AFG

2020

ANNUAL REPORT

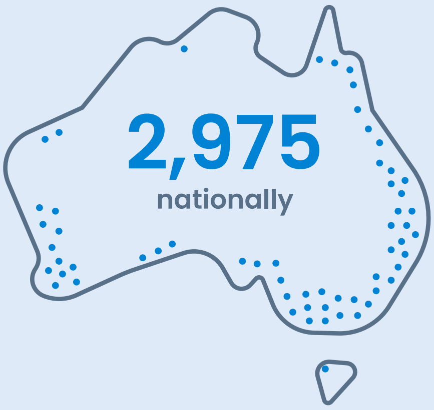
Contents

4,250+
Products

55+
Lenders

204
Staff

AFG broker numbers...



FY18	28.1M
FY19	28.6M
FY20	36.3M

AFG underlying NPAT has increased to 36.3M FY20 from 28.6M FY19

FY18	33.3M
FY19	33.0M
FY20	38.1M

AFG reported NPAT has increased to 38.1M FY20 from 33.0M FY19

FY20 Residential settlements up 9% on FY19 to

$34.1B

Residential trail book up 5% to

$154.6B

FY20 AFG Business settlements up 167% on FY19 to

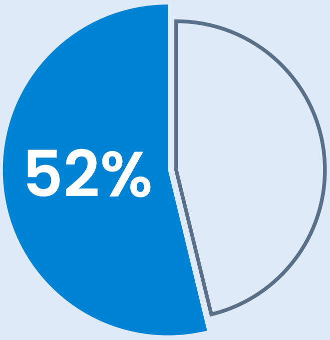
$346M

FY20 Commercial settlements of

$2.29B

Dividends (cents per share)

	Interim	Final
FY18	4.7	5.7
FY19	4.7	5.9
FY20	5.4	4.7



of Australian mortgages over the last 18 months have been written through a broker [1]

[1] Mortgage and Finance Association of Australia (MFAA) quarterly surverys

1 in 11

Australian residential mortgages are arranged by an AFG broker

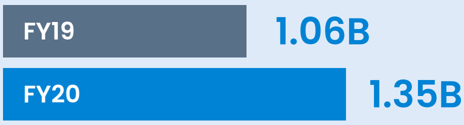
AFG Home Loans trail book up 14% on FY19 to

$10.5B

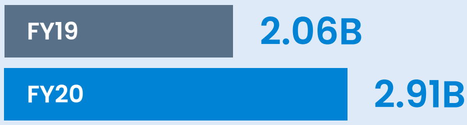
AFG Home Loans services over

25,000

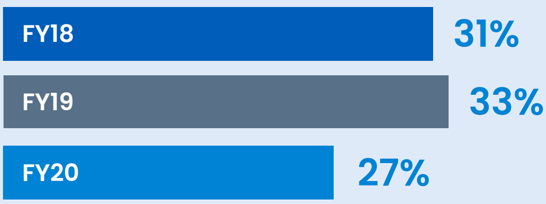
retail customers



AFGS settlements has increased to 1.35B FY20 from 1.06B FY19



AFGS loan book has increased to 2.91B FY20 from 2.06B FY19



27% reported return on equity

AFGS successful

$700M

term transaction in July 2020

Chairman’s message

Tony Gill, Chairman

I am very pleased to be reporting on another successful year for AFG in what has been quite an extraordinary year.

AFG has reported net profit after tax of $38.1 million for the full year to 30 June 2020, a 15.3% increase year on year.

There remains considerable uncertainty about the progression of the COVID-19 pandemic and its full impact on the country’s economy. Substantial fiscal and monetary stimulus and the government’s policy settings are assisting with the supply of credit to households and businesses.

In this troubled environment, AFG’s fundamentals remain robust. The Company is well capitalised with a healthy balance sheet and no debt. Our strong cashflow generation and active management of risk means the Company is positioned to withstand new funding and economic shocks that may arise. As a result, the Board is confident the Company is well positioned to navigate the current uncertainties and has resolved to pay a fully franked final ordinary dividend for the 2020 financial year of 4.7 cents per share.

The year that was

In August 2019 AFG announced its intention to merge with mortgage aggregator Connective Group Pty Ltd. The binding conditional implementation deed was subject to ACCC and a non-customary condition, a court approval. We were very pleased to receive word in June the ACCC would not oppose the merger. We now await the decision of the court.

The Company has also enjoyed enormous success with our Residential Mortgage Backed Securitisation (RMBS) programme. AFG priced two transactions in the 2020 financial year. Subsequent to the end of the financial year AFG completed its largest single RMBS transaction of $700 million, taking the total issuance since inception to $3.575 billion.

The AFG Securities division of our business has enjoyed a successful year in terms of responsible book growth and improvement in funding mix. The dislocation in the funding markets necessitated a cautious approach to lending for a period and was a key reason for the modest equity raise conducted in May 2020. Strengthening the capital position has ensured support for AFG Securities and the business has now returned to a more normal footing with new originations growing once more.

The reach the broker distribution channel provides to lenders and customers is vitally important. Limited access to branches and the constraints on movement necessitated by the pandemic has accelerated the move to end-to-end digital transactions. AFG’s continued investment in technology ensured our brokers were well positioned to rapidly adapt to this change and were able to continue to assist their customers through the lockdown.

The financial year also saw one of AFG’s founding Directors, Kevin Matthews, retire from the Board. I would like to acknowledge Kevin’s significant contribution to the Company and long-term commitment to the wider industry during his more than 35 years in the finance sector.

