

# CORPORATE GOVERNANCE STATEMENT

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*The board of directors (“Board”) is committed to ensuring that Australian Finance Group Ltd (“AFG” or “the Company”) is properly managed to protect and enhance shareholder interests, and that the Company, its directors, officers and employees operate in an appropriate environment of corporate governance.*

Accordingly, the Board has created a framework for managing AFG, including adopting relevant internal controls, risk management processes and corporate governance policies and practices which it believes are appropriate for AFG’s business and which are designed to promote the responsible management and conduct of the Company.

The Company listed on the Australian Securities Exchange (“ASX”) on 22 May 2015. In establishing its corporate governance framework, the Board has referred to the 3rd edition of the ASX Corporate Governance Council’s Corporate Governance Principles & Recommendations. A statement of the corporate governance policies adopted by AFG are outlined below.

A copy of this statement and details of AFG’s key policies and practices and the charters for the Board and each of its committees are available at [www.afgonline.com.au](http://www.afgonline.com.au).

## PRINCIPLE 1 LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

### The Board's roles and responsibilities

The Company has established a Board Charter which provides a framework for the effective operation of the Board. The Board Charter sets out:

- the Board's composition and process;
- the Board's roles and responsibilities;
- the relationship and interaction between the Board and management;
- the authority delegated by the Board to management and Board Committees.

The Board's role is to:

- represent and serve the interests of shareholders by overseeing and appraising AFG's strategies, policies and performance;
- review and oversee the performance of the Managing Director and the Executive Team;
- protect and optimise AFG's performance and build sustainable value for shareholders in accordance with any duties and obligations imposed on the Board by law and AFG's Constitution and within a framework of prudent and effective controls that enable risk to be assessed and managed;
- set, review and monitor compliance with AFG's values and governance framework (including establishing and observing high ethical standards); and
- keep shareholders informed of AFG's performance and major developments affecting its state of affairs.

Matters which are specifically reserved for the Board or its committees include:

- appointment of a Chair;
- appointment and removal of the Managing Director;
- appointment and removal of any direct report of the Managing Director is a matter for recommendation by the Managing Director. Approval shall not be withheld by the Board unless significant concerns have been raised with the Managing Director
- appointment of directors to fill a vacancy or as an additional director;
- establishment of Board committees, their membership and delegated authorities;
- approval of dividends and dividend policy;
- approval of major capital expenditure, acquisitions and divestments in excess of authority levels delegated to management;
- calling meetings of shareholders;
- succession planning for the Managing Director and other executives; and
- any other specific matters nominated by the Board from time to time.

The Board collectively, and each director individually, has the right to seek independent professional advice, subject to the approval of the Chair.

### Management's roles and responsibilities

The management function is conducted by, or under the supervision of, the Managing Director as directed by the Board (and by other officers to whom the management function is properly delegated by the Managing Director). Management must supply the Board with information in a form, timeframe and quality that will enable the Board to discharge its duties effectively. Directors are entitled to request additional information at any time they consider it appropriate.

### Information about Directors to Security Holders

The Company undertakes appropriate checks into the character, experience, criminal record and bankruptcy history of all directors. The Company will provide shareholders with sufficient information in the general meeting notices, including the notice of Annual General Meeting, about any director standing for election or re-election at the meeting to enable them to make an informed decision on whether to elect or re-elect the candidate.

### Director and senior executive arrangements

Each of the directors and senior executive has a written agreement with the Company setting out the terms of their appointment.

### Company Secretary

The Company Secretary is accountable to the Board. The Company Secretary is responsible for proper functioning of the Board business, including agendas, board papers, minutes, communication with regulatory bodies and ASX, and all statutory and other filings. All directors have direct access to the Company Secretary.

### Diversity Policy

The Company values a strong and diverse workforce and is committed to developing and applying measurable objectives of diversity and inclusion in its workplace. The Board has adopted a Diversity and Inclusion Policy which addresses the representation of women in senior management positions and on the Board, and aims to facilitate a more diverse and representative management and leadership structure.

AFG's Diversity and Inclusion Policy provides a framework for the Company to achieve a workplace culture characterised by inclusive practices and behaviors and improved employment and career development opportunities for women and employees with diverse backgrounds, experiences and perspectives.

