AFG

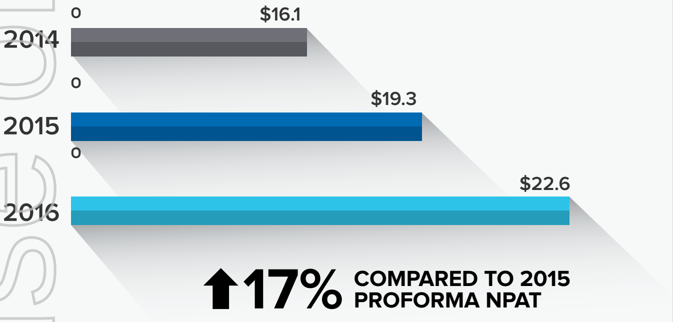
2016
ANNUAL REPORT

CONTENTS

OUR PERFORMANCE

NPAT

$22.6MILLION FOR THE 2016 FINANCIAL YEAR



⬆17% COMPARED TO 2015 PROFORMA NPAT

OUR REVENUE

$547MILLION REVENUE FOR FY2016 WAS

⬆4% INCREASE FROM FY2015 ($526M)

OUR RESIDENTIAL SETTLEMENTS

$33.84BILLION

⬆8% INCREASE FROM FY2015 ($31.24B)

OUR COMMERCIAL SETTLEMENTS

$2.76BILLION

⬆15% INCREASE FROM FY2015 ($2.39B)

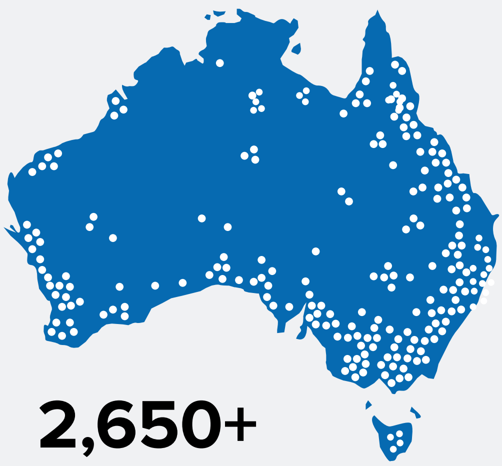
AFG HOME LOANS WHITE LABEL SETTLEMENTS OF OUR EDGE AND ICON PRODUCTS

$1.4BILLION

VERSUS THE $460MILLION WE ACHIEVED IN AFG HOME LOANS WHITE LABEL SETTLEMENTS IN FY2015

OUR BROKERS

OVER 20% OF AUSTRALIA'S MORTGAGE BROKERS ARE AFG MEMBERS



2,650+ BROKERS AROUND AUSTRALIA

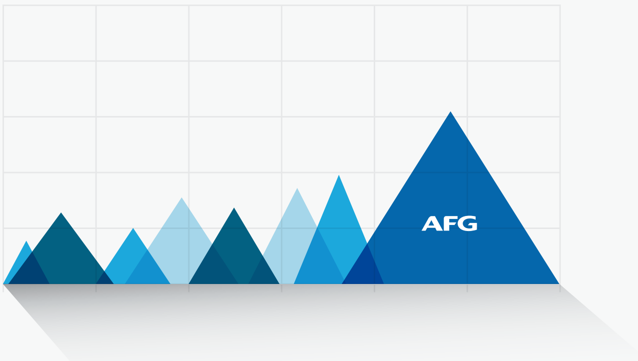
OVER 52% OF AUSTRALIAN MORTGAGES ARE WRITTEN THROUGH A BROKER AND GROWING

OUR SIZE & SCALE

LOAN BOOK

$120 BILLION LOAN BOOK OF OVER

↑ 12% INCREASE FROM FY2015 ($107B)



MARKET SHARE

1/11 AUSTRALIAN RESIDENTIAL MORTGAGES ARE ARRANGED BY AN AFG BROKER

FROM 1 IN 12 IN FY2015

CUSTOMERS

10,000 CUSTOMERS PER MONTH

OUR PARTNERS & PRODUCTS

THE NUMBER OF LENDERS ON THE AFG PANEL

45+

THE NUMBER OF FINANCIAL PRODUCTS AVAILABLE TO AFG BROKERS

1,450+

OUR LENDER PANEL

AFG Home Loans, Adelaide Bank, AMP, ANZ, Auswide Bank, Bank of China, bankSA, Bank of Melbourne, BOQ, bankwest, Bluestone, citibank, Commonwealth Bank, Flexi Commercial, GE Money, Heritage Bank, HomeStart Finance, ING Direct, Keystart Home Loans, La Trobe Financial, Liberty Financial, Macquarie, me, mkm capital, nab, pepper, P&N bank, Rock Building Society, st.george, Suncorp Bank, Westpac, Bank Australia, Bank of Sydney BOSbroker.com.au, QPCU

AND MORE


AFG

CHAIRMAN'S LETTER

I am pleased to report another very successful full year result for AFG. AFG's net profit after tax (NPAT) surpassed Prospectus forecast by 15% and was underpinned by increased sales of AFG branded products, increased residential and commercial settlements and improved securitisation margins. These results are a testament to the Company's focus on its broking business, providing choice to consumers and its ongoing earnings diversification strategy.

After our first full year of operation as a publicly listed company AFG has achieved a number of highlights;

- Combined residential and commercial loan book of $120.4 billion up 12.6% on prior period
- NPAT of $22.6 million up 48% on prior period continuing operations
- Residential settlements up 8% to $33.84 billion
- Commercial loan book of $5.67 billion up 12.1% on prior period
- Continued strong cash flows and balance sheet to drive and deliver the Group's growth plans
- Final dividend payment of 5.4 cents per share giving yield of 8.4% per share based on closing share price at 30 June 2016
- EPS for FY2016 is 10.54 cents per share up 48% from FY2015 EPS of 7.12 cents per share calculated on profit from continuing operations and number of shares at the point of listing

The past year has seen the financial services sector under the spotlight. As Chairman of a diversified financial services company and one of the country's largest mortgage broking groups, I am often asked about the sector. The position a company holds in the community is guided, and measured, by the ethics and actions of those steering and representing that company each and every day. Our guiding principles of fairness, shared prosperity and the provision of choice for Australian consumers steers our interactions with all stakeholder groups.

The development of effective stakeholder engagement mechanisms enables AFG to understand and address expectations of groups central to the success of our operations. I am proud that AFG has been at the forefront of consultation with our industry, the regulators and the federal government to explain the value mortgage brokers bring to the lending landscape and to those Australians seeking to secure finance.

The attention currently focused on corporate culture and risk is actually refreshing to see. The very essence of AFG's business is a basis of trust - the trust an Australian homebuyer places in their mortgage broker to help them navigate one of the most important financial decisions they are likely to make. Mortgage brokers are in a unique position to earn and uphold that trust. Their livelihood is based upon that shared interest. Without that trust they will not retain that client or benefit from referrals to grow their business. Brokers are charged with the task of delivering the right policy for the borrower's individual circumstances, at the right price, with a lender that can provide the best service to meet the needs of their customer.

Broker market penetration of the Australian mortgage market is now more than 52%. Through their choices, consumers are clearly indicating a high level of comfort with the mortgage broking model.

AFG brought on additional lenders through the year which saw our panel grow to more than 45 lenders, delivering more competition to the market place, securing wider choice for our brokers and further strengthening the broker value proposition. The major banks already have a dominant position within the Australian market; the mortgage broking industry plays a critical role in maintaining a broad choice of lenders by acting as a distribution channel for lenders without a branch network. The lack of face to face contact with representatives of these lenders would have a significant impact on consumer choice if not for the broker channel.

2016 saw AFG welcome two new Non-Executive Directors to our board. AFG is fortunate to be able to have the benefit of the extensive experience of Jane Muirsmith and Melanie Kiely. Their appointments bring additional diversity of thought and internationally informed experience to the AFG board. Both are well placed to guide and support our talented executive team and they will bring valuable strategic insights to the AFG board.

AFG also expanded its management team with the appointment of its former Chief Financial Officer (CFO) David Bailey to the newly created role of Chief Operating Officer (COO). David had been AFG's CFO for over 11 years and in this time has gained an exceptional insight into the business operations of the Group. The introduction of a COO role to AFG's management team will further expand capacity and the transition of David into this role utilises his depth of understanding of the business to focus on future opportunities for growth.

On behalf of the Board I would like to congratulate AFG management and staff and thank the loyal AFG brokers who have helped deliver such a successful year for the company.

Yours sincerely,

Tony Gill
Chairman

TONY GILL
Independent Non-Executive Chairman

CEO'S REPORT

The past year has been a very successful one for AFG for a number of reasons. Our first full year as an ASX listed entity – and I believe we have made a successful transition from public unlisted to listed. AFG's excellent profit result was underpinned by strong sales of AFG branded products, increased residential and commercial settlements and improved securitisation margins.

Regulatory activity and lender requirements changing by the minute has meant it has been a very busy year for our brokers and AFG staff. Whilst there has been a lot of unfavourable discussion about the housing and the banking sector which has been taken up by the mainstream media, the business has remained focused and been able to deliver exceptional results against this backdrop, culminating in an earnings upgrade in April 2016.

Mortgage brokers have won further market share over the last 12 months as more consumers preference our industry over the branch structures of days gone by and over some of the newer online lending models to secure their home finance.

The lending market in Australia is showing credit growth and mortgage brokers are winning market share. As the largest subset of that sector, AFG is translating those conditions into earnings growth. AFG's residential broking business has had a record year by volume. Our residential loan book rose from $102.6b at 30 June 2015 to $114.7b at 30 June 2016.

We have also achieved a record year in the recruitment of high performing brokers to AFG. We have lifted our broker numbers from just over 2,400 in 2015 to finish the financial year with over 2,650 active brokers working with AFG. Pleasingly this recruitment has been the result of winning market share in New South Wales and Victoria, states that have been a core focus of the business. These results have been obtained in a highly competitive market and are testament to the commitment of our staff.

Our Commercial loan book grew exceptionally during the year as more small to medium sized businesses gravitated towards commercial brokers. Our commercial settlements grew by 15% year on year to reach $2.76b, exceeding the prospectus FY2016 target of $2.45b. We expect this trend to continue, predominantly in asset lending.

Motor vehicle finance also had an exceptional year with settlements increasing 39% and, in part for the same reasons as Commercial, more consumers are recognizing the value brokers can deliver in facilitating better service and better pricing and are seeking out brokers to meet their needs.

Our own AFG Home Loans business also outperformed internal expectations. From a prospectus forecast of $1.30 billion in settlements of white label products, we rounded out the financial year at $1.44 billion. This was driven by the move from a soft launch to full rollout of our Edge product, and the more recent addition of the new Icon home loan. These have been well received by our broker network with the products delivering more choice, competitive pricing and excellent service to our brokers and their customers; we expect further growth from this business line in future years.

There is no question technology is one of our key differentiators and one of the key reasons behind our continued success. Our technology platform FLEX has the ability to generate additional revenue for our brokers by accessing the customer data held within the system. We are able to seamlessly offer building; contents; landlords; life; and income protection insurances to our brokers' customers.

This year we added the facility to offer our brokers depreciation reports for investment properties and soft launched a car loan offering to our broker network in February 2016.

The distribution network our brokers provide is a key driver of future growth for AFG and of choice for Australian consumers. We maintain our commitment to invest in the best people, platforms, systems and tools to remain an innovative leader of high quality, resilient and agile technology to help our brokers grow and to continue to attract high quality brokers to our network.

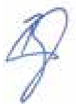
Over the last 12 months AFG has completed a migration of our IT systems to the cloud. This enables us to scale far beyond current requirements and the reduction in operational and maintenance activities allow us to further invest in technology innovation.

In August 2016 AFG formed a strategic alliance with leading international fintech company Biz2Credit Inc. The exclusive agreement will leverage Biz2Credit's patented analytics and financial services technology to provide small business borrowers with a broad range of options and deliver faster access to capital. This new platform is a first for Australia and will not only enable existing lenders to reach their target audience in the small to medium enterprise (SME) market faster but will also open the door to competition from marketplace lenders not currently in the mix.

And finally, the performance of any mortgage starts and ends with credit assessment standards, driven by the risk appetite of the lender. Our own AFG Securities business has since inception written $2 billion worth of home loans, 100 per cent broker-introduced, and the overall performance of these loans has been exemplary. This performance is a direct reflection of AFG's credit assessment procedures and our conservative risk appetite and the Securities book continues to perform exceptionally well against the Standard & Poors' Mortgage Performance Index.

AFG's future growth is focused on protecting and growing our share of our mortgage broking market by continuing to expand our broker network and distribution reach, increasing penetration of own branded product and leveraging our technology investment to pursue other opportunities. We are on track to deliver on all of these initiatives and I look forward to another successful year for AFG.

Yours sincerely,



Brett McKeon
CEO

BRETT MCKEON
CEO

DIRECTORS' REPORT

The Directors present their report together with the financial report on the consolidated entity consisting of Australian Finance Group Limited ('the Company' or 'AFG'), and its controlled entities ('the Group'), for the financial year ended 30 June 2016 and the auditor's report thereon.

DIRECTORS

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

ANTHONY (TONY) GILL

(NON-EXECUTIVE CHAIRMAN)

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

BRETT MCKEON

(MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER)

Mr McKeon is a founding director of the Group and is the Company's Managing Director/Chief Executive Officer. He is responsible for the Group's strategy, corporate governance and for driving future growth. Mr McKeon has worked for over 30 years in the finance industry and brings considerable management, capital raising, public company and sales experience to the board of AFG. Mr McKeon is a licensed finance broker and in 2006 he was awarded The Ernst & Young Entrepreneur of the Year for WA. During the past three years Mr McKeon has also served as a director of the following listed companies:

- Caravel Minerals Limited – appointed in 2012; resigned in 2015

MALCOLM WATKINS

(EXECUTIVE DIRECTOR)

Mr Watkins is a founding director of the Group. He holds strategic responsibility for the Group's technology development programs, electronic delivery systems and national marketing operations. Mr Watkins' key focus is extracting real and tangible returns on the investments made and leveraging the strengths of the Group today to further expand market share, profitability and brand awareness. Mr Watkins has recently been appointed to the board of the Mortgage and Finance Association of Australia (MFAA).

DIRECTORS [CONTINUED]

KEVIN MATTHEWS
(NON-EXECUTIVE DIRECTOR)

Mr Matthews is a founding director of the Group. He previously held a role as an Executive Director and was responsible for negotiating and managing key relationships with banks and lending institutions, including product development and the Commercial line of business. Mr Matthews ceased to be an Executive Director and became a non-executive director on 1 May 2015. Mr Matthews has worked in the finance industry for more than 35 years and has been a licensed finance broker for more than 25 years. He is a former director of the Mortgage and Finance Association of Australia (MFAA) and served on the MFAA's National Brokers Committee for 12 years. Mr Matthews is also a Senior Fellow of the Financial Services Institute of Australasia (FINSIA) and a life member of the MFAA.

JAMES (JIM) MINTO
(INDEPENDENT NON-EXECUTIVE DIRECTOR)

Mr Minto rejoined the AFG Board in 2015 following his retirement as Group CEO and Managing Director of life insurer TAL (formerly TOWER Australia). TAL is 100% owned by Dai-ichi Life, a major global Japanese-based life insurer. Mr Minto had been in that role since November 2006 and prior to that was Group CEO of the Trans-Tasman TOWER Limited Group. Mr Minto has extensive experience in the financial services sector and an intimate understanding of the AFG business, having previously been a member of the AFG board from 2004 until 2013. Mr Minto is the Chairman of the Remuneration and Nomination committee. A Chartered Accountant, Mr Minto recently retired as Chair of the Association of Superannuation Funds of Australia (ASFA) and was a panel member of the Australian Government's 2011 Review of Natural Disasters Insurance. He is also an executive officer of Dai-ichi Life of Japan, a director of Singapore-based Dai-ichi Life Asia Pacific. Mr Minto is a Fellow Chartered Accountant (FCA) with Chartered Accountants Australia and New Zealand. He is also a member and Graduate of the Australian Institute of Company Directors.

CRAIG CARTER
(INDEPENDENT NON-EXECUTIVE DIRECTOR)

Mr Carter has 35 years experience in stockbroking, capital markets and corporate finance. Most recently Mr Carter was Chairman and Executive Director of Macquarie Capital in Western Australia and currently has a diverse range of business interests. Mr Carter has been involved in many capital raisings including initial public offerings across many industry groups. Mr Carter is the Chairman of the Audit Committee and of the Risk and Compliance Committee. Mr Carter is also currently a Board member of the Fremantle Football Club. Mr Carter holds a Bachelor of Business and is a Fellow of FINSIA.

MELANIE KIELY
(INDEPENDENT NON-EXECUTIVE DIRECTOR)
(APPOINTED 31 MARCH 2016)

Ms Kiely is an experienced executive and company director with over 25 years of experience in health care, financial services and consulting in Australia, Europe and South Africa. Ms Kiely commenced with Silver Chain in the role of Executive General Manager, Social Care, in November 2015. She is currently a Director of the Black Dog Institute and Intework. Prior to this, Ms Kiely was the Executive General Manager Strategy, Risk and HealthGuard, at HBF Health Fund. Prior to joining HBF, Ms Kiely held senior roles with nib health funds, MBF and Accenture and has also held a number of Board positions in the financial services and health sectors. Ms Kiely has an Honours Degree in Business Science from the University of Cape Town and is a Graduate of the Australian Institute of Company Directors. Ms Kiely joined the AFG Board as a Non-Executive Director in March 2016.