The way forward

The unique challenges presented by the pandemic and its effect upon our economy are impacting our country in ways none of us could have predicted. For AFG, the impact on our staff and brokers has been most evident in the new ways of working that have evolved. Investment in technology ensured our brokers and staff could adapt rapidly. This capability will continue to develop. The Board maintains a cautious outlook, with a conservative approach to capital and lending so as to position the Company to respond to the evolving situation.

The AFG Board and executive team are cognisant that while we currently have strong volumes as we enter the 2021 financial year, the ongoing impact of COVID-19 on the community and on future lending fundamentals mean that despite the Company’s strength the outlook for the property and mortgage markets remain uncertain. Against this backdrop, AFG is confident that the role of brokers, who deliver choice and competition to Australian borrowers, will remain critically important as our country comes out the other side of the pandemic.

The Company has a sound strategic direction, a healthy financial position and a committed and skilled workforce who have shown their adaptability to change and capacity to ensure continued support of our broker network and customers through what has been a challenging but very successful year for the Company.

Tony Gill
Chairman

Chief Executive Officer's message

David Bailey, CEO

As I sat down to prepare this year's annual letter to shareholders I reflected on the year that I had expected to report - two successful RMBS transactions; a strategic merger; a strong brand; a clear direction forward with greater regulatory certainty; solid growth in every state and advances in all divisions of the Company. A global pandemic was not on the list.

Despite the evolving economic uncertainty facing the Australian economy over the past six months, I am in the fortunate position of being able to report a highly successful year for the Company. AFG has proven its resilience during a time of extraordinary upheaval in the economy to report its best financial result to date.

AFG's residential loan book is now at $154.6 billion, representing growth of 5% on FY19. AFG's combined residential and commercial loan book now sits at $163 billion.

The AFG Business platform also recorded pleasing growth, with settlements up 167% from $130 million in FY19 to $346 million in FY20. The platform offers an extensive commercial product range and lender choice for customers. There are now 29 lenders on the AFG Business panel, including all four major banks.

AFG Securities

The AFG Securities division continued to be a strong contributor with the loan book growing to $2.9 billion. This is an increase of 41.3% on FY19 and a testament to our brokers' faith in the quality and service offered by our securitized products to recommend them to their customers.

Lenders have responded rapidly to borrowers affected by job losses and business interruptions due to COVID-19 and AFG Securities is no exception. Pleasingly we are seeing customers move from a payment pause to make new repayment arrangements and AFG Securities will continue to maintain an active and prudent approach to lending and the support of our customers.

COVID-19

As Australia grappled with the devastating bushfires that marked the end of 2019 and the beginning of 2020, the health and economic crisis unfolding overseas was soon to reach our shores. By March, the Company had enacted its Business Continuity Plan and moved to a remote working arrangement for teams across the country.

Fortunately, with our head office located in Perth we have been able to return the majority of staff to more normal working conditions. As I write, our interstate teams continue to work from home where required.

The move to virtual interactions extended to AFG's support of our broker network, with weekly all-network webinars outlining government, regulatory and practical advice to help our brokers navigate the rapidly shifting landscape. During lockdown periods from March, brokers maintained their levels of activity, with a shift in focus to refinance loans as customers sought savings and the country's major lenders chased growth. Recently, government initiatives have supported increased activity from upgraders and first home buyers. July 2020 was a record lodgement and settlement month with $6.3 billion and $3.6 billion, respectively.

There are of course uncertainties as the country continues to grapple with a way through the current health and economic challenges. With rising unemployment there is an expectation that some additional borrowers may enter hardship as government fiscal support programmes and loan relief measures come to an end or lockdowns are extended in Victoria or revisited on other parts of the country. The disruption to both the residential and commercial lending markets is likely yet to be fully realised and the scale of the impact is difficult to predict. We maintain a cautious outlook, with a conservative approach to capital and lending to position the Company to respond to the evolving situation.

Residential Mortgage Backed Securities

I was particularly pleased with the performance of our AFG Securities business. As both an originator and a distributor of mortgages, our experience informs our lending practices. This has fortified support, and driven oversubscription from a broadened investor base. Disciplined lending criteria and active management of the portfolio has meant we were in a fortunate position to take our paper to market. The role the AOFM played in assisting the broader credit markets to return quickly at a time of great uncertainty should also be noted, and this has allowed competition and choice for Australian home loan borrowers to continue.

Merger with Connective

The merger represents an opportunity for all AFG shareholders to benefit from the diversification and flexibility of the combined group. The prospect of complementing AFG's existing business with the cultural fit and similar customer-focused philosophy of the Connective business is compelling and I look forward to progressing the transaction once the court condition is met.

Regulatory change

Changes to the law will require mortgage brokers to act in the best interests of consumers when providing credit assistance from 1 January 2021. This is an important distinction for Australian mortgage brokers. Customers now electing to use a mortgage broker can be assured of the protection that the broker is working in their best interest. No other channel to market can provide this level of assurance.

We have had very productive engagement with government and the regulators through the year. We believe the appropriate balance between meeting consumer expectations and the practicality of application has been addressed. AFG has played a leading role in driving industry change and is well equipped to meet these new requirements.

Looking forward

Currently our pipeline of business remains strong with brokers continuing to provide value to customers across Australia. Whilst various federal and state government incentives have played an important role in stimulating lending activity, uncertainties remain as to the impact the pandemic will have on the economy over the next twelve months. Given these uncertainties, in May 2020 the Company chose to raise $60 million to ensure AFG was well placed and well capitalised to maintain the momentum behind our business during this period of market disruption. The capital raise, which was predominately a rights issue, was well received by shareholders.