The Board determines specific measurable objectives for facilitating diversity annually, whilst assessing progress towards these objectives on a regular basis throughout the year.

In our first year post listing our diversity objectives and initiatives focused on improving the representation of women in senior management positions and on the Board.

In accordance with the *Workplace Gender Equality Act 2012*, AFG makes public its annual filings with the Workplace Gender Equality Agency (WGEA) and publishes its "Gender Equality Indicators". Interested parties can access the latest AFG filings at <http://www.afgonline.com.au/wp-content/uploads/2016/07/Workplace-Gender-Equality-Report-2015-16.pdf>

A summary of the measurable objectives set out in the Diversity and Inclusion Policy for the year and the Company's progress towards achieving these are set out below:

Measurable Objective	Status at 30 June 2016
<ul style="list-style-type: none"> <li>Establishment of an AFG Diversity and Inclusion Committee responsible for the implementation and monitoring of diversity initiatives and practices.</li> </ul>	<ul style="list-style-type: none"> <li>The AFG Diversity and Inclusion Committee was established in October 2015 to:               <ul style="list-style-type: none"> <li>support the implementation of the Company's Diversity and Inclusion Policy; and</li> <li>develop initiatives and practices that encourage diversity in all areas of the business.</li> </ul> </li> <li>Committee members were nominated to reflect gender, age, ethnicity, flexibility, cultural background and sexual orientation within the AFG workforce.</li> </ul>
<ul style="list-style-type: none"> <li>Achieve or maintain a fair and balanced level of gender representation in the overall AFG workforce having regard to the industry (as measured in benchmarking reports provided by the Workplace Gender Equality Agency).</li> </ul>	<ul style="list-style-type: none"> <li>The Company has received a notice of compliance from the Workplace Gender Equality Agency for the period from 1 April 2015 to 31 March 2016 confirming that it is in compliance with the <i>Workplace Gender Equality Act 2012</i>.</li> <li>The Company continues to reflect significant gender equality with the percentage of women in the overall AFG workforce at 51%.</li> </ul>
<ul style="list-style-type: none"> <li>Achieve or maintain a fair and balanced level of gender representation in senior leadership roles within AFG having regard to the industry (as measured in benchmarking reports provided by the Workplace Gender Equality Agency).</li> </ul>	<ul style="list-style-type: none"> <li>A balanced gender representation for senior leadership roles was achieved with women holding 25% of KMP positions and 45% of Senior Management positions, with both results higher than the Financial Industry average as provided by the WGEA and an improvement on our 2015 results.</li> </ul>
<ul style="list-style-type: none"> <li>Subject to vacancies, skill requirements, and other circumstances, consider female representation on the Board.</li> </ul>	<ul style="list-style-type: none"> <li>Two female non-executive directors were appointed to the Board in March 2016.</li> </ul>
<ul style="list-style-type: none"> <li>Ensure diverse candidate pools (including female candidates) when compiling shortlists for recruitment, with at least one woman included for consideration for senior leadership appointments.</li> </ul>	<ul style="list-style-type: none"> <li>While recruitment shortlists within AFG are decided based on applicant's skills and suitability for the position the Company has, wherever possible, included a diverse range of candidates, including women.</li> <li>Female candidates were shortlisted and interviewed for two vacant senior leadership positions throughout the year.</li> </ul>

## PRINCIPLE 1 LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT (CONT...)

The table below shows the proportion of women in the whole organisation, women in senior management positions, women in key senior executive positions and women on the Board. The Company defines "senior executives" as executive directors and their direct reports. To provide an accurate reflection of the proportion of women across the whole organisation, the Company has opted to include contractors and part-time employees in the percentages below, which show the proportion of women in the organisation as 31st August 2016.

Position	Total	Number of Women	% of Women in Positions
Board	8	2	25%
Senior Executives	7	2	29%
Senior Managers	11	5	45%
Total workforce (including directors)	196	101	52%

The Remuneration and Nomination Committee has the following responsibilities in relation to the Diversity and Inclusion Policy:

- on an annual basis, reviewing the effectiveness of the Diversity and Inclusion Policy by assessing AFG's progress towards the achievement of the measurable objectives and any strategies aimed at achieving the objectives; and reporting to the Board recommending any changes to the measurable objectives, strategies or the way in which they are implemented; and
- in accordance with the Diversity and Inclusion Policy, on an annual basis, reviewing the relative proportion of women and men on the Board, in senior management positions and in the workforce at all levels of the Company, and submit a report to the Board, which outlines the Committee's findings, or if applicable, provide the Board with AFG's most recent indicators as required by the *Workplace Gender Equality Act 2012*.