JANE MUIRSMITH

(INDEPENDENT NON-EXECUTIVE DIRECTOR)
(APPOINTED 31 MARCH 2016)

Ms Muirsmith is an accomplished digital, channel and marketing strategist with a proven track record of helping companies leverage digital technologies to drive innovation and business outcomes. She has broad experience spanning 25 years across many industries including financial services, insurance, utilities, Government, professional services, retail, manufacturing and technology.

Ms Muirsmith is Managing Director of Lenox Hill, a digital strategy and consulting company and is a Non-Executive Director of Healthdirect Australia. She is also a member of the Ambassadorial Council UWA Business School and sits on the AIM UWA Business School Executive Education board. She is a Fellow with Chartered Accountants Australia and New Zealand, where she is Vice Chairman of the WA Business Advisory Committee and is a Graduate of the Australian Institute of Company Directors.

Ms Muirsmith was appointed to the AFG Board as a Non-Executive Director in March 2016.

JOHN ATKINS

(INDEPENDENT NON-EXECUTIVE DIRECTOR)
(RESIGNED 31 AUGUST 2015)

Mr Atkins' background is as a commercial lawyer having been a partner of leading Australian law firm Freehills and its predecessors for over 20 years. He held senior management and leadership positions with that firm prior to his retirement as a partner in 2008. Mr Atkins is a former Chairman of Lotterywest, Minotaur Exploration Ltd and BWP Trust; a former director of the Chamber of Commerce and Industry of WA and Deputy Chairman of the Committee for Perth. During the past three years Mr Atkins has also served as a director of the following listed companies:

- Breakaway Resources Ltd – appointed November 2006; resigned 25 June 2014
- Aurora oil & Gas Limited – appointed June 2003; resigned 11 June 2015

Mr Atkins holds a Bachelor of Jurisprudence and a Bachelor of Law (Masters) and is a Fellow of the Australian Institute of Company Directors. Mr Atkins resigned from the AFG Board to take up his appointment as Western Australia's Agent General based in London.

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

COMPANY SECRETARY

LISA BEVAN

(COMPANY SECRETARY)

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

INTERESTS IN THE SHARES AND RIGHTS OF THE COMPANY

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

Director	Number of ordinary shares	Number of rights over ordinary shares
Tony Gill	2,250,000	-
Brett McKeon	21,179,773	176,452
Malcolm Watkins	21,102,689	35,290
Kevin Matthews	16,882,151	-
Craig Carter	500,000	-
James Minto	166,666	-
John Atkins	136,364	-
Melanie Kiely	-	-
Jane Muirsmith	-	-

CHANGES IN STATE OF AFFAIRS

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

DIVIDENDS

Total dividends paid during the financial year ended 30 June 2016 were $6,444k (2015: $38,000k), which included:

- An interim fully franked ordinary dividend of $6,444k (3.00 cents per fully paid share) was declared out of profits of the Company for 2016 and paid on 29 March 2016.

A final fully franked ordinary dividend of $11,600k (5.4 cents per fully paid share) has been declared out of profits of the Company for the financial year ended 30 June 2016 and is to be paid in September 2016.

On 22 April 2015, as part of the demerger, a pro-rata distribution of all of the Company's shares in Establish Property Group Ltd was made to the shareholders of the Company. The distribution was in part a return of capital and in part a dividend to the shareholders, $1,187k and $27,709k respectively.

Total dividends paid during the financial year ended 30 June 2015 were $38,000k, which included:

- A final fully franked ordinary dividend of $10,000k (10.71 cents per fully paid share) was declared out of profits of the Company for the year ended 30 June 2014 and paid in October 2014.
- An interim fully franked ordinary dividend of $10,000k (10.71 cents per fully paid share) was declared out of profits of the Company for 2015 and paid in February 2015.
- An interim fully franked ordinary dividend of $10,000k (5.33 cents per fully paid share) was declared out of profits of the Company for 2015 and paid on 4 May 2015.
- An interim fully franked ordinary dividend of $8,000k (4.26 cents per fully paid share) was declared out of profits of the Company for 2015 and paid on 29 May 2015.

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 and commercial loans; and
- Distribution of own branded home loan products, be they funded via traditional mortgage management products, white label or its established Residential Mortgage Backed Securities (RMBS) programme.

CORPORATE GOVERNANCE STATEMENT

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

REVIEW OF OPERATIONS

The Group's net profit after income tax for the year ended 30 June 2016 was $22,644k (2015: $20,374k); after an income tax expense of $10,282k (2015: $6,806k).

The Net Profit After Tax result of $22,644k for FY16 is 17.6% ahead of the FY15 underlying Pro forma Net Profit After Tax result which excludes the pro forma impact of the costs and incomes related to the IPO, together with the demerger of the former Property Business. A comparison of the pro forma result against the current year performance is as follows:

	FY16 $'000	FY15 $'000
Statutory Profit Before Tax	32,926	27,180
Add/(Less) Pro Forma Adjustments:		
Capital Raising Costs	-	5,636
Other	-	(5,263)
Pro forma Net Profit Before Tax	32,926	27,553
Statutory Taxation	(10,282)	(6,806)
Taxation on Pro Forma Adjustments	-	(1,491)
Pro forma Net Profit After Tax	**22,644**	**19,256**

The major item within the Other Pro Forma adjustment relates to the gain arising from the demerger of the Property assets to Establish Property Group Limited described in Note 7. Prior to the demerger the Company obtained roll over relief from the Australian Taxation Office with respect to these assets and as a consequence no tax is payable (and as such no franking credits arise) from the gain which has been realised.

The Group reflects the fair value of its residential trail book in the financial report, which is influenced amongst other things by the runoff and discount rates that are applied to this valuation. The change in assumptions for 2016 has increased statutory earnings above the underlying profit generated by the Group. Excluding the non cash entries to recognise the present value of the future trailing commission receivable and payable, the underlying profit after tax is $22,466k (2015: $12,058k). The assessment of the trail loan book requires the use of assumptions which are determined by management, by reference to market observable inputs.


Page
Messages
Notifications
Insights
Publishing Tools
Settings
Help
Promote
THIS WEEK
5,602
402
AFG
AFG (Australian Finance Group)
Loans - Mortgage Brokers
Contact Us
Liked
Message
Timeline
About
Photos
Likes
More
Status
Photo/Video
Offer, Event+
Write something...
AFG (Australian Finance Group)
TIPS FOR NEWBIES: Is it your year to enter the property market? Here's some answers to your questions.
Becoming a first home buyer - AFG - Australian Finance Group
Buying your first home is an exciting, but big step to take and one that comes with many questions and decisions. The first big question is how much you...
Boost Post
Like
Comment
Share
Buffer
AFG (Australian Finance Group)
RBA ANNOUNCEMENT: #breaking The official cash rate remains unchanged at 2%.
Boost Post
Promote Local Business
Promote Website

REVIEW OF OPERATIONS [CONTINUED]

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

	30 June 2016		30 June 2015	
In thousands of AUD	Total Revenue	Profit after tax	Total Revenue	Profit after tax
Underlying profit from continuing operations	472,602	22,466	447,258	12,058
Change in the present value of trailing commission receivable and payable	56,326	178	78,937	3,238
Total result from continuing operations	528,928	22,644	526,195	15,296

The Group's 2016 result was driven by an excellent performance by our AFG Home Loans business together with another strong year of settlement growth by our residential mortgage business and supported by our commercial business. We have successfully grown our residential settlements by 8% and our commercial settlements by 15%, year on year, with both business lines setting new benchmarks for settlement volumes.

Increasing the size and reach of our distribution network through broker recruitment and retention has continued to be a focus and our network has increased to over 2,650 active brokers working with AFG.

Total loan book from our combined residential and commercial businesses at year end was $120.4 billion. Settlements volumes in the commercial business continued to grow through the year, with an increase in applications driving a 15% year on year settlement growth. In addition to the traditional commercial broking business, AFG also continued to experience strong growth in the leasing line of the business, with settlements increasing 39% year on year.

The AFG Home Loans white label products, Edge and Icon, continued to achieve strong growth in the 2016 financial year. Settlements of these products were in excess of $1.4 billion and above the prospectus forecast of $1.3 billion for the year. AFG launched the Icon product during the year to complement our Edge product, providing more choice to consumers and an alternative funding source.

From a business development perspective, AFG has continued to invest in technology which has been the cornerstone of the Company's strength and a key differentiator for broker partners. In August 2016 AFG formed a strategic alliance with leading fintech company Biz2Credit Inc. The exclusive agreement will leverage Biz2Credit's patented analytics and financial services technology to provide small business borrowers with a broad range of options and deliver faster access to capital. This new platform is a first for Australia and will not only enable existing lenders to reach their target audience in the small to medium enterprise (SME) market faster but will also open the door to competition from marketplace lenders not currently in the mix.

2016 saw a 20% increase in service fees to $5,341k for access to and use of our market leading technologies which reflects the ongoing value of the AFG brand and technology proposition to brokers. AFG continues to be recognised as a partner of choice by organisations that possess a technological edge to their business and are looking to establish a presence in the mortgage market. AFG continues to evolve its technological capabilities to meet these new opportunities and has also enhanced the Company's bespoke Marketing and CRM suite (SMART) with a number of new digital initiatives.

The Group's cash and cash equivalents as at 30 June 2016 amounted to $130,665k, which represents an increase of 44% on the 2015 financial year. This is largely attributable to the divestment of AFG Property (which in the 2015 financial year included payment for inventories of $12,432k), increased net cash receipts from trail commission resulting from a larger loan book, higher settlements and therefore higher upfront commissions received in the period, and a $9,692k increase in restricted cash due to timing on movements of cash in collateralised standby letters of credit and special purpose securitised trusts on behalf of the warehouse funders and bondholders.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

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

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

ENVIRONMENTAL REGULATION

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

SUBSEQUENT EVENTS

On 4 August 2016, the Group secured an extension to the term of the NAB residential warehouse facility that was due to expire on 10 August 2016. The funding continues to be provided through the issue of three classes of secured, limited and floating rate notes, with the senior notes being issued to the lender and the subordination notes to Australian Finance Group Limited. The maturity date has been reset to 10 February 2017.

On 11 August 2016, the Group secured an extension to the term of the ANZ residential warehouse facility that was due to expire on 15 August 2016. The funding continues to be provided through the issue of three classes of secured, limited and floating rate notes, with the senior notes being issued to the lender and the subordination notes to Australian Finance Group Limited. The maturity date has been reset to 14 August 2017.

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.

SHARE OPTIONS

There were no options issued or exercised during the financial year (2015: Nil).

INDEMNIFICATION OF INSURANCE OF OFFICERS AND AUDITORS

During the financial year, the Group paid a premium in respect of a contract insuring the Directors, Officers and the Company Secretary of the Group (as named above) against liabilities incurred in acting in such capacities to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Group has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the Group or of any related body corporate against a liability incurred as such an officer or auditor.

DIRECTORS MEETINGS

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director were as follows:

			Meetings of committees					
Directors	**Board Meetings**		**Audit**		**Nomination and Remuneration**		**Risk and Compliance**	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Tony Gill	9	9	-	-	-	-	-	-
Brett McKeon	9	9	-	-	-	-	-	-
Malcolm Watkins	9	9	-	-	-	-	-	-
Kevin Matthews	9	9	3	3	3	3	3	3
John Atkins	2	2	1	1	-	-	-	-
James Minto	9	8	4	3	4	4	3	3
Craig Carter	9	9	4	4	4	4	3	3
Melanie Kiely	4	4	1	1	2	2	1	1
Jane Muirsmith	4	4	1	1	2	2	1	1

DIRECTORS MEETINGS [CONTINUED]

All directors were eligible to attend all meetings held, except for M. Kiely and J. Muirsmith who were eligible to attend four director meetings (as they were appointed during the financial year) and John Atkins who was eligible to attend two director meetings before he retired from the Board on 31 August 2015.

COMMITTEE MEMBERSHIP

As at the date of this report, the Company had an audit committee, remuneration and nomination committee and a risk and compliance committee.

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

Audit	Remuneration and Nomination	Risk and Compliance
C. Carter (C)	J. Minto (C)	C. Carter (C)
J. Minto	C. Carter	J. Minto
J. Atkins	K. Matthews	K. Matthews
K. Matthews	M. Kiely	M. Kiely
M. Kiely	J. Muirsmith	J. Muirsmith
J. Muirsmith		

Notes

(C) designates the chairman of the committee

ROUNDING

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

NON–AUDIT SERVICES

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

The directors are of the opinion that the services as disclosed in Note 12 to the Financial Statements do not compromise the external auditors' independence, based on advice received from the Audit Committee, for the following reasons:

- All non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 'Code of Ethics for Professional Accountants' issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the company or jointly sharing economic risks and rewards

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

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

	$
Tax compliance services	91,350
Other non-audit services	33,000
	124,350

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 33 of this financial report for the year ended 30 June 2016.

This Report is made with a resolution of the Directors.

REMUNERATION REPORT

MESSAGE FROM THE CHAIRMAN OF THE REMUNERATION & NOMINATION COMMITTEE

Dear Shareholder,

On behalf of the Board I am pleased to present AFG's Remuneration Report for the 2016 financial year (FY16), which is the first full financial year since listing on the Australian Securities Exchange ('ASX') in May 2015.

The AFG Limited Board is committed to delivering an Executive remuneration structure that demonstrates clear links to strategy, drives a strong performance culture and delivers satisfactory and sustainable returns for shareholders. During the year the Board reviewed the Executive remuneration framework and made a number of changes to improve the link to long term performance and strategy. As the FY16 remuneration structure was already set during the listing process these changes took effect from 1 July 2016 and include:

- Continuing to set challenging Short Term Incentive (STI) and Long Term Incentive (LTI) targets in the context of industry outlooks and the economic environment to drive performance over both the short and long term; including at least 1 operational STI target in addition to the Group's financial target. Further information is provided in Section 3.4 of this report.
- New grants of performance rights under LTI plans will be tied to 3 year performance periods. The LTI plan in place at listing included a 1 year performance period which ended on 30 June 2016. This period was chosen as a transitionary measure as the business transitioned from a private to a public environment. It is now considered appropriate to change this period for all new plans to 3 year performance periods.
- Grants of performance rights at 1 July 2016 have been made under two separate performance measures. The first being a compound annual growth rate earnings per share (CAGR EPS) target for the period to 30 June 2019, weighted at 65% of the award. The second being a relative Total Shareholder Return (TSR) target with an absolute TSR gateway hurdle of positive TSR for the period to 30 June 2019, weighted at 35% of the annual award. Further detailed information about the 1 July 2016 grants is provided in Section 3.5 of this report.
- The business actively engaged with shareholders and shareholder representatives to consult and seek their feedback on AFG's remuneration practices and reporting to understand how we can improve our structure and reflect the framework through disclosures in the Remuneration Report. As a result of this process changes have been made to the format and content of the Remuneration Report that we believe improves clarity and transparency with a greater focus on demonstrating the link between business strategy, remuneration and performance.

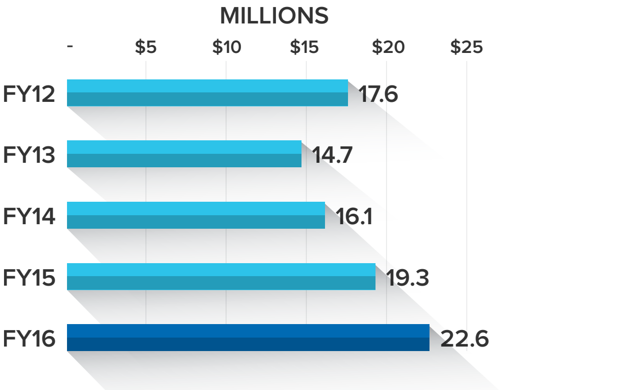
FY16 PERFORMANCE & REMUNERATION OUTCOMES SUMMARY

FY16 marks the completion of AFG's Prospectus period, a phase that has been a busy, successful and exciting one for AFG. Reported NPAT exceeded Prospectus forecast by $2,969k or 15.1% and was $3,388k or 17.6% higher than pro-forma NPAT in FY15.

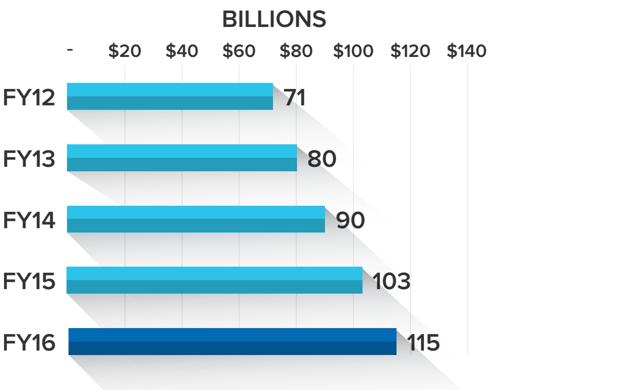
Performance against other Prospectus KPI measures was also strong with the Group's loan book ending the year at $120 billion, up 12% from FY15 and sets a strong foundation for future investment and growth. The Group's loan book provides strong cash flows, approximately 80% of which flow from A grade credit rated Australian financial institutions. These cash flows will allow AFG to fund and drive the Group's core and diversification growth plans to add more products and margin to the sales network of over 2,650 brokers.