The impact of the COVID-19 pandemic on the economy and our business remains highly uncertain however AFG is committed to building upon our long-term strategy and securing our business to withstand any possible future headwinds.

I would like to express my gratitude to the AFG management team, staff and our brokers who have shown extraordinary resilience and commitment to support each other as we navigate these difficult times.

David Bailey
CEO

Director's 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 2020 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

(Independent Non-Executive Chairman)

Mr Gill has been the Chairman of the Board since 2008. Mr Gill has extensive experience across Australia's finance industry, mostly with Macquarie Bank. Mr Gill is a Director of First Mortgage Services and First American Title Insurance. He sits on the Board of the Butterfly Foundation for Eating Disorders and the Pinchgut Opera. Mr Gill is a former member of the Board of Genworth Mortgage Insurance Limited (GMA.AX), and a former member of ASIC's External Advisory Panel. Mr Gill holds a Bachelor of Commerce and is a Chartered Accountant (retired).

Brett McKeon

(Executive Director) Resigned 1 July 2019

(Non-Executive Director) Appointed 1 July 2019

Mr McKeon is a founding Director of AFG and the Group's former Managing Director. Mr McKeon has worked for more than 31 years in the financial services industry. He has considerable management, capital raising, public company and sales experience and is an experienced director in both the public and private arenas. In addition to his role as Non-Executive Director of AFG, Mr McKeon is the Chair of Establish Property Group (EPG), a privately-owned company specialising in debt and equity funding solutions for property developers, property development, mortgage fund investments and other opportunities for sophisticated and wholesale investors.

Malcolm Watkins

(Executive Director)

Mr Watkins is a founding Director of AFG and plays a key role in the strategic direction of the Company. For 26 years he has driven the company's tactical development of market-leading IT and marketing divisions. Mr Watkins is also on the board of Thinktank, a leading commercial property lender in which AFG holds a 32.81 per cent stake. He is tasked with overseeing the opportunity to blend Thinktank's commercial property lending expertise with AFG's broad distribution and securitisation capabilities, to deliver strategic value to both businesses. Mr Watkins is also a former board member of the industry's peak national body representing the sector, the Mortgage and Finance Association of Australia (MFAA).

Craig Carter

(Independent Non-Executive Director)

Mr Carter joined the AFG Board in early 2015, and is the Chair of the Audit Committee, a member of the Risk and Compliance Committee, and a member of the Remuneration and Nomination Committee. Following a career spanning 35 years in stockbroking and investment banking, specialising in Corporate Advice and Equity Capital Markets, Mr Carter now actively manages his own family business interests across a range of investment activities. He is also a Director of the Fremantle Football Club. Mr Carter was a Member of the Australian Stock Exchange and is a Fellow of the Financial Services Institute. Mr Carter is a well-known professional with unique experience in equities, capital markets and corporate transactions. This experience and reputation provides a platform for integrity and good governance.

Melanie Kiely

(Independent Non-Executive Director)

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 is also currently a Director of the Black Dog Institute and CEO of Good Sammy Enterprises. Prior to this, she has held senior roles with Silver Chain, HBF Health Fund, nib health funds, MBF and was an Associate Partner at global consulting firm Accenture. She 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 and is Chair of the Remuneration and Nomination Committee, a member of the Audit Committee and a member of the Risk and Compliance Committee.

Jane Muirsmith

(Independent Non-Executive Director)

Ms Muirsmith is an accomplished digital and marketing strategist, having held several executive positions in Sydney, Melbourne, Singapore and New York. Ms Muirsmith is Managing Director of Lenox Hill, a digital strategy and advisory firm and is a Non-Executive Director of Cedar Woods Properties Ltd, the Telethon Kids Institute, and Chair and Non-Executive Director of HealthDirect Australia. She is a Graduate of the Australian Institute of Company Directors and a Fellow of Chartered Accountants Australia and New Zealand, where she is a member of the Australian and New Zealand Corporate Sector and Advisory Committee. Ms Muirsmith is also a member of the Ambassadorial Council UWA Business School. Ms Muirsmith was appointed to the AFG Board in March 2016 and is Chair of the Risk and Compliance Committee, a member of the Audit Committee and a member of the Remuneration and Nomination Committee.

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.

Kevin Matthews

(Non-Executive Director)

(Retired 28 October 2019)

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 40 years and has been a licensed finance broker for more than 30 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.

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 and governance. 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	1,329,546	-
Brett McKeon	16,289,779	20,114
Malcolm Watkins	17,462,284	37,222
Craig Carter	960,714	-
Melanie Kiely	89,376	-
Jane Muirsmith	86,819	-

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 2020 were $24,359k (2019: $22,340k), which included:

- A final fully franked ordinary dividend of $12,719k (5.9 cents per fully paid share) was declared out of profits of the Company for 2019 and paid on 27 September 2019.
- An interim fully franked ordinary dividend of $11,640k (5.4 cents per fully paid share) was declared out of profits of the Company for 2020 and paid on 26 March 2020.

A final fully franked ordinary dividend of $12,584k (4.7 cents per fully paid share) has been declared out of profits of the Company for the financial year ended 30 June 2020 and is to be paid on 29 September 2020.

Principal Activities

The Group's principal activities in the course of the financial year continued to be:

- Mortgage origination and management of home loans and commercial loans; and
- Distribution of own branded home loan products, white label and its established RMBS programme.