### Board evaluation

The process for evaluating the performance of the Board, its committees and individual directors is set out in the Board Charter as follows:

- On an annual basis, directors will provide written feedback in relation to the performance of the Board and its committees against an agreed set of criteria.
- Each committee of the Board will also be required to provide feedback in terms of a review of its own performance.
- Feedback will be collected by the Board Chair, or an external facilitator, and discussed by the Board with consideration being given as to whether any steps should be taken to improve performance of the Board or its committees.
- The Managing Director will also provide feedback from senior management in connection with any issues that may be relevant in the context of the Board performance review.
- Where appropriate to facilitate the review process, assistance may be obtained from third party advisers.

Performance evaluations were undertaken in the financial year ended 30 June 2016 in accordance with the process described.

### Evaluation of senior executives

The Managing Director annually reviews the performance of all senior executives. He conducts this performance review by meeting individually with each senior executive in May each year to review performance against the senior executive's responsibilities as outlined in his or her contract with the Company and against key performance indicators (KPI's) set by the Managing Director or the Board.

The Remuneration and Nomination Committee reviews the senior management performance assessment processes and results as they reflect the capability of management to realise the business strategy.

Performance evaluations were undertaken in the financial year ended 30 June 2016 in accordance with the process described.

## PRINCIPLE 2 STRUCTURE THE BOARD TO ADD VALUE

### Board membership and independence

At the end of the reporting period AFG's Board comprised eight members, including two executive directors and six non-executive directors (five of whom are considered independent, including the Chair). Detailed biographies of the directors are provided in the Directors' Report forming part of the 2016 Annual Financial Statements.

The Board considers directors to be independent where they are not members of management (a non-executive director) and are free of any business or other relationship that could materially interfere with, or could reasonably be perceived to interfere with, the exercise of their unfettered and independent judgment. The Board will have regard to quantitative and qualitative principles of materiality for the purpose of determining "independence" on a case-by-case basis. The Board regularly reviews the independence of each director in light of information disclosed by that director to the Board.

The Board considers that each of Tony Gill, Jim Minto, Craig Carter, Melanie Kiely and Jane Muirsmith is free from any business or any other relationship that could materially interfere with, or reasonably be perceived to interfere with the independent exercise of their judgment; and is able to fulfil the role of an independent director for the purposes of the ASX Recommendations.

Brett McKeon, Malcolm Watkins and Kevin Matthews are currently considered by the Board not to be independent because:

- Brett McKeon is the Managing Director of AFG;
- Malcolm Watkins is an executive director of AFG; and
- Kevin Matthews has been an executive director of AFG in the previous 2 years. Kevin ceased to be an executive director and became a non-executive director of AFG shortly prior to the Company's listing on the ASX. The Board considers that Kevin adds significant value to Board deliberations with his considerable industry experience.

## Skills matrix

The Board has established a skill matrix. On a collective basis the Board has the following skills:

Skill Area	Description	Number of Directors with Skills in Area
Strategy	Ability to identify and critically assess strategic opportunities and threats and develop effective strategies in context to our business objectives.	8
Financial Performance	Qualifications and/or experience in accounting and finance to analyse key financial statements, assess financial viability, contribute to financial planning, approving budgets, the efficient use of capital and funding arrangements.	8
Technology	Knowledge and experience in the strategic and innovative use of technology to deliver high quality, resilient and agile technological solutions to the business and maximise the return on investment in our technology platform. Be cognisant of technology trends and its impact on the Company's business.	7
Risk & Compliance	Identify risks related to each key area of operations. The ability to monitor risk and ensure appropriate legal and regulatory compliance frameworks and systems are in place.	8
Executive Management	Experience in evaluating performance of senior management and oversee strategic human resource management and organisational change.	8
Stakeholder Management	Experience in identifying, establishing relationships and support, monitoring and influencing both internal and external stakeholders in the business.	8
Equity Markets Exposure	Experience in working in or raising funds from the equity or capital markets and investor liaison.	7
ASX Listed Environment	Experience in working as a director on other listed companies boards and committees and familiarity with the ASX Listing Rules.	7
Corporate Transactions	Previous involvement or experience in corporate transactions including mergers, acquisitions, takeovers and takeover defences.	8
Australian Residential Mortgage Market	A detailed understanding of the residential mortgage market including key economic drivers, mortgage origination and servicing.	7
Residential Mortgage Broking Industry	Including broker operating models, value proposition, competition, growth drivers and outlook.	7
Funding & Securitisation	A detailed understanding and experience in working in Securitisation markets and involvement with warehouse funding.	5
Commercial Mortgage Broking	An understanding of the key drivers of commercial mortgages.	7
Additional Financial Non-Mortgage Products (eg insurance)	Experience in managing a large distribution network and demonstrated success in introducing additional relevant products and services.	7
Regulations/ Compliance	Appropriate knowledge of relevant NCCP and ASIC obligations including APRA awareness.	8
Online distribution	Experience in the online distribution and marketing channels.	6
Leadership	Make and take responsibility for necessary decisions and actions. Appropriately represent the organisation and set Board and organisation culture.	8
Ethics & Integrity	Understand legal responsibilities of directors, being transparent in all dealings and conduct, maintain confidentiality.	8
Contribution & Team Work	Ability to constructively contribute to Board discussions and communicate effectively with management and other directors.	8
Negotiation	Possess excellent negotiation skills, with the ability to drive stakeholder support for Board decisions.	8
Critical & Innovative Thinking	The ability to critically analyse complex and detailed information, distil key issues and develop innovative solutions to problems.	8
Crisis Management	Constructively manage crises, provide effective solutions and managing communication.	7

## PRINCIPLE 2 STRUCTURE THE BOARD TO ADD VALUE (CONT...)

### Remuneration and Nomination Committee

The Company has a Remuneration and Nomination Committee comprised of independent non-executive directors Jim Minto (Chair), Craig Carter, Melanie Kiely and Jane Muirsmith.

Details of each member's qualifications and experience and details of the number of Committee meetings held and attended by members are set out in the 2016 Directors' Report and Financial Statements.

Under its [Charter](#), the Remuneration and Nomination Committee has the following responsibilities in relation to the composition of the Board:

- assisting the Board to develop a Board Skills Matrix setting out the mix of skills and diversity that the Board currently has or is looking to achieve in its membership;
- reviewing and recommending to the Board the size and composition of the Board, including succession plans and the succession of the Board Chair and Managing Director, having regard to the objective that the Board comprise directors with a broad range of skills, expertise and experience from a broad range of backgrounds, and mix of genders;
- reviewing and recommending to the Board the criteria for Board membership;
- assisting the Board as required in relation to the performance evaluation of the Board, its committees and individual directors, and in developing and implementing plans for identifying, assessing and enhancing director competencies;
- reviewing and making recommendations in relation to any corporate governance issues as requested by the Board from time to time;
- reviewing the Board Charter on a periodic basis and recommending any amendments for Board consideration; and
- establishing an effective director induction process and regularly reviewing its effectiveness and providing appropriate professional development opportunities for directors.

A copy of the Remuneration and Nomination Committee Charter is available on the Company's [website](#).

### Director Induction Program and Professional Development

The Board recognises that the appointment of new directors is a means of enhancing the performance of the Board and the Company, through the inclusion of additional skills and experience. The Company has developed an induction program which aims to provide new directors with the opportunity to build their knowledge of the Company quickly, so that they are able to make an effective contribution to the work of the Board.

Before induction of a new director, the Board Chair and the Managing Director and/or Company Secretary will work to determine a time-effective program for the formal induction process. The induction will be tailored for each new director depending on their requirements, skills, qualifications and experience.

Directors have access to ongoing professional development via the Company's executives providing presentations on key business functions and activities and access to external education and development activities at the Company's expense. The external auditor and other industry experts may also be invited to address the Board, or its committees, on current issues, regulatory changes or industry trends affecting the Company's operations.

## PRINCIPLE 3 ACT ETHICALLY AND RESPONSIBLY

### Code of Conduct

The Board has a formal code of conduct which outlines how the Company expects its representatives to behave and conduct business in the workplace and includes legal and compliance guidelines on appropriate ethical standards. All employees of AFG (including temporary employees, contractors and directors) must comply with the Code of Conduct.