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

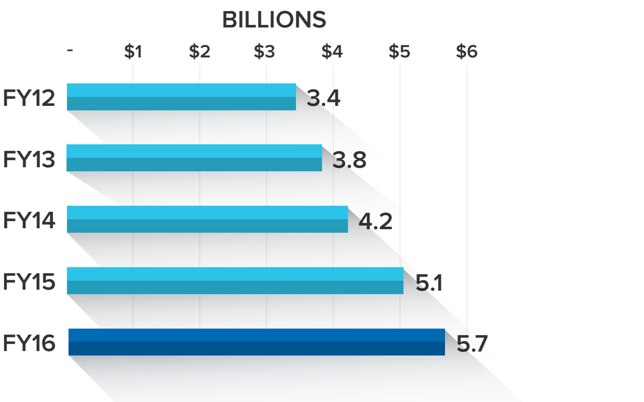
NET PROFIT AFTER TAX

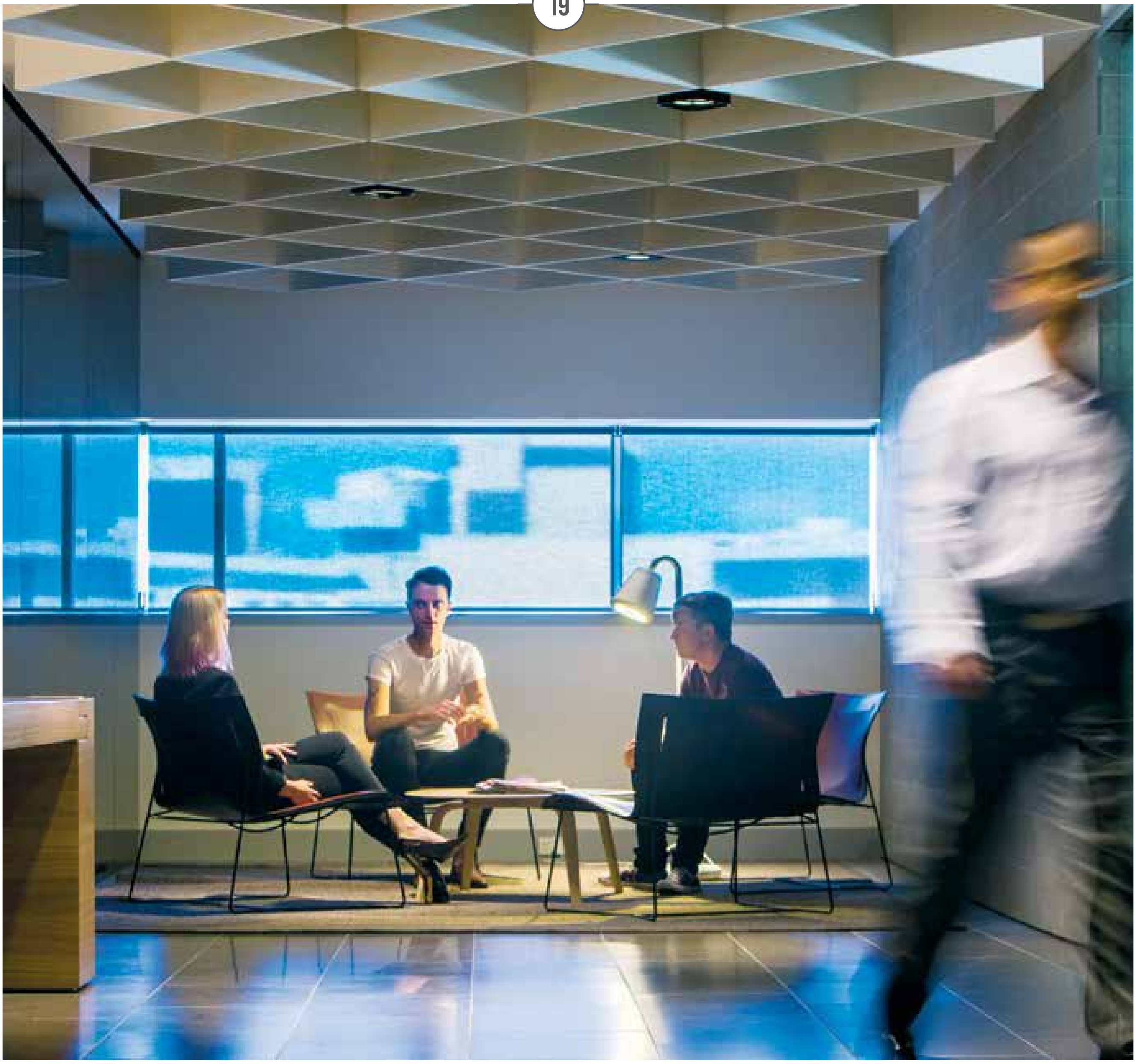


RESIDENTIAL LOAN BOOK



COMMERCIAL LOAN BOOK





The Group delivered a dividend yield for FY16 of 8.4% based on the share price at 30 June 2016.

Key remuneration outcomes, which are detailed further in the Remuneration Report include:

- FY16 STI payments were made at 114% for Key Management Personnel ('KMP'), reflecting an outstanding stretch performance when compared to the Prospectus NPAT target.
- 100% of the Performance Rights awarded to KMP in FY15 have been forfeited, despite the strong operational and financial performance of the Group since the time of listing as the Total Shareholder Return (TSR) hurdles have not been achieved.
- The remuneration of Mr D. Bailey was increased as a reflection of the increased operational responsibilities of his role as Chief Operating Officer with reference to market comparisons.

Further information on remuneration outcomes is detailed in Section 3.1 of this report.

Yours sincerely

James Minto
Chairman, Remuneration & Nomination Committee

REMUNERATION REPORT (CONTINUED)

1] INTRODUCTION

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

2] KEY MANAGEMENT PERSONNEL

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

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

Non-Executive Directors		
Anthony Gill	Chairman	Appointed 28 August 2008
Kevin Matthews	Non-Executive Director	Appointed 20 January 1995
Craig Carter	Non-Executive Director	Appointed 25 March 2015
James Minto	Non-Executive Director	Appointed 1 April 2015
Melanie Kiely	Non-Executive Director	Appointed 31 March 2016
Jane Muirsmith	Non-Executive Director	Appointed 31 March 2016
John Atkins	Non-Executive Director	Resigned 31 August 2015
Executive Directors		
Brett McKeon	Managing Director/CEO	Appointed 19 June 1996
Malcolm Watkins	Executive Director	Appointed 8 December 1997
Executives		
David Bailey	Chief Operating Officer	Appointed 8 March 2004
Lisa Bevan	Company Secretary	Appointed 9 March 1998
Ben Jenkins	Chief Financial Officer	Appointed 14 December 2015

*Craig Carter is Chairman of the Audit Committee and the Risk and Compliance Committee
*James Minto is Chairman of the Remuneration and Nomination Committee
*Other than Kevin Matthews, all Non-Executive Directors listed above are Independent Directors.

3] EXECUTIVE REMUNERATION STRUCTURES

The Company aims to reward Executives with a level of remuneration commensurate with their responsibilities and position within the Group and their ability to influence shareholder value creation.

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

AFG Business Strategy	**To provide choice and lead the market by continuing to build on the strengths of our core wholesale mortgage broking business while developing our significant distribution network to access other areas of the finance market.**	
Executive Remuneration Strategy		
Remuneration component	**Performance measure**	**Strategic objective/performance link**
Fixed annual remuneration (FAR) Comprises base salary, superannuation contributions and other benefits	**Key result areas for the role:** Key roles and responsibilities as set out in the individual's employment contract and position description	To provide competitive fixed remuneration set with reference to role, market and experience to attract, retain and engage key talent. **Considerations:** ◆ Role and responsibility ◆ Company and individual performance ◆ External benchmarking ◆ Contribution, competencies and capabilities
Short-term incentive (STI) Paid in cash	**Group Financial Measures FY16:** Group Net Profit After Tax per Prospectus **Group Financial Measures FY17 & onwards:** Group Net Profit After Tax and at least 1 key strategic operational target with a clear link to long term strategy	Rewards Executives for their contribution to achievement of Group outcome and the achievement of key strategic operational targets
Long-term incentive (LTI) Awards are made in the form of share rights	**FY16 grant:** Absolute TSR target for the period 1 July 2015 to 30 June 2016 **FY17 grant:** 65% of a KMPs entitlement allocated to a 3 year CAGR EPS target 35% of a KMPs entitlement allocated to relative TSR targets, 50% measure against the ASX Diversified Financials Index and 50% against the ASX Small Industrials Index. Both TSR targets include a gateway requirement for absolute TSR to be positive	Ensures a strong link to the long term creation of shareholder value. ◆ **CAGR EPS was chosen as a performance hurdle as it is:** ◇ A key indicator of the creation and growth in shareholder value over the long term. ◇ Provides a reliable measurement of the creation of shareholder value and has been given a higher weighting than the individual TSR measures due to the difficulty in identifying appropriate peer groups or comparison indices' for comparison against Company performance. ◆ **TSR was chosen as a performance hurdle as it is:** ◇ Provides a relative, external market performance measure with a requirement for TSR to be at least positive even if relative performance against Indices is on target to ensure Executive remuneration is clearly tied to positive shareholder value creation.

REMUNERATION REPORT (CONTINUED)

3.1] EXECUTIVE REMUNERATION OUTCOMES

STI award outcomes FY16

The combined cash bonus pool available to be paid to the Executives for on target performance in the 2016 financial year was $507,260 and the minimum is nil. For the 2016 financial year, 114% of the maximum STI bonus amount was achieved by the Executives given the Group NPAT ($22,644k) performance exceeded Prospectus forecast ($19,675k) by 15%. Executives who commenced employment during the year were not entitled to stretch performance payments.

	Target STI opportunity	As a % of fixed remuneration	STI outcome	% Achieved	% Forfeited
B. McKeon	$250,000	50%	$287,726	115%	-
M. Watkins	$30,000	16%	$34,527	115%	-
L. Bevan	$80,000	32%	$92,072	115%	-
D. Bailey	$120,000	36%	$138,108	115%	-
B. Jenkins	$27,260	18%	$27,260	100%	-
Total	**$507,260**		**$579,693**	**114%**	

LTI award outcomes FY16

Final determination of the 2016 LTI award outcomes are set out in the table below, despite significantly exceeding Prospectus forecasts, poor market sentiment in the Financial Services sector weighed heavily on share prices in our industry, AFG's share price over the year was not immune to this. As TSR over the period from listing through 30 June 2016 has not achieved the target of 10%, all performance rights issued under the 2016 grant have been forfeited. This includes tranches 2 and 3 which were also subject to the TSR hurdle.

	$ Actual LTI outcome	% Achieved	% Forfeited
B. McKeon	-	-	100%
M. Watkins	-	-	100%
L. Bevan	-	-	100%
D. Bailey	-	-	100%
Total	-	-	**100%**

3.2] FIXED ANNUAL REMUNERATION

The listing of the Company necessitated a review of the remuneration structure. As part of the review, it became a requirement to wind up all existing LTI and STI plans which ultimately required the early payout of all existing entitlements. The financial impact of this early wind up of the pre IPO remuneration structure is disclosed in Section 4 of this report in the 2015 comparative numbers. No significant changes to this structure were required during the financial year other than an increase to the Chief Operating Officer's remuneration to reflect the increased operational responsibilities of the role upon transitioning from Chief Financial Officer.

The targeted remuneration mix for:

- The MD/CEO is 56% fixed and 44% variable (at risk); and
- Other members of the Executive team are in the range of 59% to 77% fixed and 41% to 23% variable (at risk).

3.3] STI PLAN

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

Objective	The AFG STI plan rewards Executives for the achievement of objectives directly linked to AFG's business strategy that is focused on growth and choice.
Participation	All Executives
STI opportunity	The STI available to each Executive for the achievement of stretch targets against specific KPIs and is set at a level based on role, responsibilities and market data. The target STI opportunity for each Executive in FY16 is listed at Section 3.1 as an absolute dollar amount and as a percentage of the Executive's fixed remuneration.
Performance period	The performance period is the relevant Financial Year. KPIs and weightings are set and reviewed each year to ensure that the STI targets remain relevant for the current environment and Executives remain focused on clear goals for the period.
Link between performance and reward	The KPI targets are selected based on what needs to be achieved over each financial performance period to deliver the business strategy over the long term. From FY17 onwards the KPIs will include a financial target and current year delivery of a strategic KPI relevant to the long term business strategy. The weightings for each KPI are set for each performance period based on the specific business targets set by the Board. A minimum threshold hurdle is set for each KPI included in the scorecard before any payment is made in respect of that KPI measure. Further details of the KPIs that will be used to assess 2017 performance are set out at Section 3.4.
Assessment of performance	The Board reviews and approves the performance assessment and STI payments for the CEO and all other Executives.
Payment method	STI payments are delivered as cash.

3.4] FY17 STI OPPORTUNITY

Offers to participate in STI awards for 2017 were made to Executives under the STI Plan on the terms set out below. The Executive will be entitled to an STI award up to a maximum percentage of the annual fixed remuneration (the maximum amount will differ between individuals, but not exceed 50% of annual fixed remuneration).

The amount of the STI award each participant may become entitled to (if any) will be determined by the Remuneration and Nomination Committee and approved by the Board based on achievement against the targeted NPAT as approved by the Board (50%) and targeted AFG Home Loans settlement volumes (50%).

In order for an STI award to be payable, a threshold target must be satisfied, being 100% of NPAT achievement or in the case of AFG Home Loans 90% of forecast volumes. The percentage of the STI award that will become payable, if any, will be determined over the performance period by reference to the following schedule:

Target	Achievement %	STI Award Payable
Group NPAT	Less than 100%	0%
	100%	100%
	100%-120%	Straight line between 100%-120%
AFG Home Loans Settlements	Less than 90%	0%
	90-100%	Straight line between 90%-100%
	100%-150%	Straight line between 100%-150%

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

REMUNERATION REPORT [CONTINUED]

3.5] THE LTI PLAN – 2015 AND 2017 GRANTS

AFG has established the LTI Plan to assist in the motivation, retention and reward of senior Executives. The LTI Plan is designed to align the interests of Executives and senior management with the interests of shareholders by providing an opportunity for the participants to receive an equity interest in AFG. Details of the 2015 and 2017 LTI Grants are provided below. Information on the 2017 LTI plan has been included this year to disclose the changes made to reflect shareholder and stakeholder feedback as no rights were granted in FY16, as the 2015 grant occurred at listing in May 2015:

	2015 LTI Grant	**2017 LTI Grant**
Instrument	Performance rights to acquire ordinary AFG shares. The rights are allocated across three equal tranches.	Performance rights to acquire ordinary AFG shares
Quantum	100% of an Executive's annual LTI entitlement weighted to a TSR target	65% of an Executive's annual LTI entitlement weighted to an ***EPS*** target 35% of an Executive's annual LTI entitlement weighted to ***TSR*** targets
Grant date	The LTI award was made just prior to AFG's listing.	1 July 2016, other than those subject to shareholder approval at the 2016 AGM
	2015 LTI Grant	**2017 LTI Grant**
Grant date fair value	Tranche 1 $0.51 Tranche 2 $0.50 Tranche 3 $0.47	***TSR*** Small Industrials Index $0.66 ***TSR*** Diversified Financials Index $0.67
		EPS $1.00 (being the 20-day Volume Weighted Average Price leading up to 30 June 2016)
Gateway performance measure	Nil	***TSR*** – Absolute TSR must be positive ***EPS*** – 2.5% CAGR EPS
Key performance measure	The Performance Rights for the first year only will be subject to a performance condition based on the total shareholder return as at 30 June 2016 as set out in the table below. For the first year and subsequent years the Performance Rights will also be subject to continuation of employment. If the total shareholder return vesting condition is not satisfied in relation to the Performance Rights for the first year, the Performance Rights for the subsequent years will lapse. Performance Conditions TSR – % of LTI Payable 10% – 50% 10%-15% – Straight line between 50%-100%	***TSR*** Relative Total Shareholder Return (pro-rata vesting between hurdles) 50% measured against the Diversified Financials Index, 50% against Small Industrials Index 50th Percentile – 50% vesting 75th Percentile – 100% vesting 85th Percentile – 125% vesting (stretch target) 90th Percentile – 150% vesting (stretch target) Vesting of Performance Rights is granted on a pro-rata basis for the Company's TSR performance between the 50th percentile and 90th percentile
		EPS accretion 2.5% CAGR – 25% vesting 5.0% CAGR – 62.5% vesting 7.5% CAGR – 100% vesting 10.0% CAGR – 125% vesting (stretch target) 12.5% CAGR – 150% vesting (stretch target) Vesting of Performance Rights is granted on a pro-rata basis for the Company's CAGR EPS performance between 2.5% and 12.5%

	2015 LTI Grant	2017 LTI Grant
Link between performance and reward	TSR encapsulates performance across the underlying key performance measures throughout the business aimed at achieving targeted business outcomes that will result in increased shareholder wealth through share price growth and dividends.	***TSR*** TSR encapsulates performance across the underlying key performance measures throughout the business aimed at achieving targeted business outcomes that will result in increased shareholder wealth through share price growth and dividends. Stretch targets are available giving Executives the opportunity to increase the number of performance rights by up to 50% for exceptional performance. ***EPS*** Long term EPS accretion targets are set at levels that are challenging yet achievable in a sustainable manner. EPS directly links creation of shareholder wealth to the delivery of the businesses strategy over a long term period. Stretch targets are available giving Executives the opportunity to increase the number of performance rights by up to 50% for exceptional performance.
Performance & Service period	Performance period (Tranche 1, 2 & 3) 1 July 2015 – 30 June 2016 Service periods Tranche 1 – 1 July 2015 – 30 June 2016 Tranche 2 – 1 July 2015 – 30 June 2017 Tranche 3 – 1 July 2015 – 30 June 2018 Each tranche is equal to one third of the total grant and vests at the end of the relevant service period	1 July 2016 – 30 June 2019
Performance assessment	30 June 2016 All performance rights issued under the 2015/2016 plan have now been forfeited as the TSR performance condition has not been met.	30 June 2019 Performance period not yet complete.
Common LTI Plan Rules		
Cessation of employment	If the participant ceases employment for cause or resigns, unless the Board determines otherwise, any unvested Performance Rights will automatically lapse. Generally, if the participant ceases employment for any other reason, all of their unvested Performance Rights will remain on foot and subject to the original performance condition. However, the Board retains discretion to determine that some of their Rights (up to a pro-rata portion based on how much of the Performance Period remains) will lapse.	
Dividends & Voting	The Performance Rights do not carry dividends or voting rights prior to vesting.	
Clawback and preventing inappropriate benefits	The Plan Rules provide the Board with broad 'clawback' powers if, amongst other things, the participant has acted fraudulently or dishonestly, engaged in gross misconduct or has acted in a manner that has brought AFG or its related bodies corporate into disrepute, or there is a material financial misstatement, or AFG is required or entitled under law or company policy to reclaim remuneration from the participant, or the participant's entitlements vest as a result of the fraud, dishonesty or breach of obligations of any other person and the Board is of the opinion that the incentives would not have otherwise vested.	