Corporate Governance Statement

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

Review of Operations

For the year ended 30 June 2020 the Group recorded a net profit after tax of $38,078k, 15.3% above (30 June 2019: $33,029k). Revenue from operating activities was up 6.1% to $682,183k (30 June 2019: $642,839k) as residential settlement volumes grew by 8.9% and the AFG Securities loan book was up 41.3%.

The increase in profit was attributable to the following:

- AFG Securities loan book growing by 41.3% to $2.91B (2019: $2.06B);
- Increased residential trail book of 4.9% to $154.6B (2019: $147.4B);
- Increased residential settlements of 8.9% to $34.1B (2019: $31.3B);
- Offset by decreased commercial settlements of 1.7% to $2.29B (2019: $2.33B).

Net cash flows from operating activities $40,316k (2019: $28,090k) was a result of increased interest income, growth in the AFGHLs white label trail books and favourable working capital movements when compared to prior period. The increased AFG Securities loan book provides a strong platform to generate increased ongoing cashflow and earnings in future years. AFG continues to generate strong cash flows, and this will enable AFG to continue to invest to generate future growth.

In March 2020, the World Health Organisation declared COVID-19 a world-wide pandemic. COVID-19 as well as measures to slow the spread of the virus, have since had a significant impact on global economies and equity, debt and commodity markets. The Group has considered the impact of COVID-19 and other market volatility in preparing the financial statements.

In May 2020, AFG successfully completed a $60 million Equity Raising to support the growth of the AFG Securities business, to accelerate the investment in our technology and to allow the Company to continue to explore strategic opportunities to further diversify earnings.

The AFG Securities business has enjoyed a successful year in terms of responsible book growth and improvement in funding mix. The dislocation in the funding markets necessitated a cautious approach to lending for a period and the equity raise ensures this part of our business continues from a position of strength.

There has been a meaningful reduction in the number of AFG Securities customers requesting hardship arrangements due to the pandemic with overall hardship reducing from 9.56% on 7 May 2020 to 5.33% at 21 August 2020.

Subsequent to 30 June 2020, the Group completed a $700 million Residential Mortgage Backed Securities (RMBS) issue.

The 30 June 2020 results included a significant increase in impairment charges due to the expected economic impact of the COVID-19 pandemic. The expected credit loss (ECL) provision has increased by $2,516k from $757k to $3,272k for the year ended 30 June 2020. Impairment charges are discussed further in Note 3(b)(ii) and Note 29 of the 2020 Annual Report.

Given the dynamic and evolving nature of COVID-19, limited recent experience of the economic and financial impacts of such a pandemic, and the short duration between the declaration of the pandemic and the preparation of these financial statements, changes to the estimates and outcomes that have been applied in the measurement of the Group assets and liabilities may arise in the future.

In response to the current COVID-19 pandemic, the Group has provided support to its customers by implementing a range of initiatives, such as granting deferrals of residential mortgage loan repayments to customers affected by the COVID-19 pandemic.

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

	30 June 2020		30 June 2019	
In thousands of AUD	Operating income	Profit after tax	Operating income	Profit after tax
Underlying results from continuing operations	607,311	36,266	548,235	28,565
Change in the carrying value of trailing commissions contract asset and payable	74,872	1,812	94,604	4,464
Total result from operating activities	682,183	38,078	642,839	33,029

AFG

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 30 July 2020, the Group successfully completed AFG 2020-1 Trust, a $700 million Residential Mortgage Backed Securities (RMBS) issue.

As at 21 August 2020, there has been a meaningful reduction in the number of AFG Securities customers requesting hardship arrangements due to the pandemic with overall hardship reducing from 9.56% on 7 May 2020 to 5.33% at 21 August 2020.

On 27 August 2020, the Directors recommended the payment of a dividend of 4.7 cents per fully paid ordinary share, fully franked based on tax paid at 30%. The dividend has a record date of 10 September 2020 and a payment date of 29 September 2020. The aggregate amount of the proposed dividend expected to be paid out of retained earnings at 30 June 2020 is $12,584k. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2020.

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 (2019: Nil).

Indemnification of insurance of directors and officers

During the financial year, the Group paid a premium in respect of a contract insuring the Directors of the Group (as named above) and officers against a liability incurred as a Director or officer 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.

Indemnification of auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young Australia, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young Australia during or since the financial year.

Directors' Meetings

The number of Directors' meetings (excluding circulatory resolutions) held during the year and each Director's attendance at those meetings is set out in the table below.

The Directors met as a Board 21 times during the year. 11 meetings were main meetings and 10 meetings were convened to consider special business. Special meetings are convened at a time to enable the maximum number of Directors to attend and are generally held to consider specific items that cannot be held over to the next scheduled main meeting. Apologies were received from Directors in all instances where they were unable to attend a meeting.

Directors' Board Meetings	Main Meetings Held	Main Meetings Attended	Special Meetings Held	Special Meetings Attended
Tony Gill	11	11	10	10
Brett McKeon	11	11	10	9
Malcolm Watkins	11	11	10	9
Kevin Matthews[1]	4	3	2	2
Craig Carter	11	11	10	10
Melanie Kiely	11	11	10	10
Jane Muirsmith	11	10	10	10

(1) Kevin Matthews retired on 28 October 2019.