The Code of Conduct is designed to:

- provide a benchmark for professional behaviour throughout the Company;
- support the Company's business reputation and corporate image within the community; and
- make directors and employees aware of the consequences if they breach the policy.

A copy of the Code of Conduct is available on the Company's [website](#).

## PRINCIPLE 4 SAFEGUARD INTEGRITY IN CORPORATE REPORTING

### Audit Committee

The Company has an Audit Committee comprised of Independent non-executive directors Craig Carter (Chair), Jim Minto, Melanie Kiely and Jane Muirsmith.

Details of each member's qualifications and experience and details of the number of Committee meetings held and attended by members are set out in the Directors' Report that forms part of the 2016 Annual Financial Statements.

Under its [Charter](#), the Audit Committee must have at least three members, a majority of whom must be independent directors and all of whom must be non-executive directors. The Committee must also have an independent chair who is not the Board Chair.

The Audit Committee's role is to assist the Board in carrying out its accounting, auditing and financial reporting responsibilities, including:

- overseeing the Company's relationship with the external auditor and the external audit function generally;
- overseeing the preparation of the financial statements and reports; and
- overseeing the Company's financial controls and systems.

A copy of the Audit Committee Charter is available on the Company's [website](#).

## Declaration by Managing Director and Chief Financial Officer

The Managing Director and Chief Financial Officer, at each half and full year, provide formal assurance statements to the Board that in their opinion:

- the Company's financial records have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity; and
- the risk management and internal compliance and control systems are sound, appropriate and operating efficiently and effectively.

## External Auditor

The Company has a policy for the appointment, assessment and independence of the external auditor including the rotation of the external audit engagement partner.

The Risk and Compliance Committee is responsible for the Company's policy on the engagement of the external auditor to supply non-audit services and ensure compliance with the policy. As a general rule, the external auditor may not provide any prohibited non-audit services to the Company. To ensure auditor independence is maintained, the Company requires all engagements of the external auditor to provide non-audit services to be approved in writing by the Chief Financial Officer and, in some circumstances, by the Risk and Compliance Committee.

The external auditor is required to provide a representative to attend the Annual General Meeting of the Company to answer questions relevant to the audit.

## PRINCIPLE 5 MAKE TIMELY AND BALANCED DISCLOSURE

### Continuous Disclosure

The Company has a continuous disclosure policy which establishes procedures which are aimed at ensuring that directors and management are aware of and fulfil their obligations in relation to the timely disclosure of material price-sensitive information. The Company is committed to observing its disclosure obligations under the ASX Listing Rules and the *Corporations Act 2001*. Information is communicated to shareholders through the lodgement of all relevant financial and other information with ASX and continuous disclosure announcements are also made available on the Company's website.

A copy of the Continuous Disclosure Policy is available on the Company's [website](#).

## PRINCIPLE 6 RESPECT THE RIGHTS OF SECURITY HOLDERS

### Website and Investor Relations Strategy

The Company aims to ensure that shareholders are kept informed of all major developments affecting the affairs of the Company. Additionally, the Company recognises that potential investors and other interested stakeholders may wish to obtain information about the Company from time to time.

To achieve this, the Company communicates information regularly to shareholders and other stakeholders through a range of forums and publications and, in addition to its continuous disclosure obligations, the Company has developed a communications policy.

One of the Company's key communication tools is its website located at [www.afgonline.com.au](http://www.afgonline.com.au).

The website contains information about the Company's directors and management and the Company's corporate governance practices, policies and charters. All ASX announcements, including annual and half year financial results are posted on the website as soon as they have been released by the ASX. The full text of all notices of meetings and explanatory material, the Company's Annual Report and copies of investor presentations made to analysts are also posted on the [website](#).

### Participation at Meetings

The Company encourages full participation of shareholders at any general meetings and its Annual General Meeting each year. For those shareholders who are unable to attend in person, the Company will provide a full transcript of the Chair's and the Managing Director's speeches, if any are given, on its website. Shareholders are encouraged to lodge proxies electronically, subject to the adoption of satisfactory authentication procedures. The Company's external auditor will attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report. The external auditor will also be allowed a reasonable opportunity to answer written questions submitted by shareholders to the auditor as permitted under the *Corporations Act 2001*.