REMUNERATION REPORT (CONTINUED)

<table>
<tr><th></th><th>2015 LTI Grant</th><th>2017 LTI Grant</th></tr>
<tr><td>Change of control</td><td colspan="2">In a situation where there is likely to be a change of control, the Board has the discretion to accelerate vesting of some or all of the Performance Rights. Where only some of the Performance Rights have vested on a change of control, the remainder of the Performance Rights will immediately lapse. If the change of control occurs before the Board exercises its discretion:
◆ a pro-rata portion of the Performance Rights equal to the portion of the relevant Performance Period that has elapsed up to the expected or actual (as appropriate) date of the change of control will immediately vest; and
◆ the Board may, in its absolute discretion, decide whether the balance should vest or lapse.</td></tr>
<tr><td>Restrictions on dealing</td><td colspan="2">The participant must not sell, transfer, encumber, hedge or otherwise deal with Performance Rights.
Unless the Board determines otherwise, the participant will be free to deal with the Shares allocated on vesting of the Performance Rights, subject to the requirements of AFG's Policy for Dealing in Securities.</td></tr>
<tr><td>Reconstructions, corporate action, rights issues, bonus issues, etc</td><td colspan="2">The rules of the LTI Plan include specific provisions dealing with rights issues, bonus issues, and corporate actions and other capital reconstructions. These provisions are intended to ensure that there is no material advantage or disadvantage to the participant in respect of their Performance Rights as a result of such corporate actions.</td></tr>
</table>

4] STATUTORY REMUNERATION TABLES

Executive remuneration for the years ended 30 June 2016 and 30 June 2015

		Short-term				Post employment		Other Bonuses	Long-term	Share-based payments		Other Payments	Total	Proportion of remuneration
		Salary & fees	Cash bonus	Non monetary benefits	Total	Superannuation	Retirement benefits	Discretionary Bonuses	Long service leave	Rights[5]	Shares	Other Payments[1]		Performance Related
KMP		$	$	$	$	$	$	$	$	$	$	$		%
B. McKeon	2016	480,692	287,726	7,577	775,995	19,308	-	-	9,269	35,422	-	-	839,994	38%
	2015	403,337	-	42,000	445,337	18,783	-	-	32,664	3,774	-	-	500,558	1%
M. Watkins	2016	172,645	34,527	7,577	214,749	16,401	-	-	(13,494)	7,084	-	-	224,740	19%
	2015	222,784	-	36,340	259,124	21,165	-	-	(19,829)	755	-	-	261,215	-
K. Matthews	2016	-	-	-	-	-	-	-	-	-	-	-	-	-
	2015[1]	192,970	-	41,635	234,605	18,332	-	-	(62,106)	-	-	74,782	265,613	-
L. Bevan	2016	230,137	92,072	7,577	329,786	21,863	-	-	4,260	17,002	-	-	372,911	29%
	2015[2]	230,324	173,818	15,082	419,224	21,881	-	22,831	(1,306)	1,812	504,000	-	968,442	73%
D. Bailey	2016	315,692	138,108	7,577	461,377	19,308	-	-	6,090	28,337	-	-	515,112	32%
	2015[3]	264,332	208,602	13,245	486,179	18,783	-	22,831	18,435	3,020	504,000	-	1,053,248	70%
B. Jenkins	2016[4]	137,680	27,260	4,131	169,071	10,397	-	-	-	-	-	-	179,468	15%
	2015	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	2016	1,336,846	579,693	34,439	1,950,978	87,277	-	-	6,125	87,845	-	-	2,132,225	31%
Total	2015	1,313,747	382,420	148,302	1,844,469	98,944	-	45,662	(32,142)	9,361	1,008,000	74,782	3,049,076	47%

Notes:

1. Mr K Matthews ceased to be an Executive Director and became a Non-Executive Director on 1 May 2015. The payments made in 2015 under other payments relate to accrued leave entitlements on transition to Non-Executive Director.
2. Included in this amount is $69,350 for 100% achievement of the FY15 STI. In addition, there is a further $104,468 relating to a number of items including the payment in FY15 required to wind up the pre-existing remuneration structure so that transition to a new remuneration structure that was applicable for a company listed on the ASX could be adopted. Deferred LTI amounts paid from prior financial years as well as the pro-rata excess earned over and above the 100% of the STI payment earned and paid in the prior year are also included. Share-based payments in the form of shares were a one-off allocation at the time of listing.
3. Included in this amount is $83,200 for 100% achievement of the FY15 STI. In addition, there is a further $125,402 relating to a number of items including the payment in FY15 required to wind up the pre-existing remuneration structure so that transition to a new remuneration structure that was applicable for a company listed on the ASX could be adopted. Deferred LTI amounts paid from prior financial years as well as the pro-rata excess earned over and above the 100% of the STI payment earned and paid in the prior year are also included. Share-based payments in the form of shares were a one-off allocation at the time of listing.
4. Mr B Jenkins was appointed as CFO on 14 December 2015.
5. Amounts included under share-based payments for rights relate to the 2016 LTI plan under which 100% of the rights have been forfeited.

REMUNERATION REPORT [CONTINUED]

5] NON-EXECUTIVE DIRECTOR REMUNERATION

5.1] REMUNERATION POLICY

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

The Company's constitution and the ASX Listing Rules specify that the NED fee pool shall be determined from time to time by a general meeting. The latest determination was the shareholders meeting held on 24 April 2015 when shareholders approved an aggregate fee pool of $1,000,000 per year. The Board will not seek any increase to the NED pool at the 2016 AGM.

5.2] STRUCTURE

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

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

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

Directors may also be reimbursed for travel and other expenses incurred in attending to the Company's affairs. Some of the Non-Executive Directors receive non cash benefits in the form of off-shore conference entitlements. The table below outlines the NED remuneration for the years ended 30 June 2016 and 30 June 2015:

	Year	Board and Committee Fees $	Short-term benefits (non-monetary) $	Superannuation $	Total $
T. Gill	2016	136,986	18,814	13,014	168,814
	2015	88,710	57,685	7,725	154,120
K. Matthews[1]	2016	82,192	18,814	7,808	108,814
	2015	12,645	-	1,201	13,846
J. Atkins[2]	2016	14,542	-	1,381	15,923
	2015	61,497	22,781	5,842	90,120
C. Carter[3]	2016	82,192	-	7,808	90,000
	2015	21,496	-	2,042	23,538
J. Minto[4]	2016	82,192	-	7,808	90,000
	2015	19,916	-	1,892	21,808
M. Kiely[5]	2016	19,600	-	1,862	21,462
	2015	-	-	-	-
J. Muirsmith[6]	2016	19,600	-	1,862	21,462
	2015	-	-	-	-
Total	2016	437,304	37,628	41,543	516,475
Total	2015	204,264	80,466	18,702	303,432

Notes:

1. Mr K Matthews ceased to be an Executive Director and became a Non-Executive Director on 1 May 2015
2. Mr J Atkins resigned on 31 August 2015
3. Mr C Carter was appointed as Non-Executive Director on 25 March 2015
4. Mr J Minto was appointed as Non-Executive Director on 1 April 2015
5. Ms M Kiely was appointed as Non-Executive Director on 31 March 2016
6. Ms J Muirsmith was appointed as Non-Executive Director on 31 March 2016

ADDITIONAL DISCLOSURES RELATING TO RIGHTS AND SHARES

5.3] RIGHTS AWARDED, VESTED AND LAPSED DURING THE YEAR

The table below discloses the number of rights granted to Executives as remuneration during FY15 as well as the number of rights that vested, lapsed or forfeited during the year.

Rights do not carry any voting or dividend rights and shares can be allocated once the vesting conditions have been met until their expiry date.

No rights awarded have vested or lapsed during the year. The rights issued during FY15 have been forfeited as the performance condition attached to these rights was not met.

KMP	Year / Tranches (T)	Rights awarded during the year No.	Grant date	Fair value per rights at award date $	Vesting date	Exercise price	Expiry date	No. Forfeited during the year
B. McKeon	2015 / T1	41,666	22 May 2015	$0.51	30 June 2016	$0.00	30 June 2016	(41,666)
	2015 / T2	41,667	22 May 2015	$0.50	30 June 2017	$0.00	30 June 2017	(41,667)
	2015 / T3	41,667	22 May 2015	$0.47	30 June 2018	$0.00	30 June 2018	(41,667)
M. Watkins	2015 / T1	13,889	22 May 2015	$0.51	30 June 2016	$0.00	30 June 2016	(13,889)
	2015 / T2	13,889	22 May 2015	$0.50	30 June 2017	$0.00	30 June 2017	(13,889)
	2015 / T3	13,889	22 May 2015	$0.47	30 June 2018	$0.00	30 June 2018	(13,889)
L. Bevan	2015 / T1	25,000	22 May 2015	$0.51	30 June 2016	$0.00	30 June 2016	(25,000)
	2015 / T2	25,000	22 May 2015	$0.50	30 June 2017	$0.00	30 June 2017	(25,000)
	2015 / T3	25,000	22 May 2015	$0.47	30 June 2018	$0.00	30 June 2018	(25,000)
D. Bailey	2015 / T1	33,333	22 May 2015	$0.51	30 June 2016	$0.00	30 June 2016	(33,333)
	2015 / T2	33,333	22 May 2015	$0.50	30 June 2017	$0.00	30 June 2017	(33,333)
	2015 / T3	33,334	22 May 2015	$0.47	30 June 2018	$0.00	30 June 2018	(33,334)

*5.4] SHAREHOLDINGS OF KMP**

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

	Balance 1 July 2015	Granted as remuneration	On exercise of rights	Net change other	Balance 30 June 2016	Held nominally
Directors						
T. Gill	2,250,000	-	-	-	2,250,000	2,250,000
B. McKeon	21,179,773	-	-	-	21,179,773	21,179,773
M. Watkins	21,102,689	-	-	-	21,102,689	21,102,689
K. Matthews	16,882,151	-	-	-	16,882,151	16,882,151
J. Atkins	136,364	-	-	-	136,364	136,364
C. Carter	500,000	-	-	-	500,000	500,000
J. Minto	166,666	-	-	-	166,666	-
M. Kiely	-	-	-	-	-	-
J. Muirsmith	-	-	-	-	-	-
Executives						
L. Bevan	1,533,333	-	-	-	1,533,333	83,333
D. Bailey	1,050,000	-	-	-	1,050,000	530,000
B. Jenkins	-	-	-	-	-	-

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

REMUNERATION REPORT (CONTINUED)

6] EXECUTIVE SERVICE AGREEMENTS

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

Name	Agreement expires	Notice of termination by company	Employee notice
B. McKeon	No expiry, continuous agreement	12 months (or payment in lieu of notice)	12 weeks
M. Watkins	No expiry, continuous agreement	12 months (or payment in lieu of notice)	12 weeks
D. Bailey	No expiry, continuous agreement	12 months (or payment in lieu of notice)	12 weeks
L. Bevan	No expiry, continuous agreement	12 months (or payment in lieu of notice)	12 weeks
B. Jenkins	No expiry, continuous agreement	6 months (or payment in lieu of notice)	12 weeks

7] REMUNERATION GOVERNANCE

7.1] REMUNERATION AND NOMINATION

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

As at 30 June 2016 the Committee comprised independent Non-Executive Director Jim Minto (Chair), independent Non-Executive Directors Craig Carter, Melanie Kiely and Jane Muirsmith. Following John Atkins' resignation, effective 31 August 2015, independent Non-Executive Director Jim Minto was appointed to Chair this Committee.

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

7.2] REMUNERATION PHILOSOPHY

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

The Board embodies the following principles in its remuneration framework:

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

7.3] USE OF INDEPENDENT CONSULTANTS

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

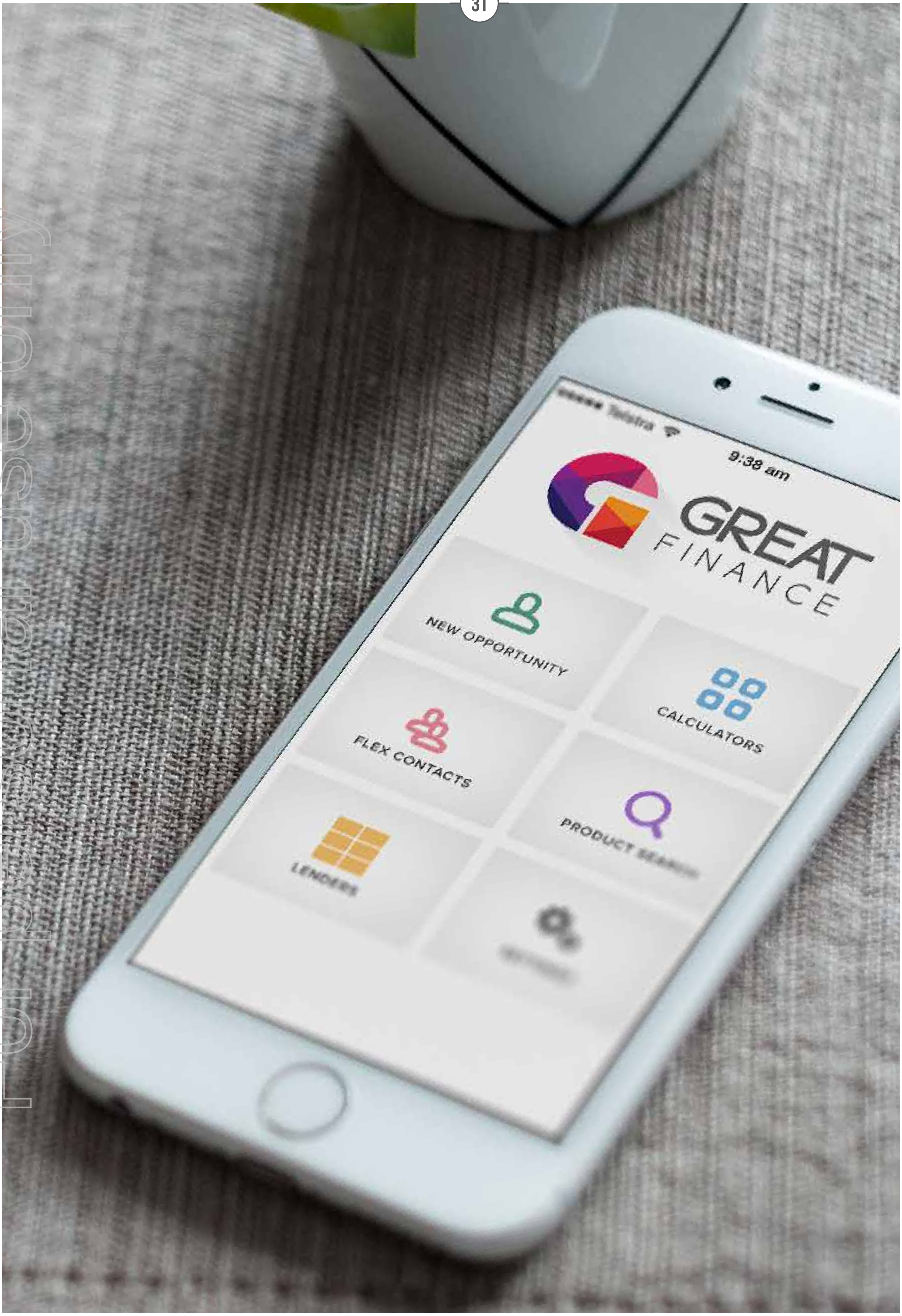
Prior to AFG's listing, and during the financial period ended 30 June 2015 the Company sought advice from 3 Degree Consulting to provide comparable listed company remuneration data and assist them to design a post-listing remuneration framework. No remuneration recommendations from independent consultants were received during the financial period ended 30 June 2016. 3 Degree Consulting did not provide any "remuneration recommendations" for the purposes of the *Corporations Act 2001 (Cth).*

7.4] POLICY FOR DEALING IN SECURITIES

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

7.5] REMUNERATION REPORT APPROVAL AT 2015 AGM

The 30 June 2015 Remuneration Report was presented to shareholders and was approved at the 2015 Annual General Meeting.


