerly held, and as such the Issued Capital of the Company became comprised of 187,680,000 shares.

Other than the above, there has not been any matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Australian Finance Group Limited Directors' Declaration

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

In the opinion of the Directors:

- (a) The financial statements and notes of Australian Finance Group Limited:
 - (i) Give a true and fair view of the consolidated entity's financial position as at 31 December and of its performance for the half-year ended on that date
 - (ii) Complying with comply with Accounting Standard AASB 134 "Interim Financial Reporting"
- (b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the board



B M McKeon
Director

Dated at Perth, Western Australia on 1 May 2015.

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

We have reviewed the accompanying half-year financial report of Australian Finance Group Limited, which comprises the statement of financial position as at 31 December 2014, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration as set out on pages 4 to 17.

Directors' Responsibility for the half-year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with the Australian Accounting Standards, and for such internal control as the directors determine is necessary for the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not presented fairly, in all material respects, in accordance with the Australian Accounting Standards. As the auditor of Australian Finance Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Deloitte

Conclusion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of Australian Finance Group Limited does not present fairly, in all material respects, the company's financial position as at 31 December 2014 and of its financial performance for the half-year ended on that date in accordance with Australian Accounting Standards as described in Note 2.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU



Leanne Karamfiles

Partner

Chartered Accountants

Perth, 1 May 2015