### Electronic Communications

The Company provides a telephone helpline facility and an online email inquiry service to assist shareholders with any queries. Information is also communicated to shareholders via periodic mail outs, or by email to shareholders who have provided their email address.

The Company's share registry also has the capability to send and receive electronic communications and maintains a toll free telephone number for shareholders who require assistance in relation to registry matters.

## PRINCIPLE 7 RECOGNISE AND MANAGE RISK

### Risk Committee

The Company has a Risk and Compliance Committee comprised of independent non-executive directors Craig Carter (Chair), Jim Minto, Melanie Kiely and Jane Muirsmith.

Details of each member's qualifications and experience and details of the number of Committee meetings held and attended by members are set out in the Directors' Report that forms part of the 2016 Annual Financial Statements.

Under its charter, the Risk and Compliance Committee must have at least three members, a majority of whom must be independent directors and all of whom must be non-executive directors. The Committee must also have an independent chair who is not the Board Chair.

The Committee's key responsibility and function is to manage the process of identification and management of risk.

The Committee's charter sets out procedures to fulfil its risk and compliance responsibilities. A copy of the Risk and Compliance Committee Charter is available on the Company's [website](#).

### Risk Management Framework

The Company has a detailed risk management framework to manage risk based on a structured and disciplined approach aligning strategy, processes, people, technology and knowledge with the understanding, evaluation and management of the uncertainties faced by the Company as it creates value for shareholders.

Risk management is a core management competency that incorporates a well-structured and systematic process to identify business risks and opportunities that will reduce potential negative impacts and realise opportunities that will enhance performance of the Company. This involves the following core elements:

- the identification and assessment of risks and opportunities; and
- ongoing monitoring and communicating of risk associated with any activity, function or process.

The Company has a Risk Management Policy which provides guidance to all employees by defining the commitment of the organisation to risk management. It articulates the Board's philosophy and mandate with respect to risk management.

The Risk and Compliance Committee Charter provides that on an annual basis the committee will review the Company's risk management framework to satisfy itself that the framework continues to be sound and effectively identifies all areas of potential risk. This review has been carried out by the committee within the reporting period.

### Internal Audit Function

While the Company does not have a formal internal audit function it has a compliance team which maintains an extensive compliance program focusing on two key compliance risks:

- non-compliance with legislation, with a particular focus on ensuring that the Company and the Company's brokers consistently meet the standards required by the *National Consumer Credit Protection Act 2009*, *Corporations Act 2001*, *Australian Securities and Investments Commission Act 2001* and *the Privacy Act 1988*; and
- fraud by an aligned finance broker.

Compliance risks are identified, documented and analysed by the Company's national compliance team through implementation of the risk management process and compliance framework. The compliance team is responsible for implementing the Company's compliance procedures, an audit and training program for the Company's credit representatives and certain other audit programs.

The compliance team currently uses a number of measures aimed at detecting and preventing fraud, including:

- executing audit programs;
- monitoring suspicious deals; and
- facilitating an ongoing dialogue with lenders and industry regulators;

The compliance team is also responsible for ensuring that the Company has a comprehensive professional indemnity insurance program.

The compliance team reports to the Management Compliance Committee, which meets every six to eight weeks to discuss the management of compliance. The Management Compliance Committee escalates all relevant matters to the Board Risk and Compliance Committee.

The Company's Risk Management Policy provides that all of the Company's management will be expected to:

- resource, operate and monitor the company system of internal control;
- incorporate risk responses in the form of controls into its management system; and
- report the results of balanced assessments regarding the effectiveness of its internal control, including identified weaknesses or incidents to the Audit and Risk and Compliance committees.

### Economic, Environmental and Social Sustainability Risks

As the Company operates in the finance sector and specifically in the mortgage broking sector it has exposure to economic risks, including general economy wide economic risks, risks associated with the economic cycle and more particularly to the level of interest rates which impact on the levels of borrowings which may be introduced via its broking network. These risks are applicable to all businesses operating in the finance sector. The Company has in place risk management procedures and processes to identify, manage and minimise its exposure to these economic risks where appropriate.