Telstra
9:38 am
GREAT
FINANCE
NEW OPPORTUNITY
CALCULATORS
FLEX CONTACTS
PRODUCT SEARCH
LENDERS

8] OTHER TRANSACTIONS AND BALANCES WITH KMP AND THEIR RELATED PARTIES

[i] During the year the Group made payments to Genworth Mortgage Insurance Australia Limited, one of our providers of Lenders Mortgage Insurance (LMI). Mr Gill is a Non-Executive Director of Genworth Mortgage Insurance Australia Limited. These dealings were in the ordinary course of business and were on normal terms and conditions. The payments made for the provision of LMI policies were $1,044k (2015:$ 1,538k). These payments are not considered to be material to the financial results of the Group and therefore do not impact on Mr Gill's independence as a Director.

[ii] Mr Gill is an Independent Director of First Mortgage Services (FMS), one of our providers of loan settlement services. During the year the Group made payments to FMS. These dealings were in the ordinary course of business and were on normal terms and conditions. The payments made for the provision of the settlement services were $207k (2015: $192k). These payments are not considered to be material to the financial results of the Group and therefore do not impact on Mr Gill's independence as a Director.

[iii] During the year the Group received payments from TAL Life Ltd. Mr Minto is a Director of Dai-ichi Life Asia Pacific which is the ultimate parent company of TAL Life Limited. 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 $724k (2015: $747k). The payments received are not considered to be material to the financial results of the Group and therefore do not impact on Mr Minto's independence as a Director.

[iv] As part of the demerger of the property business on 22 April 2015, the Group entered into a shared services agreement with Establish Property Group Ltd (EPG). Mr McKeon, Ms Bevan and Mr Bailey, are Directors of EPG. Under the terms of the shared services agreement the Group provides premises, administration, accounting and some company secretarial services to EPG at an agreed arms length rate. The shared services agreement was implemented part way through the prior period (2015: $39k). The agreement was active for the full 2016 financial year and a total of $170k was paid by EPG to the Group for these services. In addition to the above, the Group's head office is located at 100 Havelock Street West Perth. The Group leases these premises at commercial arms length rates from an investee of EPG, Qube Havelock Street Development Pty Ltd (Qube), that was held by the Group prior to the demerger transaction see Note 7. During the 2016 financial year rent of $1,539k has been paid to Qube (2015: $1,633k).

9] INDEPENDENT AUDIT OF REMUNERATION REPORT

The Remuneration Report has been audited by Deloitte. Please see page 82 of this Annual Report for Deloitte's report on the Remuneration Report.

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

Tony Gill
Chairman

Dated at Perth, Western Australia on 22 September 2016

INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE *CORPORATIONS ACT 2001*

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Brookfield Place, Tower 2
123 St Georges Terrace
Perth WA 6000
GPO Box A46
Perth WA 6837 Australia

Tel: +61 8 9365 7000
Fax: +61 8 9365 7001
www.deloitte.com.au

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

22 September 2016

Dear Directors

Australian Finance Group Ltd

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Australian Finance Group Ltd.

As lead audit partner for the audit of the financial statements of Australian Finance Group Ltd for the financial year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Leanne Karamfiles
Partner
Chartered Accountants

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2016

In thousands of AUD	Note	2016	2015
Assets			
Cash and cash equivalents	15	130,665	90,776
Trade and other receivables	16	650,059	593,931
Current tax asset	14(b)	-	687
Loans and advances	18	1,046,412	1,025,344
Other financial assets	30(d)	49	49
Property, plant and equipment	21	2,379	2,998
Intangible assets		757	865
Total assets		**1,830,321**	**1,714,650**
Liabilities			
Interest-bearing liabilities	22	1,072,215	1,041,099
Trade and other payables	17	646,113	580,341
Employee benefits	23	3,818	3,131
Current tax payable	14(b)	1,060	-
Deferred income	25	4,876	4,916
Provisions	24	322	292
Deferred tax liability	14(c)	13,397	12,641
Total liabilities		**1,741,801**	**1,642,420**
Net assets		**88,520**	**72,230**
Equity			
Share capital	27	43,541	43,541
Share-based payment reserve		97	9
Other capital reserves	27	(74)	(76)
Retained earnings		44,980	28,757
Total equity attributable to equity holders of the Company		**88,544**	**72,231**
Non-controlling interest		(24)	(1)
Total equity		**88,520**	**72,230**

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2016

In thousands of AUD	Note	2016	2015
Continuing Operations			
Commission and other income	8	482,331	462,820
Securitisation interest income		46,597	48,534
Operating income		**528,928**	**511,354**
Commission and other cost of sales		(440,790)	(421,324)
Securitisation interest expense		(33,036)	(38,096)
Gross profit		**55,102**	**51,934**
Other income	9	15,345	12,296
Administration expenses		(3,314)	(3,209)
Other expenses	10	(36,881)	(41,757)
Results from operating activities		**30,252**	**19,264**
Finance income	13	2,708	2,545
Finance expenses	13	(34)	(83)
Net finance income		**2,674**	**2,462**
Profit before tax from continuing operations		**32,926**	**21,726**
Income tax expense	14	(10,282)	(6,430)
Profit from continuing operations		**22,644**	**15,296**
Discontinued operations			
Profit after tax for the year from discontinued operations		-	5,078
Profit for the year		**22,644**	**20,374**
Attributable to:			
Owners of the Company		22,667	20,379
Non-controlling interests		(23)	(5)
		22,644	**20,374**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Net change in fair value of available-for-sale financial assets and other		2	(20)
Income tax on other comprehensive income		-	5
Other comprehensive income for the year, net of income tax		**2**	**(15)**
Total comprehensive income for the year		**22,646**	**20,359**
Total comprehensive income for the year attributable to:			
Owners of the Company		22,669	20,364
Non-controlling interests		(23)	(5)
Total comprehensive income for the year		**22,646**	**20,359**
Earnings per share			
Basic earnings (cents per share)	28	10.54	10.73
Diluted earnings (cents per share)	28	10.54	10.71
Earnings per share – continuing operations			
Basic earnings (cents per share)	28	10.54	8.05
Diluted earnings (cents per share)	28	10.54	8.04

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2016

In thousands of AUD	Share capital	Foreign currency translation reserve	Fair value reserve	Share-based payment reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 July 2014	11,434	(15)	(46)	-	74,088	85,461	4	85,465
Total comprehensive income for the period								
Profit	-	-	-	-	20,379	20,379	(5)	20,374
Other comprehensive income	-	-	(15)	-	-	(15)	-	(15)
Total comprehensive income for the period	-	-	(15)	-	20,379	20,364	(5)	20,359
Transactions with owners, recorded directly in equity								
Dividends to equity holders	-	-	-	-	(38,000)	(38,000)	-	(38,000)
Issue of share capital	32,035	-	-	-	-	32,035	-	32,035
Capital reduction	(1,188)	-	-	-	-	(1,188)	-	(1,188)
Non-cash distribution to owners	-	-	-	-	(27,710)	(27,710)	-	(27,710)
Share-based payment transactions	1,260	-	-	9	-	1,269	-	1,269
Total transactions with owners	32,107	-	-	9	(65,710)	(33,594)	-	(33,594)
Balance at 30 June 2015	**43,541**	**(15)**	**(61)**	**9**	**28,757**	**72,231**	**(1)**	**72,230**
Balance at 1 July 2015	43,541	(15)	(61)	9	28,757	72,231	(1)	72,230
Total comprehensive income for the period								
Profit	-	-	-	-	22,667	22,667	(23)	22,644
Other comprehensive income	-	1	1	-	-	2	-	2
Total comprehensive income for the period	-	1	1	-	22,667	22,669	(23)	22,646
Transactions with owners, recorded directly in equity								
Dividends to equity holders	-	-	-	-	(6,444)	(6,444)	-	(6,444)
Share-based payment transactions	-	-	-	88	-	88	-	88
Total transactions with owners	-	-	-	88	(6,444)	(6,356)	-	(6,356)
Balance at 30 June 2016	**43,541**	**(14)**	**(60)**	**97**	**44,980**	**88,544**	**(24)**	**88,520**

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2016

In thousands of AUD	Note	2016	2015
Cash flows from operating activities			
Cash receipts from customers		440,571	399,849
Cash paid to suppliers and employees		(410,148)	(397,454)
Repayments of customer borrowings		23,414	34,025
(Repayments) from securitisation		(2,189)	(19,694)
Income taxes paid		(7,780)	(8,328)
Net cash generated by operating activities	15(b)	**43,868**	**8,398**
Cash flows from investing activities			
Net interest received		2,616	2,347
Acquisition of property, plant and equipment		(136)	(530)
Investment in intangible assets		(205)	(242)
Dividend received from equity-accounted investees		-	459
Increase in other loans and advances		718	(113)
Net cash outflow on disposal of discontinued operations		-	(2,689)
Net cash generated by/(used in) investing activities		**2,993**	**(768)**
Cash flows used in financing activities			
Proceeds from borrowings		-	13,805
Proceeds from issuance of share capital		-	32,558
Transaction costs on issue of shares, net of tax		-	(523)
Decrease in loans from funders		(528)	(716)
Dividends paid to equity holders of the parent	27	(6,444)	(38,000)
Net cash (used in)/generated by financing activities		**(6,972)**	**7,124**
Net increase in cash and cash equivalents		39,889	14,754
Cash and cash equivalents at 1 July		90,776	76,022
Cash and cash equivalents at 30 June	**15(a)**	**130,665**	**90,776**

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


AFG

NOTES TO THE FINANCIAL STATEMENTS

CONTENTS

1] REPORTING ENTITY

The consolidated Financial Statements for the financial year ended 30 June 2016 comprise Australian Finance Group Limited (the 'Company'), which is a for profit entity and a company domiciled in Australia and its subsidiaries (together referred to as the 'Group') and the Group's interest in associates and jointly controlled entities. The Group's principal activities in the course of the financial year were mortgage origination and management, and property development. The Company's principal place of business is 100 Havelock Street, West Perth, Western Australia.

2] BASIS OF PREPARATION

[A] STATEMENT OF COMPLIANCE

The Financial Report complies with Australian Accounting Standards, and International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board.

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

The Financial Statements comprise the Consolidated Financial Statements of the Australian Finance Group Limited Group of companies.

Certain comparative information within the Statement of Financial Position has been reclassified to be comparable to current year presentation.

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

The Consolidated Financial Statements were authorised for issue by the Board of Directors on 22 September 2016.

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

[C] FUNCTIONAL AND PRESENTATION CURRENCY

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

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

[D] USE OF ESTIMATES AND JUDGEMENTS

The preparation of Financial Statements in conformity with Australian Accounting Standards Board ('AASB') standards requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

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

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

- Notes 16 and 17 - Net present value of future trailing commissions: recognition of future trailing commissions receivable and payable
- Note 3(a)(ii) - Consolidation of special purpose entities

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

- Note 4 - Determination of fair values: key assumptions used in forecasting and discounting future trailing commissions
- Note 24 - Provisions
- Note 29 - Measurement of share-based payments
- Note 30 - Valuation of financial instruments

◆ *Taxation*

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

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

- ***Long service leave provision***

The liability for long service leave is recognised and measured at the present value of the estimated future payments to be made in respect of services provided by employees up to the reporting date. In determining the present value of the liability, consideration is given to the expected future wage and salary levels, experience of employee departures, and period of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

[E] CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

[i] Adoption of new and revised Accounting Standards

The Group has adopted all of the new and revised Standards and Interpretations, including amendments to the existing standards issued by the AASB that are relevant to their operations and effective for the current reporting period.

The adoption of these amendments has not resulted in any significant changes to the Group's accounting policies nor any significant effect on the measurement or disclosure of the amounts reported for the current or prior periods.

The Group has early adopted AASB 2015-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101'.

The early adoption of this amendment has not resulted in any significant changes to the Group's accounting policies nor any significant effect on the measurement or disclosure of the amounts reported for the current or prior periods.

[ii] Accounting Standards and Interpretations Issued But Not Yet Effective

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

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

Affected Standards and Interpretations	Application date (reporting period commences on or after)	Application date for Group
AASB 9 'Financial instruments' and the relevant amending standards	1 January 2018	30 June 2019
AASB 15 'Revenue from Contracts with Customers' and AASB 2014-5 'Amendments to Australian Accounting Standards, arising from AASB 15'	1 January 2018	30 June 2019
AASB 16 'Leases'	1 January 2019	30 June 2020
AASB 2014-3 'Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations'	1 January 2016	30 June 2017
AASB 2014-4 'Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation'	1 January 2016	30 June 2017
AASB 2015-1 'Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle'	1 January 2016	30 June 2017
AASB 2016-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107'	1 January 2017	30 June 2018

Management is currently assessing the impact of applying the new AASB 15 'Revenue from Contracts with Customers' standard on the Group's Financial Statements, however, it is not expected that it will result in a significant change to the Group's accounting policies.

3] SIGNIFICANT ACCOUNTING POLICIES

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

[A] BASIS OF CONSOLIDATION

The Consolidated Financial Statements incorporate the Financial Statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- Has power over the investee
- Is exposed, or has rights, to variable returns from its involvement with the investee
- Has the ability to use its power to affect its returns

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

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

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the Consolidated Statement of Profit or Loss and Other Comprehensive Income from the date the Company gains control until the date when the company ceases to control the subsidiary Subsidiaries are entities controlled by the Group. The financial results of subsidiaries are included in the consolidated Financial Statements from the date that control commences until the date that control ceases.

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

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

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

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

[i] Special purpose entities

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

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

- AFG 2010-1 Trust and its Series (SPE) to conduct securitisation activities funded by short term warehouse facilities provided by reputable lenders.
- AFG 2013-1 Trust, AFG 2013-2 Trust and AFG 2014-1 Trust (SPE-RMBS) to hold securitised assets and issue Residential Mortgage Backed Securities (RMBS).

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

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

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

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

[ii] Investments in associates (equity accounted investee)

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

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.

On 22 April 2015 the Group divested its property development interests to Establish Property Group Ltd, including its investment in associates (See Discontinued Operations Note 7).

[B] FOREIGN CURRENCY

[i] Foreign currency transactions

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

[ii] Foreign operations

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

Foreign currency differences are recognised in other comprehensive income. 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 the profit or loss.

Loans and receivables

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

Loans and receivables comprise trade and other receivables, redeemable preference shares 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.

3] SIGNIFICANT ACCOUNTING POLICIES (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 Profit or Loss and Other Comprehensive Income.

[ii] Impairment of financial assets

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

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

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

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

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

[iii] Non-Derivative financial liabilities

Initial recognition and measurement

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

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

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

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

Subsequent measurement

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

Derecognition

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

[iv] 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.

For financial instruments that are not traded in an active market, the Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Refer to Notes 4 and 30 for further information on the determination of fair value of financial instruments.

[v] Share capital

Ordinary shares

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

Repurchase of share capital

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

Dividends

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

[D] CASH AND SHORT TERM-DEPOSITS

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

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

[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 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.

[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

3] SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[G] IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

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

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

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

[H] EMPLOYEE BENEFITS

[i] Long-term employee benefits

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

[ii] Short-term benefits

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

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

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

[iii] Share-based payment transactions

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

[I] PROVISIONS

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

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

[J] REVENUE

[i] Commission revenues

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

- Origination commissions: Origination commissions are recognised upon the loans being settled and receipt of commission.
- Trailing commissions: The Group receives trailing commissions from lenders on loans they have settled that were originated by the Group. The trailing commissions are received over the life of the loans based on the individual loan balance outstanding. The Group also makes trailing commission payments to authorised mortgage originators (brokers) 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 Consolidated Statement of Profit or Loss and Other 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 over the contract of service. Other fees are recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income in proportion to the stage of completion of the transaction at the reporting date.

[iii] Fees for services

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

[iv] Rendering of other services

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

[v] 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.

[K] OTHER INCOME

[i] Sponsorship and incentive income

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

[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 and 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] CAPITAL RAISING COSTS

Capital raising costs are accounted for as follows:

- Costs directly associated with the sale of existing shares are expensed to the profit or loss
- Costs directly attributable to the issue of new shares, raising of additional equity, are accounted for as a deduction from equity, net of any income tax benefit
- Other costs which include elements of both are apportioned based on the proportion of existing shares and new shares, and as such are accounted for in part as an equity deduction and in part as an expense.

[P] INCOME TAX EXPENSE

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

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

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

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is

3] SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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

[i] Tax consolidation

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

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

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

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

[ii] Nature of tax funding arrangements and tax sharing arrangements

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

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

The head entity in conjunction with other members of the tax-consolidated group has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the Financial Statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

[Q] GOODS AND SERVICES TAX

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

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

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

[R] DEFERRED INCOME

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

4] DETERMINATION OF FAIR VALUES

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

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 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. Further assumptions are disclosed in Note 30(d).

Trade and other receivables/payables

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

Investments in equity instruments

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

Other financial instruments

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

5] FINANCIAL RISK MANAGEMENT

[A] OVERVIEW

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

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

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

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

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

[B] CREDIT RISK

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

Receivables

Trade and other receivables

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

Loans and advances

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

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

The Group's maximum exposure is the excess of the net realisable value and the carrying amount of the loans, net of any impairment losses. Subsequent to July 2015 all loans with a loan to value ratio of greater than 80% were subject to a lenders mortgage insurance contract.