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
Craig Carter (C)	Melanie Kiely (C)	Jane Muirsmith (C)
Melanie Kiely	Craig Carter	Craig Carter
Jane Muirsmith	Jane Muirsmith	Melanie Kiely

Notes

(C) designates the Chair of the Committee

The following table sets out the number of meetings of the Committees of the Board and the number of meetings attended by each Director who is/was a member of that Committee:

Committee Meetings						
Directors	Audit		Remuneration and Nomination		Risk and Compliance	
	Maximum Possible Meetings	Attended	Maximum Possible Meetings	Attended	Maximum Possible Meetings	Attended
Craig Carter	7	7	5	5	5	5
Melanie Kiely	7	7	5	5	5	5
Jane Muirsmith	7	7	5	5	5	5

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, Ernst & Young. 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 11 to the Financial Statements do not compromise the external auditor's 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.

Ernst & Young received or is due to receive the following amounts for the provision of non-audit services:

	$
Other non-audit services	30,000
	30,000

Auditor's Independence declaration

The auditor's independence declaration is included on page 34 of this financial report for the year ended 30 June 2020.

This report is made in accordance with a resolution of the Directors.

Remuneration Report

Message from the Chair of the Remuneration & Nomination Committee

Dear Shareholder,

On behalf of the Board I am pleased to present AFG's Remuneration Report for FY20.

As with most organisations, this is a unique year with the uncertainty associated with the COVID-19 pandemic and the challenges presented for setting appropriate remuneration targets and structures that align rewarding good performance with shareholder returns.

As in previous years, the AFG Board remains committed to an Executive Remuneration structure that balances both of these elements in the short term and over time. At the same time, it is important that conduct, responsible lending and ensuring positive customer outcomes remain front of mind as an effective 'gateway' to any incentive payment.

In setting our structure and targets, we value and seek the feedback of our shareholders, stakeholders and proxy advisors. Where appropriate we have used this feedback to revise the Executive Remuneration framework over time. For FY21, the remuneration structure has been modified to reflect the uncertainty in the medium to long term, whilst also trying to maintain an element of continuity and consistency to ensure it acts as a true incentive to long term performance and shareholder return.

I am pleased to note that following good EPS and strong TSR performance the FY18 LTI plan has vested at just under target for 30 June 2020.

The focus of our FY21 Executive Remuneration structure remains a mixture of short and long term targets designed to drive both earnings growth, the development of key strategic initiatives to deliver continued and sustainable returns for shareholders and the retention of key executive talent.

The modifications that have been made to the Group's STI and LTI structures for FY21 respectively:

- For the STI, 100% of the STI award for all KMPs (other than COO) will be allocated to NPAT. With the potential need to change strategy and priorities quickly we believe this could be hindered by KMP being focussed on other short term strategic targets.
- Given the critical competitive nature of our systems, the STI targets for the COO will include an allocation of 30% towards the progress of the Group's IT development programme with 70% allocated to NPAT. Importantly, NPAT remains as a gate opener (of 90%) for the payment of the IT related performance indicator.
- With respect to the LTI, due to the current difficulty in forecasting longer term earnings results, a greater weighting of the KMPs LTI award will be allocated to TSR given the comparable nature of this target. Historically the split of the dollar value of an executives LTI award has been 65% EPS and 35% TSR. For at least FY21 this will change to 65% TSR and 35% EPS. The TSR target will continue to include a positive absolute TSR gateway for payment to occur.
- With regard to fixed remuneration, it has been decided to make no increases to fixed remuneration, in line with the general market in these uncertain COVID-19 related times.

FY20 Performance & Remuneration Outcomes Summary

The COVID-19 pandemic made FY20 a challenging year for businesses generally. Despite this, the group delivered a pleasing result in FY20 which reflects the ability of the business and its brokers to adapt quickly to a changing environment, the importance of the role brokers play in the financial services sector and the group's earnings diversification strategy. The business delivered NPAT growth of 15.3% with an FY20 result of $38.1m, up from $33.0m in FY19 and representing EPS CAGR of 7.2% since FY17 (Normalised NPAT: $30.2m).

Over the Total Shareholder Return (TSR) LTI performance period of 1 July 2017 to 1 July 2020 AFG has delivered TSR performance at the 85th and 87th percentile of the Diversified Financials and Small Industrials Indexes respectively.

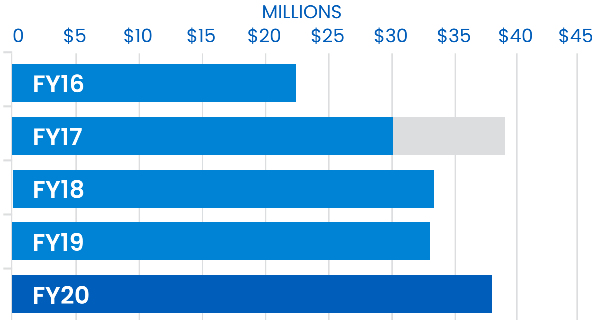
Despite lockdowns across the country over the past 6 months the business performed well, residential volumes continued to improve in H2 FY20 with settlements in FY20 up 9% on FY19. AFG Business and Thinktank volumes were up 166% and 79% respectively. The earnings diversification strategy was also evident through the contribution of AFG Securities with a $2.9b loan book generating NIM of 157bps for the year. Underlying NPAT was up 27% to $36.3m as the AFGHLs trail book begins to generate increased cash flow for the business.

Performance against other KPI measures was also strong, with the Group's loan book ending the year at $163.0b up 4.9% and the AFGHLs book at $10.5b up 14% from FY19. This demonstrates growth in the core business, generating ongoing stability for future investment and growth.