Given the nature of the Company's operations the Board currently considers that the Company does not have any material exposure to environmental and social sustainability risks. The Company's Code of Conduct outlines how AFG expects its representatives to behave and conduct business including guidance in relation to its legal compliance and appropriate ethical standards expected from its representatives. The Code of Conduct also includes specific guidelines on a number of issues to ensure the sustainable operations of the business including Company's commitment to making a contribution to the community generally and to doing business in an environmentally responsible manner.

## PRINCIPLE 8 REMUNERATE FAIRLY AND RESPONSIBLY

### Remuneration Committee

The Company has a Remuneration and Nomination Committee comprised of independent non-executive directors Jim Minto (Chair), Craig Carter, Melanie Kiely and Jane Muirsmith.

Details of each member's qualifications and experience and details of the number of committee meetings held and attended by members are set out in the Directors' Report.

The Remuneration and Nomination Committee has the following responsibilities in relation to remuneration:

- reviewing and recommending arrangements for the executive directors (including the Managing Director), the executives reporting to the Managing Director and senior management, including contract terms, annual remuneration and participation in AFG's short and long term incentive plans;
- reviewing major changes and developments in AFG's remuneration, recruitment, retention and termination policies and procedures for senior management;
- reviewing major changes and developments in the remuneration policies, superannuation arrangements, personnel practices and industrial relations strategies for the Company;
- reviewing the senior management performance assessment processes and results as they reflect the capability of Management to realise the business strategy;
- reviewing and approving short term incentive strategy, performance targets and bonus payments;
- reviewing and recommending to the Board major changes and developments to AFG's employee equity incentive plans;
- recommending whether offers are to be made under any or all of AFG's employee equity incentive plans in respect of a financial year;
- in respect of AFG's employee equity incentive plans, reviewing and approving the proposed terms of, and authorising the making of, offers to eligible employees of the Company, including determining the eligibility criteria applying in respect of an offer, in respect of a financial year;
- reviewing and recommending to the Board the remuneration arrangements for the Board Chair and non-executive directors, including fees, travel and other benefits; and
- approving the appointment of remuneration consultants for the purposes of the *Corporations Act 2001*.

A copy of the Remuneration and Nomination Committee Charter is available on the Company's [website](#).

### Remuneration of Directors and Executives

The Remuneration Report, which forms part of the 2016 Directors' Report and Financial Statements, sets out the Company's remuneration philosophy, framework and outcomes for all non-executive directors, executive directors and other Key Management Personnel (collectively KMP).

The Board bases its remuneration framework on the following principles:

- 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; and
- The relationship between performance and remuneration of executives is clear and transparent.

The Company's constitution and the ASX listing rules specify that the non-executive fee pool shall be determined from time to time by a general meeting. The current approved aggregate fee pool is \$1,000,000 per year.

The remuneration of non-executive directors consists of directors' fees, which is inclusive of statutory superannuation and committee fees. Non-executive directors do not receive retirement benefits, other than statutory superannuation contributions, nor do they participate in any incentive programs. Non-executive directors may also be reimbursed for travel and other expenses incurred in attending to the Company's affairs. Some of the non-executive directors may receive non cash benefits in the form of off-shore conference entitlements.

The Remuneration Report sets out details of the different components of executive remuneration comprising fixed remuneration, short-term incentives and long-term incentives. Details of contractual arrangements with group executives are also set out in the Remuneration Report.

### Transactions which limit the economic risk of participating in an equity based remuneration plan

The Company's Dealing in Securities Policy includes the following provisions in relation to hedging of the Company's securities, including those acquired as part of an equity based remuneration plan:

- Hedging includes entering into transactions in financial products that operate to limit the economic risk associated with holding Company securities.
- Hedging of Company securities by directors, senior executives, employees and connected persons of employees ("Relevant Persons") is subject to the following overriding prohibitions:
  - the hedge transaction must not be entered into, renewed, altered or closed out when the Relevant Person is in possession of inside information;
  - Company securities must never be hedged prior to the vesting of those Company securities. In particular, Relevant Persons are prohibited from entering into any hedge transaction involving unvested equity held pursuant to any employee, executive or director equity plan operated by the Company; and
  - Company securities must never be hedged while they are subject to a holding lock or restriction on dealing under the terms of any employee, executive or director equity plan operated by the Company.

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