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

[C] LIQUIDITY RISK

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

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

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

5] FINANCIAL RISK MANAGEMENT (CONTINUED)

[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), New Zealand dollars (NZD) and Euro. The Group elects not to enter into foreign exchange contracts to hedge this exposure as the net movements would not be material. The Group has no significant exposure to currency risk.

Interest rate risk

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

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

Prepayment risk

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

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

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

Other market risk

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

[E] CAPITAL MANAGEMENT

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board 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 also monitors the level of dividends to ordinary shareholders.

The Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants would see the Group repaying the shortfall sufficient to the lenders satisfaction, or alternatively provide additional security or cash equity. There have been no breaches in the financial covenants of any interest-bearing loans and borrowings in the current period.

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

AFG Securities Pty Ltd is subject to externally imposed minimum capital requirements by the Australian Securities and Investments Commission (ASIC) in accordance with the conditions of their Australian Financial Services Licence. There was no breach of the requirements for the year ended 30 June 2016.

6] SEGMENT INFORMATION

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

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

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

AFG Wholesale Mortgage Broking

The mortgage broking segment refers to the operating activities in which the Group acts as a wholesale mortgage broker that provides its 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 distribution network. AFG Home Loans sits on the Group's panel of lenders alongside the other over 45 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 it securitisation programme.

Segment results that are reported to the Managing Director 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 do not 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 on page 52.

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

6] SEGMENT INFORMATION (CONTINUED)

Year ended 30 June 2016	AFG Wholesale Mortgage Broking	AFG Home Loans	Other / Unallocated	Total
In thousands of AUD				
Revenue				
External customers	460,212	67,423	1,293	528,928
Inter-segment	16,719	-	(16,719)	-
Other operating income	5,011	-	10,334	15,345
Interest income	-	904	1,804	2,708
Total segment revenue	**481,942**	**68,327**	**(3,288)**	**546,981**
Results				
Segment profit before income tax	**33,950**	**6,564**	**(7,588)**	**32,926**
Income tax expense				(10,282)
Net profit after tax				**22,644**
Assets and liabilities				
Total segment assets	**651,331**	**1,128,774**	**50,216**	**1,830,321**
Total segment liabilities	646,430	1,084,750	10,621	1,741,801
Other segment information				
Depreciation and amortisation	(134)	(15)	(951)	(1,100)
Interest expense	-	(34)	-	(34)

Year ended 30 June 2015				
In thousands of AUD	AFG Wholesale Mortgage Broking	AFG Home Loans	Other / Unallocated	Total
Revenue				
External customers	449,032	61,072	1,250	511,354
Inter-segment	9,239	-	(9,239)	-
Other operating income	5,639	-	6,808	12,447
Interest income	-	921	1,473	2,394
Total segment revenue	**463,910**	**61,993**	**292**	**526,195**
Results				
Segment profit before income tax	**36,949**	**638**	**(15,861)**	**21,726**
Income tax expense				(6,430)
Net profit after tax				**15,296**
Assets and liabilities				
Total segment assets	**595,480**	**1,082,555**	**36,615**	**1,714,650**
Total segment liabilities	**581,031**	**1,052,485**	**8,904**	**1,642,420**
Other segment information				
Depreciation and amortisation	(126)	(23)	(983)	(1,132)
Interest expense	-	(76)	(7)	(83)

7] DISCONTINUED OPERATIONS

During the 2015 financial year, the Board of Directors recommended a demerger of the property business, which involved the establishment of a sale agreement between the Company and Establish Property Group Ltd pursuant to which the Group 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.

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 shareholders of the Company and to approve the subsequent share capital reduction by divesting its property development interests to Establish Property Group Ltd.

On 20 April 2015 the ordinary resolution was passed by the shareholders 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. This guarantee was released during the year ended 30 June 2016.

The results of the property development operations for the year are presented below:

In thousands of AUD	**1 July 2014 to 22 April 2015**
Results of discontinued operation	
Revenue	-
Expenses	(59)
Finance income	1,880
Finance costs	(485)
Results from operating activities	1,336
Share of profit of equity accounted investees (net of tax)	322
Gain on sale of discontinued operation	3,796
Results before income tax	**5,454**
Income tax (expense) / benefit	(376)
Profit for year	**5,078**
Basic earnings (cents per share)	2.68
Diluted earnings (cents per share)	2.67

The FY15 profit from discontinued operation of $5,078k is attributable entirely to the owners of the Company.

7] DISCONTINUED OPERATIONS (CONTINUED)

The effect of disposal on the 2015 financial position of the Group is summarised in the following table:

Effect of disposal on the financial position of the Group

In thousands of AUD	**As at 22 April 2015**
Cash and cash equivalents	2,689
Inventories	36,876
Trade and other receivables	155
Loans and advances	13,968
Investments in equity-accounted investees	2,537
Total assets	**56,225**
Interest bearing liabilities	26,594
Trade and other payables	4,530
Total liabilities	**31,124**
Net assets distributed to shareholders	**25,101**

Gain on sale of discontinued operation

Distribution to shareholders*	28,897
Net assets distributed to shareholders	(25,101)
Gain on sale of discontinued operation	**3,796**

* Effective on 22 April 2015 a pro-rata distribution of all of the Company's shares in Establish Property Group Ltd was made to the shareholders of the Company. The distribution is in part a return of capital and in part a dividend to the shareholders, of $1,187,623 and $27,709,745 respectively.

Cash flows from (used in) discontinued operation

In thousands of AUD	**1 July 2014 to 22 April 2015**
Net cash used in operating activities	(14,196)
Net cash from investing activities	469
Net cash from financing activities	15,805
Net cash flows for the year	2,078
Consideration received, satisfied in cash	-
Cash and cash equivalents disposed of	**(2,689)**

8] REVENUE

	Total	
In thousands of AUD	**2016**	**2015**
Commissions	430,465	412,775
Interest on commission income receivable	50,473	48,536
Mortgage management services	566	713
Securitisation transaction fees	827	796
	482,331	**462,820**

Revenue includes the interest income of $50,473k (2015: $48,536k) from the unwinding of the discount in relation to the net present value of future trailing commission receivable.

9] OTHER INCOME

In thousands of AUD	**2016**	**2015**
Sponsorship and incentive income	7,357	5,639
Software licence fees	2,013	1,693
Professional indemnity insurance	1,911	1,733
Fees for services	3,328	2,743
Other	736	488
	15,345	**12,296**

10] OTHER EXPENSES

In thousands of AUD	**Note**	**2016**	**2015**
Advertising and promotion		4,046	3,142
Consultancy and professional fees		1,481	1,732
Information technology		3,238	2,889
Occupancy costs		414	386
Employee costs	11	24,491	24,795
Depreciation and amortisation		1,100	1,132
Operating lease costs		1,940	2,117
Impairment loss/(reversal of impairment) on receivables		169	(75)
Net loss on disposal of property, plant and equipment		2	3
Capital raising costs		-	5,636
		36,881	**41,757**

11] EMPLOYEE COSTS

In thousands of AUD	**2016**	**2015**
Wages and salaries	16,567	15,884
Other associated personnel expenses	6,077	5,877
Change in liabilities for employee benefits	25	80
Share-based payment transactions	88	1,269
Superannuation	1,734	1,685
	24,491	**24,795**

12] AUDITORS' REMUNERATION

In AUD	2016	2015
Audit services		
Amounts due and receivable for:		
Audit of the financial report of the Group and other entities of the Group		
Deloitte Touche Tohmatsu	182,700	146,750
	182,700	**146,750**
Other services - Deloitte Touche Tohmatsu		
Tax compliance services	91,350	176,458
Due diligence services	-	465,500
Other non audit services	33,000	87,575
	124,350	**729,533**
Other services - Ernst & Young		
Other assurance services	-	3,000
	-	**3,000**

13] FINANCE INCOME AND EXPENSES

Recognised in profit or loss

In thousands of AUD	2016	2015
Interest income on loans and receivables	269	300
Interest income on bank deposits	2,396	2,093
Net foreign exchange gain	43	152
Finance income	2,708	2,545
Net change in fair value of financial assets designated at fair value through profit or loss	(1)	-
Interest expense on loans from funders	(33)	(76)
Interest expense	-	(7)
Finance expense	(34)	(83)
Net finance income and expense	**2,674**	**2,462**
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	2,665	2,393
Total interest expense on financial liabilities	**(33)**	**(83)**

14] INCOME TAX

[A] CURRENT TAX EXPENSE

In thousands of AUD	2016	2015
Income tax recognised in profit or loss		
Current tax expense		
Current period	10,561	7,459
Adjustments for prior periods	(1,014)	(255)
Deferred tax expense		
Origination and reversal of temporary differences	(285)	(398)
Adjustments for deferred tax	1,020	0
Income tax expense reported in the statement of profit or loss	**10,282**	**6,806**
Income tax from continuing operations	10,282	6,430
Income tax expense/(benefit) from discontinued operation (excluding gain on sale)	-	376
Total income tax expense	**10,282**	**6,806**

	2016	2015
Income tax recognised in other comprehensive income		
Unrealised gain/(loss) on available-for-sale financial assets	-	(5)
Income tax charged directly to other comprehensive income	-	(5)

Numerical reconciliation between tax expense and pre-tax accounting profit

In thousands of AUD	2016	2015
Profit before tax from continuing operations	32,926	21,726
Profit before tax from discontinued operations	-	5,454
Profit excluding income tax	**32,926**	**27,180**
Income tax using the Company's domestic tax rate of 30% (2015: 30%)	9,879	8,154
Non-deductible expenses	539	200
Non-assessable gain on disposal of discontinued operations	-	(1,139)
Over provision in prior periods	(1,014)	(195)
Other adjustments	878	(214)
	10,282	6,806
Income tax reported in the statement of profit or loss	10,282	6,430
Income tax attributable to a discontinued operation	-	376
	10,282	**6,806**

14] INCOME TAX (CONTINUED)

[B] CURRENT TAX ASSETS AND LIABILITIES

The current tax liability for the Group of $1,060k (2015: $687k current tax asset) represents the amount of income taxes payable in respect of current and prior financial periods.

[C] DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
In thousands of AUD	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Property, plant and equipment and intangibles	-	-	431	117	431	117
Trade and other receivables	-	(1,045)	188,451	183,011	188,451	181,966
Employee benefits	(1,098)	(3,126)	-	-	(1,098)	(3,126)
Trade and other payables	(171,848)	(163,668)	-	-	(171,848)	(163,668)
Other items	(2,593)	(2,648)	54	-	(2,539)	(2,648)
Tax (assets) / liabilities	(175,539)	(170,487)	188,936	183,128	13,397	12,641
Set off of tax	175,539	170,487	(175,539)	(170,487)	-	-
Net tax (assets) / liabilities	**-**	**-**	**13,397**	**12,641**	**13,397**	**12,641**

15] CASH AND CASH EQUIVALENTS

[A] CASH AND CASH EQUIVALENTS

In thousands of AUD	**2016**	**2015**
Cash at bank	83,906	48,339
Short term deposits	2,039	7,409
Cash collections accounts[1]	36,423	31,162
Restricted cash[2]	8,297	3,866
Cash and cash equivalents	130,665	90,776
Cash and cash equivalents in the Statement of Cash Flows	**130,665**	**90,776**

(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.

The effective interest rate on short term deposits in 2016 was 2.22% (2015: 2.39%). The deposits had an average maturity of 91 days (2015: 90 days).

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

[B] RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

In thousands of AUD	Note	2016	2015
Cash flows from operating activities			
Profit for the period from continuing operations		22,644	15,296
Profit for the period from discontinued operations		-	5,078
		22,644	20,374
Adjustments to reconcile the profit to net cash flows:			
Income tax expense from continuing operations		10,282	6,430
Income tax expense/(benefit) from discontinued operations		-	376
Depreciation and amortisation		1,100	1,132
Net interest income from investing activities		(2,664)	(4,198)
Net interest expense on financing activities		-	493
Expense recognised in respect of equity-settled share-based payments		88	1,269
Share of profit of equity accounted investees	20	-	(322)
Gain on disposal of discontinued operations	7	-	(3,796)
Present value of future trailing commission income		(56,326)	(78,937)
Present value of future trailing commission expense		56,148	75,699
Other non-cash movements		(164)	(89)
		31,108	18,431
Working capital adjustments:			
Changes in assets and liabilities			
Increase/(Decrease) in receivables and prepayments		1,553	3,215
Increase/(Decrease) in trade and other payables		10,454	2,999
Increase/(Decrease) in inventories		-	(12,432)
Increase/(Decrease) in deferred income		(45)	616
Increase/(Decrease) for employee entitlements		658	97
Increase/(Decrease) in provisions		30	(93)
Increase/(Decrease) in securitisation lending		(22,467)	(14,509)
(Increase)/Decrease in securitisation borrowings		30,357	18,409
Cash generated from operations		51,648	16,733
Interest paid		-	(7)
Income tax paid		(7,780)	(8,328)
Net cash generated by operating activities		**43,868**	**8,398**

16] TRADE AND OTHER RECEIVABLES

In thousands of AUD	2016	2015
Current		
Trade and other receivables	273	774
Accrued income	96	339
	369	1,113
Net present value of future trailing commissions receivable[1]	132,350	117,343
Prepayments	3,511	2,965
	136,230	121,421
Non-current		
Net present value of future trailing commissions receivable[1]	513,829	472,510
	513,829	472,510
	650,059	**593,931**

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

Trade and other receivables are shown net of a provision for impairment of $6k (2015: $2k).

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

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

17] TRADE AND OTHER PAYABLES

In thousands of AUD	Note	2016	2015
Current			
Present value of future trailing commissions payable	4,30	119,951	105,364
Other trade payables		57,937	48,681
Non-trade payables and accrued expenses		1,083	715
		178,971	154,760
Non-current			
Net present value of future trailing commissions payable		467,142	425,581
		467,142	425,581
		646,113	**580,341**

Trade payables are non interest-bearing and are normally settled on 60-day terms.

Non trade payables are non interest-bearing and are normally paid on a 60-day basis.

The Group's exposure to liquidity risk related to trade and other payables is disclosed in Note 30.

18] LOANS AND ADVANCES

In thousands of AUD	2016	2015
Current		
Securitised assets[1]	180,522	172,430
Other secured loans[2]	1,311	1,528
	181,833	173,958
Non-current		
Securitised assets[1]	862,956	847,864
Capitalised origination cost	1,267	2,502
Other secured loans[2]	554	1,053
Less: Provision for impairment	(198)	(33)
	864,579	851,386
	1,046,412	**1,025,344**

(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:

(a) 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 10.65% p.a. (2015: 10.97% p.a.).

(b) Loan and advances to McCabe St Limited are secured over its land and assets. Interest is charged on average at 4.37% p.a. (2015: 4.79% p.a.).

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

At the end of the reporting period, the balance of the Group's securitised assets includes a provision for impairment of $198k (2015: $33k).

During the financial year, new loans issued in the Group's securitisation programme were $297,294k (2015: $273,630k).

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

19] GROUP ENTITIES

COMPOSITION OF THE GROUP

	Country of incorporation	Ownership interest	
		2016	2015
Parent entity			
Australian Finance Group Limited	Australia	100	100
Significant subsidiaries			
Australian Finance Group (Commercial) Pty Ltd	Australia	100	100
Australian Finance Group Securities Pty Ltd	Australia	100	100
AFG Securities Pty Ltd	Australia	100	100
AFG 2010-1 Trust	Australia	100	100
AFG 2013-1 Trust	Australia	100	100
AFG 2013-2 Trust	Australia	100	100
AFG 2014-1 Trust	Australia	100	100
New Zealand Finance Group Ltd	New Zealand	100	100
AFG Home Loans Pty Ltd	Australia	100	100
Venture Lending Pty Ltd	Australia	51	51
Lilydale Pastures Estate Pty Ltd	Australia	-	100
Longford Road Pty Ltd	Australia	-	100
Cambridge WA Pty Ltd	Australia	-	100
AFG Developments Pty Ltd*	Australia	-	-
AFG Developments 2 Pty Ltd*	Australia	-	-
AFG Property Investment No.1 Pty Ltd*	Australia	-	-
AFG Property Pty Ltd*	Australia	-	-

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.

*CHANGE IN THE GROUP COMPOSITION

On 20 December 2014 the Group incorporated Establish Property Group Ltd, a wholly owned subsidiary. During the 2015 financial year the Board recommended a demerger of its property business, which involved the establishment of a sale agreement between the Company and Establish Property Group Ltd pursuant to which the Group 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. On 20 April 2015 an ordinary resolution was passed by the shareholders at a General Meeting to make a pro-rata distribution of all of its shares in Establish Property Group Ltd to the shareholders of the Company and to approve the subsequent share capital reduction from divesting its property development interests to Establish Property Group Ltd. The demerger became effective on 22 April 2015.

ADDITIONAL DISCLOSURES WITH RESPECT TO CONSOLIDATED STRUCTURED ENTITIES

Subscription of Subordinated Notes within the Trust Structures

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

The weighted average loan to value ratio of all loans as at time of settlement was below 70% and as at year end, approximately 81% (2015: 91%) of the loans (in dollar value) have a lenders mortgage insurance policy which have been individually underwritten by a mortgage insurer. With respect to those loans which do not have mortgage insurance, the weighted average loan to value ratio for all of these loans is 53%.