A successful capital raising was also completed in FY20 primarily to strengthen the capital position of the group, support future growth of AFG Securities and other ongoing growth initiatives. Despite this no adjustments have been made to LTI EPS targets with existing targets remaining in place for the current plans vesting in FY21 and FY22.

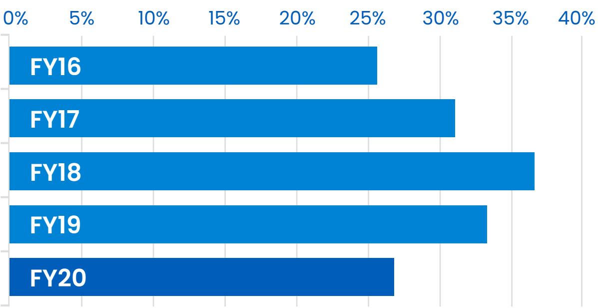
A 5-year history of AFG's NPAT, Residential, AFGHLs and AFG Securities loan books, AFG Securities Settlements, ROE and Dividends is provided below:

Net Profit After Tax

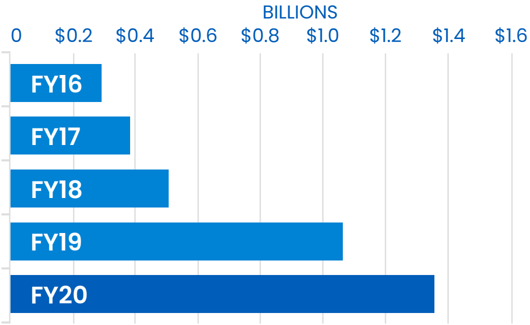


* Grey shading of FY17 NPAT shows the initial recognition of AFGHL white label trail book relating to loans settled in prior periods.

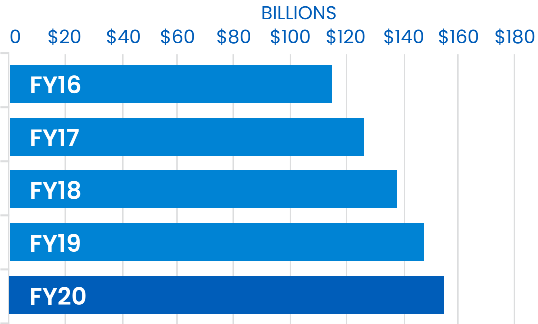
Normalised Return on Equity



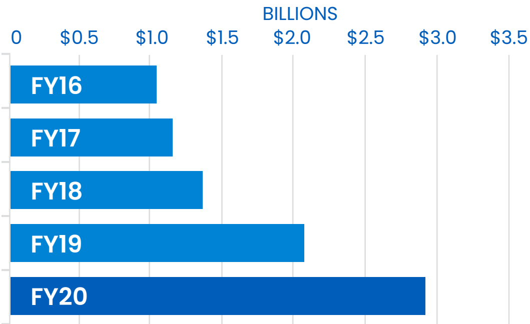
AFGS Settlements



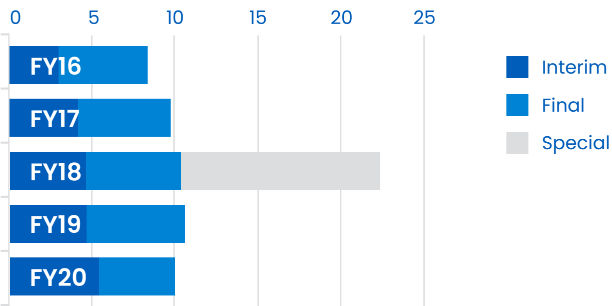
Residential Loan Book



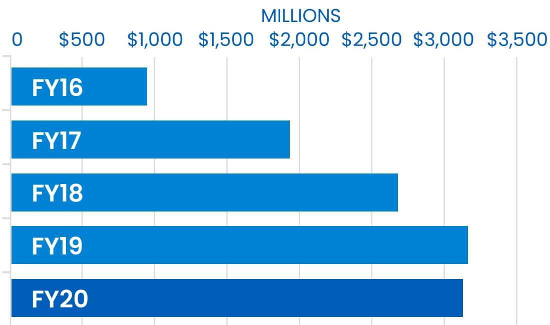
AFGS Loan Book



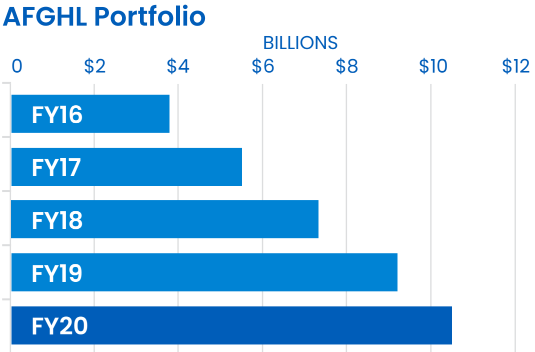
Dividends (cents per share)



AFGHL Settlements



AFGHL Portfolio



* Grey shading of FY17 NPAT shows the initial recognition of AFGHL white label trail book relating to loans settled in prior periods.

In line with this performance, the key remuneration outcomes, which are detailed further in the Remuneration Report include:

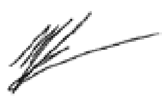
- Total FY20 STI payments made at 101%, which is an outstanding result in a challenging year. The STI targets individually were assessed as follows, NPAT (118%), AFGHLs (87%) and AFG Business (63%).
- Performance rights associated with the EPS target vested at 72% reflecting the EPS CAGR of 7.2% since FY17
- Performance rights associated with TSR targets vested at 124% (Diversified Financials – 85th percentile) and 133% (Small Industrials – 87th percentile)

We are pleased with the outcome for our executive team as it reflects the excellent business performance and the foundations built for long term growth. It also aligns with our shareholder returns for the period and potential returns in the future given these foundations.