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

In thousands of AUD	**2016**	**2015**
Subordinated notes held in AFG 2010-1 Trust and Series[1]	5,907	5,293
Subordinated notes held in SPE-RMBS trusts following a term transaction:		
◆ AFG 2013-1	1,500	1,500
◆ AFG 2013-2	750	750
◆ AFG 2014-1	500	500

(1) The level of subordination subscribed by the Company will increase or decrease over time depending upon a number of factors including the size of the warehouse as well as the ratings methodology used for these warehouse facilities

Other

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

20] INVESTMENTS IN EQUITY-ACCOUNTED INVESTEES

ASSOCIATES

On 22 April 2015 the Group divested its property development interests to Establish Property Group Ltd, including its investment in Qube (See Note 7). Prior to the demerger of the property business the group had a 35.8% interest in Qube Havelock Street Development Pty Ltd (Qube), an associate involved in the property development and management of real estate. The Group's interest in Qube was accounted for using the equity method in the consolidated Financial Statements.

The Group's share of profit in its equity-accounted investees, discontinued operations, for the year ended 30 June 2015 was $322k. No share of profit in equity-accounted investees was received during the year end 30 June 2016 or is expected going forward.

Summary of financial information for equity-accounted investees, based on their Australian Accounting Standards Financial Statements, is set out below:

2015

In thousands of AUD	**Reporting date**	**Ownership**	**Total assets**	**Total liabilities**	**Income**	**Expenses**	**Profit / (Loss)**	**Group share of net assets**	**Group share of Profit/(loss)**
Qube[1]	30 June	0%	-	-	2,341	1,440	901	-	322

(1) Associate – demerged during 2015

21] PROPERTY, PLANT AND EQUIPMENT

In thousands of AUD	Plant and equipment	Fixtures and fittings	Total
Balance at 1 July 2014	648	2,745	3,393
Acquisitions	109	421	530
Disposals and write-offs	(5)	2	(3)
Depreciation	(432)	(490)	(922)
Balance at 30 June 2015	**320**	**2,678**	**2,998**
Balance at 1 July 2015	320	2,678	2,998
Acquisitions	171	-	171
Disposals and write-offs	(1)	(1)	(2)
Depreciation	(221)	(567)	(788)
Balance at 30 June 2016	**269**	**2,110**	**2,379**

22] INTEREST-BEARING LIABILITIES

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate risk, see Note 30.

In thousands of AUD	2016	2015
Current		
Securitisation warehouse facilities	697,446	506,739
Loans from funders	231	429
Secured bond issues	65,279	90,006
	762,956	597,174
Non-current		
Secured bond issues	309,123	443,458
Loans from funders	136	467
	309,259	443,925
	1,072,215	**1,041,099**

TERMS AND DEBT REPAYMENT SCHEDULE

Terms and conditions of outstanding loans were as follows:

	2016				2015			
In thousands of AUD	Effective interest rate	Year of maturity	Face value	Carrying amount	Effective interest rate	Year of maturity	Face value	Carrying amount
Warehouse facilities	2.94%	2017	697,446	697,446	3.36%	2016	506,760	506,739
Secured bond issues	3.41%	2018-2019	374,586	374,402	3.85%	2018-2019	534,425	533,464
Loans from funders	6.25%	2018-2020	367	367	6.25%	2018-2020	896	896
			1,072,399	**1,072,215**			**1,042,081**	**1,041,099**

[A] WAREHOUSE AND SECURED BOND ISSUES

The carrying amount of the collaterals pledged as security for the warehouse facility and the secured bond issues is $1,937,380k (2015: $1,868,314k).

[i] Warehouse facilities

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

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

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

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

As at the reporting date the unutilised securitisation warehouse facility for all Series is $75,364k (2015: $99,947k). The interest is recognised at an effective rate 2.94% (2015: 3.36%).

The Group has secured an extension to the term of the NAB and ANZ residential warehouse facilities that were due to expire to 10 February 2017 and 14 August 2017 respectively.

Liquidity facility

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

As at the reporting date the unutilised facility is $10,711k (2015: $7,948k).

Additional credit support includes subordinated credit enhancement held by the Company of $5,907k (2015: $5,293k).

[ii] Secured bond issues

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

Under the current Trust terms, a default by the 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 of 3.41% (2015: 3.85%).

Liquidity facility

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

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

Additional credit support includes subordinated credit enhancement held by the Company (unrated Class C Notes) of $2,750k (2015: $2,750k).

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

[B] LOANS FROM FUNDERS

Some of the upfront commissions received from specific funders at the point of loan origination are refunded by the Group via reduced ongoing management fees over a period of 5 years. The Group recognises the upfront commission from these funders as a loan, and interest is charged on this facility by the funders. The principal and interest will be paid back over the 5 year period. Interest is recognised at an effective rate of 6.25% (2015: 6.25%).

[C] SECURED BANK LOANS

The obligations for the debt facilities (secured bank loans) that were obtained to fund the development of the land owned by AFG Developments Pty Ltd and AFG Developments 2 Pty Ltd (Land) were transferred to Establish Property Group Ltd subsequent to the Group's demerger (see Note 7). As part of this demerger the Group also agreed to continue in its role as a guarantor in relation to the debt funding arrangements of Richmond Quarter development project undertaken by AFG Developments Pty Ltd and a former joint venture arrangement. These guarantees were released during the year ended 30 June 2016.

[D] REDEEMABLE PREFERENCE SHARES

During the year ended 30 June 2014 AFG Property Investment No.1 Pty Ltd issued 4,500k fully paid $1 redeemable preference shares (RPS) to sophisticated investors, with 600k RPS acquired by the Parent entity. The funds raised were used to subscribe for redeemable preference shares in Harold Developments Pty Ltd (Developer) to enable it to acquire land and develop it. On 22 April 2015 the Group divested its property development interests to Establish Property Group Ltd (see Note 7), including the RPS issued by AFG Property Investment No.1 Pty Ltd.

During 2015 the interest recognised in the profit or loss amounted to $486k. Accrued interest is payable on redemption of the RPS. No interest was recognised during FY16.

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

[E] OTHER FINANCE FACILITIES

In thousands of AUD	**2016**	**2015**
Standby facility	220	200
Bank guarantee facility	276	1,438
	496	**1,638**
Facilities utilised at reporting date		
Standby facility	-	-
Bank guarantee facility	276	900
	276	**900**
Facilities not utilised at reporting date		
Standby facility	220	200
Bank guarantee facility	-	538
	220	**738**

The facilities are subject to annual review.

23] EMPLOYEE BENEFITS

In thousands of AUD	**2016**	**2015**
Current		
Salaries and wages accrued	1,480	819
Liability for long-service leave	1,199	1,259
Liability for annual leave	1,006	993
	3,685	3,071
Non Current		
Liability for long-service leave	133	60
	133	60
	3,818	**3,131**

24] PROVISIONS

The provisions balance relates primarily to:

- Make good provisions where 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. As at 30 June 2016 the provision is $72k (2015: $42k).
- Provisions for the Group's liability in respect of the excess and the related legal costs on a litigation claim that is being defended vigorously. As at 30 June 2016 the provision is $250k (2015: $250k).

No significant new provisions have been raised in the year.

25] DEFERRED INCOME

In thousands of AUD	2016	2015
Current		
Sponsorship income	2,862	2,798
Lease incentives	794	1,011
Unearned professional indemnity insurance	1,220	1,107
	4,876	**4,916**

26] OPERATING LEASES

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

In thousands of AUD	2016	2015
Less than one year	2,042	2,284
Between one and five years	6,709	6,639
	8,751	**8,923**

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

During the financial year ended 30 June 2016 $1,940k was recognised as an expense in the Consolidated Statement of Profit or Loss and Other Comprehensive Income in respect of operating leases (2015: $2,117k).

27] CAPITAL AND RESERVES

[A] SHARE CAPITAL

The Company	Share Capital ($'000)		Ordinary shares ('000)	
	2016	2015	2016	2015
On issue at 1 July	43,541	11,434	214,812	93,340
Issued for cash or nil consideration	-	1,260	-	500
	43,541	**12,694**	**214,812**	**93,840**
Two for one share split[1]	-	-	-	93,840
Issued for cash[2]	-	32,035	-	27,132
Capital reduction (Demerger)	-	(1,188)	-	-
On issue at 30 June – fully paid	**43,541**	**43,541**	**214,812**	**214,812**

(1) At a general meeting of shareholders held on 24 April 2015 the shareholders approved a two for one share split of all issued capital. Under the terms of the share split, shareholders were entitled to one additional share for every Company share they formerly held, and as such the issued capital of the Company became comprised of 187,680,888 shares.

(2) On 22 May 2015 the Group completed an Initial Public Offer which raised equity capital of $32,558k at a price of $1.20 per share.

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
2016				
1st interim 2016 ordinary	3.00	6,444	100%	29/3/16
		6,444		
2015				
1st interim 2015 ordinary	10.71	10,000	100%	6/10/14
2nd interim 2015 ordinary	10.71	10,000	100%	27/2/15
3rd interim 2015 ordinary	5.33	10,000	100%	4/5/15
Final 2015 ordinary	4.26	8,000	100%	29/5/15
		38,000		

Proposed and unrecognised as a liability:

2016				
Final 2016 ordinary	5.40	11,600	100%	30/9/16
		11,600		

Dividends declared or paid during the year or after 30 June 2016 were franked at the rate of 30%.

In thousands of AUD	2016	2015
Dividend franking account	18,285	13,262
30 per cent franking credits available to shareholders of Australian Finance Group Limited for subsequent financial years	42,664	30,945

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 $60,949k (2015: $44,207k) franking credits.

28] EARNINGS PER SHARE (EPS)

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

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

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

In thousands of AUD	2016	2015
Profit attributable to ordinary equity holders of the Parent: Continuing operations	22,667	15,301
Discontinued operations	-	5,078
Profit attributable to ordinary equity holders of the Parent	**22,667**	**20,379**
Weighted average number of ordinary shares for basic EPS (thousands)[1]	**214,813**	**189,901**
Effect of dilution:		
Performance rights	-	342
Weighted average number of ordinary shares adjusted for the effect of dilution	**214,813**	**190,243**

(1) There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these Financial Statements.

At a general meeting of shareholders held on 24 April 2015, shareholders approved a two for one share split of all issued capital. Under the terms of the share split, shareholders received an additional share for every Company share they formerly held, and as such the issued capital of the Company post 24 April 2015 became comprised of 187,681k shares.

To calculate the EPS amounts for discontinued operations, the weighted average number of ordinary shares for both basic and diluted EPS is as per the table above. The following table provides the profit / (loss) amount used:

In thousands of AUD	2016	2015
Profit attributable to ordinary equity holders of the Company from discontinued operations for basic and diluted EPS calculations	-	5,078

29] SHARE BASED PAYMENTS

[A] PRE IPO SHARE ISSUE

Prior to the listing of the Company on the ASX, a one off Key Executive pre-offer share issue of 500,000 shares in recognition of the contribution of certain key Executives was awarded. The Group ascertained fair value of $2.52 (pre share split) per share by reference to the midpoint of the price range disclosed in the Prospectus.

In 2016 there was nil employee expenses relating to the fair value of shares issued under the key Executive pre-IPO offer plan (2015: $1,260k).

No shares were bought back during the financial year from ex-employees, as allowed under the terms of the Scheme (2015: Nil).

[B] EXECUTIVE RIGHTS PLAN (LONG-TERM INCENTIVE PLAN)

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

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

The rights lapse if the performance and service criteria are not met. The rights granted under this plan in FY15 were subject to instalment vesting over a three year period. The first instalment of rights is subject to an absolute total shareholder return (TSR) performance hurdle in addition to continuous service vesting conditions. The second and third instalments are not subject to performance hurdle, but lapsed as the TSR performance hurdle was not satisfied in relation to the first instalment of the rights. The Board has the full discretion to determine whether some or all of the rights vest or lapse or whether unvested rights remain subject to vesting conditions in the event of a change of control.

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

Upon vesting the Company must issue the number of shares or, at the board's discretion, settle the entitlement in cash.

In the case of a bona fide termination payment of any pro-rata entitlement will take into account the period of service as at termination date. Bona fide termination includes death, redundancy, corporate restructure, resignation with an appropriate notice provided and disability. Rights that remain unvested will lapse immediately after the end of the relevant vesting period

In the event that the employment of an Executive ceases due to a breach of obligations to the Group, serious misconduct, redundancy, poor performance, fraudulent act and dishonest act, the executive will not be entitled to any pro-rata right. In all other circumstances pro-rata LTIP payment will be made taking into account the period of service as at termination date.

In 2016 $88k in employee expenses being the fair value of performance rights that vested during the financial year (2015: $9k).

The assessed fair value at grant date of the rights was determined using the final price set out in the prospectus for the initial public offering of shares in the Company that was lodged with the Australian Securities and Investments Commission on 4 May 2015.

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

Offer Date	Vesting date	Balance at start of the year	Granted during the year	Vested during the year	Expired during the year	Forfeited during the year	Balance at end of the year
22/05/2015	30/06/2016	103,333	-	-	-	(103,333)	-
22/05/2015	30/06/2017	103,333	-	-	-	(103,333)	-
22/05/2015	30/06/2018	103,333	-	-	-	(103,333)	-

30] FINANCIAL INSTRUMENTS

[A] CREDIT RISK

Exposure to credit risk

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

[i] Trade and other receivables

Exposure to credit risk

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

	Carrying amount	
In thousands of AUD	2016	2015
Type of customer		
Financial institutions	646,346	590,862
Members	72	100
Other	34	4

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 $646,179k (2015: $589,853k).

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

	Current	Non Current	Current	Non Current
In thousands of AUD	2016	2016	2015	2015
Standard & Poor's Credit rating				
AA+	15	60	17	70
AA-	99,345	385,692	78,603	316,512
A+	1,525	5,922	1,392	5,606
A	7,068	27,440	11,898	47,910
A-	1,828	7,096	5,951	23,965
BBB+	92	359	105	422
BBB	656	2,549	537	2,163
BBB-	600	2,328	402	1,616
Not rated	21,221	82,383	18,438	74,246
	132,350	**513,829**	**117,343**	**472,510**

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	Impairment allowance	Gross	Impairment allowance
In thousands of AUD	**2016**	**2016**	**2015**	**2015**
Not past due	251	-	435	-
Past due 0-30 days	114	(2)	74	-
Past due 30-60 days	2	(2)	20	(1)
Past due more than 61 days	2	(2)	586	(1)
	369	**(6)**	**1,115**	**(2)**

During the year ended 30 June 2016 the Group has not renegotiated or entered into any agreement to renegotiate a trade receivable that would otherwise be past due or impaired.

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

During 2016 and 2015 there were no individual impairment allowances raised.

[ii] Loans and advances

Exposure to credit risk

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

	Carrying amount	
In thousands of AUD	**2016**	**2015**
Customer type		
Residential mortgage borrowers	1,043,280	1,022,762
Members	3,132	2,396
Other	-	186
	1,046,412	**1,025,344**

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 $1,937,380k (2015: $1,868,314k). During the year ended 30 June 2016 the Group has taken possession of two residential properties that were held as security for loans issued by the Group. The carrying amount of the repossessed residential property was $340k (2015: $1,138k). One property has been sold before the end of the financial year, with the shortfall repaid by our lender's mortgage insurance.

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

30] FINANCIAL INSTRUMENTS (CONTINUED)

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

	Carrying amount	
In thousands of AUD	**2016**	**2015**
Loan to value ratio		
Greater than 95%	1,823	-
Between 90%-95%	71,026	57,430
Between 80%-90%	185,624	171,881
Less than 80%	785,005	790,983
	1,043,478	**1,020,294**

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

Impairment Losses

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

	Gross	Impairment allowance	Gross	Impairment allowance
In thousands of AUD	**2016**	**2016**	**2015**	**2015**
Not past due	1,042,557	-	1,023,783	-
Past due 31-120 days	3,143	-	1,087	-
Past due 121 days to one year	712	-	322	-
Past due more than one year	198	(198)	185	(33)
	1,046,610	**(198)**	**1,025,377**	**(33)**

The impairment loss provision as at 30 June 2016 of $198k (2015: $33k) is a specific provision for loans that are past due.

Securitisation loans

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

The SPE-RMBS 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 under SPE-RMBS with an LVR exceeding 80% are insured by a lender's mortgage insurance contract which covers 100% of the principal. Approximately 81% (2015 91%) of the loans (in dollar value) are insured by a lender's mortgage insurance contract.

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

No impairment loss was recognised during 2016 (2015: NIL).

Redeemable preference shares

On 22 April 2015 the Group divested its property development interests to Establish Property Group Ltd, including its redeemable preference shares (see Note 7).

No impairment loss was recognised during 2016 (2015: NIL).

Other secured loans

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

No impairment loss was recognised during 2016 (2015: NIL).

[B] LIQUIDITY RISK

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Board of Directors reviews the rolling cash flow forecast on a monthly basis to ensure that the level of its cash and cash equivalents is at an amount in excess of expected cash outflows over the proceeding months. Excess funds are generally invested in at call bank accounts with maturities of less than 90 days. Within the special purpose entities the Group also maintains sufficient cash reserves to fund redraws and additional advances on existing loans. As stated in Note 22, the Group has unused warehouse facilities at the reporting date.

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

2016							
In thousands of AUD	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Securitisation warehouse facilities	697,446	707,698	579,833	127,865	-	-	-
Secured bond issues	374,402	392,392	33,180	33,180	131,052	194,980	-
Loans from funders	368	386	137	104	108	37	-
Net present value of future trailing commissions payable	587,093	726,255	82,251	75,450	131,517	268,594	168,443
Trade and other payables	59,020	59,020	59,020	-	-	-	-
	1,718,329	**1,885,751**	**754,421**	**236,599**	**262,677**	**463,611**	**168,443**

2015							
Securitisation warehouse facilities	506,739	515,281	424,011	91,270	-	-	-
Secured bond issues	533,464	553,233	46,264	46,264	78,342	382,363	-
Loans from funders	896	949	238	204	314	193	-
Net present value of future trailing commissions payable	530,945	676,853	74,800	69,381	121,402	249,841	161,429
Trade and other payables	49,396	49,396	49,396	-	-	-	-
	1,621,440	**1,795,712**	**594,709**	**207,119**	**200,058**	**632,397**	**161,429**

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

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

Securitisation warehouse facilities

The warehouse facilities are short term funding facilities that are generally renewable bi-annually or annually. If the warehouse facility is not renewed or should there be a default by the trustee under the existing terms and conditions, the warehouse facility funder will not have a right of recourse against the remainder of the Group. Should the warehouse facility not be renewed then the maximum exposure to the group would be the loss of future income streams from excess spread, being the difference between the Group's mortgage rate and the underlying cost of funds.

On 4 August 2016, the Group secured an extension to the term of the NAB residential warehouse facility that was due to expire on 10 August 2016. The funding continues to be provided through the issue of three classes of secured, limited and floating rate notes, with the senior notes being issued to the lender and the subordination notes to Australian Finance Group Limited. The maturity date has been reset to 10 February 2017.

On 11 August 2016, the Group secured an extension to the term of the ANZ residential warehouse facility that was due to expire on 15 August 2016. The funding continues to be provided through the issue of three classes of secured, limited and floating rate notes, with the senior notes being issued to the lender and the subordination notes to Australian Finance Group Limited. The maturity date has been reset to 14 August 2017.

30] FINANCIAL INSTRUMENTS (CONTINUED)

Secured bond issues

The securities are issued by the SPE-RMBS with an expected weighted average life of 4 to 5 years. They are pass through securities that may be repaid early (at the call date) by the issuer (the Group) in certain circumstances. The above maturity assumes that the securities will be paid at 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 Note 17.

[C] MARKET RISK

[i] Currency risk

Exposure to currency risk

As at reporting date the Group held cash assets denominated in NZD, USD and Euro.

Fluctuations in foreign currencies are not expected to have material impact on the Consolidated Statement of Profit or Loss and Other Comprehensive Income and equity of the Group and have therefore not formed part of the disclosures.

[ii] Interest rate risk

Profile

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

	Carrying amount	
In thousands of AUD	**2016**	**2015**
Fixed rate instruments		
Financial assets	646,179	589,853
Financial liabilities	587,093	530,945
	59,086	**58,908**
Variable rate instruments		
Financial assets	1,177,077	1,116,119
Financial liabilities	1,072,215	1,041,099
	104,862	**75,020**

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

Cash flow sensitivity analysis for variable rate instruments

Due to the market conditions existing at 30 June 2016, 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 2015.

	After tax profit		Equity	
Effect in thousands of AUD	**100bp increase**	**100bp decrease**	**100bp increase**	**100bp decrease**
30 June 2016				
Variable rate financial assets	8,226	(8,226)	8,226	(8,226)
Variable rate financial liabilities	4,885	(4,885)	4,885	(4,885)
Cash flow sensitivity (net)	**3,342**	**(3,342)**	**3,342**	**(3,342)**
30 June 2015				
Variable rate financial assets	7,741	(7,741)	7,741	(7,741)
Variable rate financial liabilities	2,882	(2,895)	2,882	(2,895)
Cash flow sensitivity (net)	**4,859**	**(4,846)**	**4,859**	**(4,846)**

[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 30 (d) for more details.

Sensitivity analysis

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

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

In thousands of AUD	2016		2015	
	+5%	-5%	+5%	-5%
After tax profit	(2,072)	2,192	(1,605)	1,685

Securitised assets

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

[iv] Equity price risk

Exposure to equity price risk

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

During 2016 a $1k profit in the fair value of financial assets designated at fair value through profit or loss was recognised in the profit or loss (2015: nil).

[v] Other market risks

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

30] FINANCIAL INSTRUMENTS (CONTINUED)

[D] ACCOUNTING CLASSIFICATIONS AND FAIR VALUES

Fair value hierarchy

The different levels have been defined as follows:

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

Fair value of financial assets and liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and liabilities are measured at fair value at the end of each reporting period.

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
In thousands of AUD	30 June 2016	30 June 2015		
Financial assets designated at fair value through profit or loss and available-for-sale financial assets	$49	$49	Level 1	Quoted bid prices in an active market

No change in fair value hierarchy levels in 2016.

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

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

Trailing commissions are received 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 and the Group also makes trailing commission payments to members when trailing commission is received from lenders.

	30 June 2016		30 June 2015	
In thousands of AUD	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Future Trailing commission receivables	646,179	688,898	589,853	646,341
Financial liabilities				
Future Trailing commission payables	587,093	624,857	530,945	580,889

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 the management, by reference to market observable inputs. The valuation is classified as level 2 in the fair value measurement hierarchy.

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

	30 June 2016	30 June 2015
Average loan life	Between 4.3 and 5.2 years	Between 4.4 and 5.3 years
Discount rate per annum[1]	Between 5% and 13.5%	Between 5% and 13.5%
Percentage paid to members[2]	Between 85% and 93%	Between 85% and 91%

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

(2) The percentage paid to 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.

31] PARENT ENTITY

Throughout the financial year ending 30 June 2016, the parent Company of the Group was Australian Finance Group Limited.

In thousands of AUD	2016	2015
Results of the parent entity		
Profit for the period	17,266	17,804
Other comprehensive income	2	(15)
Total comprehensive income for the period	**17,268**	**17,789**

In thousands of AUD	2016	2015
Financial position of parent entity at year end		
Current assets	223,077	186,878
Total assets	**750,402**	**672,344**
Current liabilities	186,288	160,843
Total liabilities	**667,070**	**599,922**
Total equity of the parent entity comprising of:		
Share capital	43,542	43,542
Reserves	8	(80)
Retained earnings	39,782	28,960
Total equity	**83,332**	**72,422**

See Notes 32 and 33 for the parent entity capital and other commitments, and contingencies.

Refer to Note 22 (c) for the parent entity's guarantees.

As at reporting date the credit support facility provided by the parent entity under the securitisation programme is $8,861k (2015: $8,043k).

32] CAPITAL AND OTHER COMMITMENTS

There are no capital commitments as at the reporting date.

33] CONTINGENCIES

THIRD PARTY GUARANTEES

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

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.

34] RELATED PARTIES

[A] OTHER RELATED PARTIES

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

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

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

[i] During the year the Group made payments to Genworth Mortgage Insurance Australia Limited, one of our providers of Lenders Mortgage Insurance (LMI). Mr T Gill is a Non-Executive Director of Genworth Mortgage Insurance Australia Limited. These dealings were in the ordinary course of business and were on normal terms and conditions. The payments made for the provision of LMI policies were $1,044k (2015:$ 1,538k). These payments are not considered to be material to the financial results of the Group and therefore do not impact on Mr T Gill's independence as a Director.

[ii] Mr T Gill is an Independent Director of First Mortgage Services (FMS), one of our providers of loan settlement services. During the year the Group made payments to FMS. These dealings were in the ordinary course of business and were on normal terms and conditions. The payments made for the provision of the settlement services were $207k (2015: $192k). These payments are not considered to be material to the financial results of the Group and therefore do not impact on Mr T Gill's independence as a Director.

[iii] During the year the Group received payments from TAL Life Ltd. Mr J Minto is a Director of Dai-ichi Life Asia Pacific which is the ultimate parent company of TAL Life Limited. 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 $724k (2015: $747k). The payments received are not considered to be material to the financial results of the Group and therefore do not impact on Mr J Minto's independence as a Director.

[iv] As part of the demerger of the property business on 22 April, the Group entered into a shared services agreement with Establish Property Group Ltd (EPG). Mr B McKeon, Ms L Bevan and Mr D Bailey, are Directors of EPG. Under the terms of the shared services agreement the Group provides premises, administration, accounting and some company secretarial services to EPG at an agreed arms length rate. The shared services agreement was implemented part way through the prior period (2015: $39k). The agreement was active for the full 2016 financial year and a total of $170k was paid by EPG to the Group for these services. In addition to the above, the Group's head office is located at 100 Havelock Street West Perth. The Group leases these premises at commercial arms length rates from an investee of EPG, Qube Havelock Street Development Pty Ltd (Qube), that was held by the Group prior to the demerger transaction, see Note 7. During the 2016 financial year rent of $1,539k has been paid to Qube (2015: $1,633k).

[B] SUBSIDIARIES

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

35] SUBSEQUENT EVENTS

On 4 August 2016, the Group secured an extension to the term of the NAB residential warehouse facility that was due to expire on 10 August 2016. The funding continues to be provided through the issue of three classes of secured, limited and floating rate notes, with the senior notes being issued to the lender and the subordination notes to Australia Finance Group Limited. The maturity date has been reset to 10 February 2017.

On 11 August 2016, the Group secured an extension to the term of the ANZ residential warehouse facility that was due to expire on 15 August 2016. The funding continues to be provided through the issue of three classes of secured, limited and floating rate notes, with the senior notes being issued to the lender and the subordination notes to Australia Finance Group Limited. The maturity date has been reset to 14 August 2017.

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

DIRECTORS' DECLARATION

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

In the opinion of the Directors:

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

[i] Giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date

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

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

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

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

On behalf of the board

Tony Gill

Chairman

Dated at Perth, Western Australia on 22 September 2016

AUDIT REPORT

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Brookfield Place, Tower 2
123 St Georges Terrace
Perth WA 6000
GPO Box A46
Perth WA 6837 Australia

Tel: +61 8 9365 7000
Fax: +61 8 9365 7001
www.deloitte.com.au

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

Report on the Financial Report

We have audited the accompanying financial report of Australian Finance Group Ltd, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year ended on that date, 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 as set out on pages 34 to 81.

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 control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated 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 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 judgement, 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 control, relevant to the company's preparation of the financial report that gives a true and fair view, 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 company's internal control. 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.

Deloitte.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Australian Finance Group Ltd, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

(a) the financial report of Australian Finance Group Ltd 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 2016 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 consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 2.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 18 to 32 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of Australian Finance Group Ltd for the year ended 30 June 2016, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Leanne Karamfiles
Partner
Chartered Accountants
Perth, 22 September 2016

SHAREHOLDER INFORMATION

Additional information required by the Australian Stock Exchange Ltd (ASX) and not disclosed elsewhere in this report is set out below. The information is current as at 31 August 2016.

[A] NUMBER OF HOLDERS OF EQUITY SECURITIES

Ordinary share capital

214,812,671 fully paid ordinary shares are held by 944 individual shareholders

All issued ordinary shares carry one vote per share.

[B] DISTRIBUTION OF HOLDERS OF EQUITY SECURITIES

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

Range	Securities	%	No. of holders	%
100,001 and Over	200,676,675	93.42	52	5.51
10,001 to 100,000	11,581,050	5.39	409	43.33
5,001 to 10,000	1,868,465	0.87	228	24.15
1,001 to 5,000	664,016	0.31	206	21.82
1 to 1,000	22,465	0.01	49	5.19
Total	**214,812,671**	**100.00**	**944**	**100.00**
Unmarketable Parcels*	433	0.00	20	2.15

*An unmarketable parcel is considered to be a shareholding of 1,599 shares or less, being a value of $500 or less in total, based on the Company's last sale price on the ASX at 31 August 2016 of $1.20.

[C] SUBSTANTIAL SHAREHOLDERS

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

	# Shares	% of issues capital
Australian Finance Group Ltd*	105,099,961	48.90%
MBM Investments ATF The Brett McKeon Family Trust	21,179,773	9.86%
MSW Investments ATF The Malcolm Stephen Watkins Family Trust	21,102,689	9.82%
FIL Limited	19,468,411	9.06%
Oceancity Investments ATF The Matthews Family Trust	16,882,151	7.86%
Commonwealth Bank of Australia and its related bodies corporate	16,318,804	7.59%
Banyard Holdings Pty Ltd ATF The B&K McGougan Trust	14,788,765	6.88%
Macquarie Group Limited	11,835,646	5.50%

*Restriction on disposal of shares under voluntary escrow arrangements disclosed in Australian Finance Group Ltd's prospectus dated 4 May 2015 gives Australian Finance Group Ltd a technical "relevant interest" in its own shares under section 608(1)(C) of the *Corporations Act 2001 (Cth)*. However, Australian Finance Group Ltd has no right to acquire or to control the voting rights attaching to these shares.

This information is based on the most recent substantial holder notices lodged with ASX.

[D] TWENTY LARGEST HOLDERS OF QUOTED EQUITY SECURITIES

Top holders		# Shares	% of issued capital
MBM INVESTMENTS PTY LTD	THE BRETT MCKEON FAMILY	21,179,773	9.86
MSW INVESTMENTS PTY LTD	MALCOLM STEPHEN WATKINS	21,102,689	9.82
CITICORP NOMINEES PTY LIMITED		20,608,250	9.59
J P MORGAN NOMINEES AUSTRALIA LIMITED		19,981,126	9.30
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED		17,588,027	8.19
OCEANCITY INVESTMENTS PTY LTD	THE MATTHEWS FAMILY	16,882,151	7.86
NATIONAL NOMINEES LIMITED		15,153,931	7.05
BANYARD HOLDINGS PTY LTD	B & K MCGOUGAN	14,788,765	6.88
MACQUARIE BANK LIMITED		11,184,907	5.21
MRS KAREN JANE MCGOUGAN	B&K MCGOUGAN NO 2	5,469,816	2.55
UBS NOMINEES PTY LTD		5,305,192	2.47
TAL DISTRIBUTION HOLDINGS LIMITED		4,577,180	2.13
ALLIANZ AUSTRALIA INSURANCE LTD		4,577,180	2.13
BNP PARIBAS NOMS PTY LTD	<DRP>	2,633,522	1.23
ASSURED FINANCIAL SERVICES PTY LTD		2,000,000	0.93
GILLFAMILY PTY LTD	GILLFAMILY SUPER FUND	1,950,000	0.91
LISA BEVAN		1,450,000	0.68
ANGELA MIDDLETON		1,200,250	0.56
ZERO NOMINEES PTY LTD		1,197,914	0.56
ADRIEN MANN (SOUTH PACIFIC) PTY LTD		1,110,000	0.52
EDI NOMINEES PTY LTD	THE BUFFALO CREEK SUPER	1,087,500	0.51

[E] ESCROWED SHARES

Shareholder		# Shares
MBM INVESTMENTS PTY LTD	<THE BRETT MCKEON FAMILY A/C>	21,179,773
MSW INVESTMENTS PTY LTD	<MALCOLM STEPHEN WATKINS A/C>	21,102,689
OCEANCITY INVESTMENTS PTY LTD	<THE MATTHEWS FAMILY A/C>	16,882,151
BANYARD HOLDINGS PTY LTD	<B&K MCGOUGAN TRUST>	14,788,765
MACQUARIE BANK LIMITED		11,184,907
MRS KAREN JANE MCGOUGAN	<B&K MCGOUGAN NO 2 A/C>	5,469,816
ALLIANZ AUSTRALIA INSURANCE LTD		4,577,180
TAL DISTRIBUTION HOLDINGS LIMITED		4,577,180
ASSURED FINANCIAL SERVICES PTY LTD		2,000,000
GILLFAMILY PTY LTD	<GILLFAMILY SUPER FUND A/C>	1,950,000
EDI NOMINEES PTY LTD	<BUFFALO CREEK SUPER FUND A/C>	1,087,500
ANTHONY PETER GILL		300,000
TOTAL		**105,099,961**

Escrowed shares are subject to voluntary escrow arrangements which prevented the escrowed shareholders from disposing of their escrowed shares until after the release of these 2016 financial year audited full year results.

Company secretary

Ms L. Bevan

Registered Office

Level 4, 100 Havelock Street, West Perth WA 6005

Share Registry

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

CORPORATE DIRECTORY

DIRECTORS

ANTHONY (TONY) GILL
(Non-executive Chairman)

BRETT MCKEON
(Managing Director and Chief Executive Officer)

MALCOLM WATKINS
(Executive Director)

KEVIN MATTHEWS
(Non-executive Director)

CRAIG CARTER
(Non-executive Director)

JAMES (JIM) MINTO
(Non-executive Director)

MELANIE KIELY
(Non-executive Director)

JANE MUIRSMITH
(Non-executive Director)

COMPANY SECRETARY

LISA BEVAN
(Company Secretary)

NOTICE OF AGM

The annual general meeting of Australian Finance Group Limited will be held on Thursday, 24 November 2016 at 2.00pm at Level 4, 100 Havelock Street, West Perth WA 6005.

CORPORATE OFFICE

AUSTRALIAN FINANCE GROUP LIMITED
Level 4
100 Havelock Street
West Perth WA 6005

POSTAL ADDRESS
PO Box 710
West Perth WA 6872

PHONE
08 9420 7888

EMAIL
investors@afgonline.com.au

WEBSITE
www.afgonline.com.au

SHARE REGISTRY

LINK MARKET SERVICES
Level 12
680 George Street
Sydney NSW 2000

POSTAL ADDRESS
Locked Bag A14
Sydney South NSW 1235

PHONE
1300 554 474

EMAIL
registrars@linkmarketservices.com.au

STOCK LISTING

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

This page has been left blank intentionally.

This page has been left blank intentionally.

WWW.
AFGONLINE.
COM.AU

Level 4, 100 Havelock Street
West Perth WA 6005
T 08 9420 7888
F 08 9420 7858