We continue to believe the Group's remuneration structure delivers outcomes that reflect an appropriate balance between shareholder returns and the ability to attract and incentivise a high performing management team. This balance is something we will continue to review as we navigate these uncertain times, with shareholder return paramount, while recognising that highly motivated talent drives that performance.

Further detail on the remuneration results are detailed in section 3 of the report, which reflect the outcomes of a good year.

Yours sincerely,



Melanie Kiely
Chair, Remuneration & Nomination Committee

1. Introduction

The Remuneration Report outlines AFG's remuneration philosophy, framework and outcomes for all Non-Executive Directors, 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 ("NED").

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

Non-Executive Directors		
Anthony Gill	Non-Executive Chairman	Appointed 28 August 2008
Kevin Matthews	Non-Executive Director	Resigned 28 October 2019
Craig Carter[1]	Non-Executive Director	Appointed 25 March 2015
Melanie Kiely[2]	Non-Executive Director	Appointed 31 March 2016
Jane Muirsmith[3]	Non-Executive Director	Appointed 31 March 2016
Brett McKeon[4]	Non-Executive Director	Transitioned 1 July 2019
Executive Directors		
Malcolm Watkins	Executive Director	Appointed 8 December 1997
Executives		
David Bailey	Chief Executive Officer	Appointed 16 June 2017
Lisa Bevan	Company Secretary	Appointed 9 March 1998
Ben Jenkins	Chief Financial Officer	Appointed 14 December 2015
John Sanger	Chief Operating Officer	Appointed 6 March 2018

(1) Craig Carter is Chairman of the Audit Committee.

(2) Melanie Kiely is Chair of the Remuneration and Nomination Committee.

(3) Jane Muirsmith is Chair of the Risk and Compliance Committee.

(4) Brett McKeon transitioned to Non-Executive Director effective 1 July 2019

Other than Kevin Matthews and Brett McKeon, all Non-Executive Directors listed above are Independent Directors.

3. Executive Remuneration Structures

The Group 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 within the context of appropriate conduct.

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 performance through outcome based measures linked to the absolute and relative performance of the business. As is appropriate, conduct continues to be an absolute gateway for incentive payment. As is appropriate, conduct continues to be an absolute gateway for incentive payment.

AFG Business Strategy	To provide customers 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 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 in order to attract, retain and engage key talent. Considerations: • Role and responsibility • External benchmarking • Contribution, competencies and capabilities • Company size and performance
Short-term incentive (STI) **Paid in cash**	Group Financial Measures FY20: Group Net Profit After Tax and at least 1 key strategically relevant KPI target with a clear link to long term strategy. Allocation to NPAT target remained at 60% in FY20, in line with FY19. 90% NPAT hurdle for any STI payment including strategic targets. Group Financial Measures FY21: Given the uncertain economic environment, the majority of KMP will have 100% of their STI allocated to the Group's NPAT target. Given the critical nature of our systems, the STI targets for the COO will include an allocation of 30% towards the progress of the Group's IT development programme with 70% allocated to NPAT.	Rewards Executives for their contribution to achievement of Group outcome and the achievement of strategically relevant KPI targets in the given financial year.
Long-term incentive (LTI) **Awards are made in the form of performance rights**	FY20 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. FY21 grant: • 35% of a KMPs entitlement allocated to a 3-year CAGR EPS target. • 65% 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 lower weighting in FY21 due to the challenging economic environment and uncertainty of what impact the COVID-19 pandemic will have. • TSR was chosen as a performance hurdle as it: » 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. This will help to ensure Executive remuneration is clearly tied to positive shareholder value creation.

3.1 *Executive Remuneration Outcomes*

STI award outcomes FY20

The combined cash bonus pool available to be paid to the Executives for on target performance in the 2020 financial year was $541,884 and the minimum is nil. For the 2020 financial year, 101% of the target STI bonus amount was achieved by the Executives as outlined below.

Target	FY19 000's	FY20 000's	Growth	Payment
NPAT ($'000)	$33,029	$38,078	15%	118%
AFGHL settlements	$3,153	$3,141	(0.4%)	87%
AFGB settlements	$130	$346	166%	63%
Total				**101%**

	Target STI opportunity	As a % of fixed remuneration	STI outcome	% Achieved	% Forfeited
D. Bailey	$229,000	40%	$230,706	101%	0%
M. Watkins	$22,556	17%	$22,724	101%	0%
L. Bevan	$88,128	33%	$88,785	101%	0%
B. Jenkins	$90,000	31%	$90,671	101%	0%
J. Sanger	$112,200	34%	$113,036	101%	0%
Total	**$541,884**		**$545,922**		

LTI award outcomes FY20

For the 2020 financial year, 98% of the target LTI bonus (granted in FY18) was achieved by the Executives as outlined below. This is reflective of stretch performance against target for CAGR EPS and TSR.

Measure	Target	Achieved	% Achieved
CAGR EPS	10%	7.2%	72%
TSR Small Industrials	75th Percentile	85th Percentile	133%
TRS Diversified Industrials	75th Percentile	80th Percentile	124%

Performance Rights	Target LTI opportunity	LTI outcome	% Achieved	% Forfeited
D. Bailey	269,667	265,292	98%	2%
B. McKeon*	21,260	20,915	98%	2%
M. Watkins	31,889	31,372	98%	2%
L. Bevan	82,371	81,035	98%	2%
B. Jenkins	83,351	81,999	98%	2%
J. Sanger	66,239	63,550	96%	4%
Total	**554,777**	**544,163**	98%	

* B. McKeon was MD of AFG at the commencement of the LTI period (1 July 2017) and as he continued to be employed as an Executive Director (and transitioned to Non-Executive Director from 1 July 2020) his rights were not forfeited.

3.2 *Fixed Annual Remuneration*

No significant changes to the remuneration structure were required during the financial year.

The targeted remuneration mix for:

- The CEO is 38% fixed and 62% variable (at risk): and
- Other members of the Executive team are in the range of 47% to 75% fixed and 25% to 53% 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 earnings diversification and providing choice and competition to consumers.
Participation	All Executives
STI opportunity	The STI available to each Executive is set at a level based on role, responsibilities and market data for the achievement of stretching targets against specific KPIs. The target STI opportunity for each Executive in FY20 is listed at 3.1 as an absolute dollar amount and as a percentage of the Executive's fixed base.
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. In FY21 100% of the STI target for all KMPs (other than COO) will be allocated to NPAT, with the potential need to change strategy and priorities quickly we believe this could be hindered by KMP being focussed on other short term strategic targets The weightings for each KPI is 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. In order for any STI award to be payable, a conduct gateway including leadership qualities must also be achieved.
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 *FY21 STI Opportunity*

Offers to participate in STI awards for 2021 were made to Executives under the STI Plan on the terms set out below.

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 (100%). In the instance of the COO (who is a KMP), the STI award is based on achievement against the targeted NPAT (70%) as well as AFG's Technology Enhancement Project (30%). More broadly the allocation of targets is dependent upon the Executive's role in the business, however all have a substantial proportion of their STI linked to a NPAT target.

3.5 The LTI Plan – 2019, 2020 and 2021 Grants

AFG has established the LTI Plan to assist in the longer-term motivation, retention and reward of KMP and certain senior employees. 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 and to ensure a focus on long term sustainable growth. Details of the LTI Grants are provided below.

	2019 &2020 LTI Grant	2021 LTI Grant
Instrument	Performance rights to acquire ordinary AFG shares	Performance rights to acquire ordinary AFG shares
Quantum	65% of an Executive's annual LTI entitlement weighted to an ***EPS*** target 35% of an Executive's annual LTI entitlement weighted to relative ***TSR*** targets	35% of an Executive's annual LTI entitlement weighted to an ***EPS*** target 65% of an Executive's annual LTI entitlement weighted to relative ***TSR*** targets
Grant date	1 July 2018, other than those approved at the 2018 AGM; and 1 July 2019 other than those subject to approval at the 2019 AGM	1 July 2020 other than those subject to approval at the 2020 AGM
Grant date fair value	***TSR*** Small Industrials Index 2019 $0.84; 2020 $1.04 ***TSR*** Diversified Financials Index 2019 $0.79; 2020 $0.98 ***EPS*** $1.36 (being the 20-day Volume Weighted Average Price leading up to 30 June 2019) ***EPS*** $1.58 (being the 20-day Volume Weighted Average Price leading up to 30 June 2020)	***TSR*** Small Industrials Index $1.153 ***TSR*** Diversified Financials Index $1.149 ***EPS*** $1.796 (being the 20-day Volume Weighted Average Price leading up to 30 June 2020)
Gateway performance measure	***TSR*** – Absolute TSR must be positive ***EPS*** – 2019 5.0% CAGR EPS; 2020 2.5% CAGR EPS The CAGR targets for the FY20 grants have been revised down in line with market expectations in a significantly depressed residential mortgage market and broader economy. This is evidenced by the RBAs decision to cut the cash rate in both June and July 2019 to a record low of 100bps.	***TSR*** – Absolute TSR must be positive ***EPS*** – 2.5% CAGR EPS Given the uncertain economic environment resulting from the COVID-19 pandemic a 3 year EPS CAGR gateway is considered appropriate. This uncertainty was also a factor in changing the weighting of the LTI award further towards TSR.
Key performance measure	***TSR*** Relative Total Shareholder Return (pro-rata vesting between hurdles) 50% measured against the Diversified Financials Index, 50% against Small Industrials 50th Percentile – 50% vesting 75th Percentile – 100% vesting 85th Percentile – 125% vesting (stretch target) 90th Percentile – 150% vesting (stretch target) ***EPS accretion*** 2019 5.0% CAGR – 50% vesting 2020 2.5% CAGR – 50% vesting 2019 10% CAGR – 100% vesting 2020 5% CAGR – 100% vesting 2019 12.5% CAGR – 150% vesting (stretch target) 2020 7.5% CAGR – 150% vesting (stretch target)	***TSR*** Relative Total Shareholder Return (pro-rata vesting between hurdles) 50% measured against the Diversified Financials Index, 50% against Small Industrials 50th Percentile – 50% vesting 75th Percentile – 100% vesting 85th Percentile – 125% vesting (stretch target) 90th Percentile – 150% vesting (stretch target) ***EPS accretion*** 2.5% CAGR – 50% vesting 5% CAGR – 100% vesting 7.5% CAGR – 150% vesting (stretch target)
Performance & service period	1 July 2018 – 30 June 2021 (FY19 Grant) 1 July 2019 – 30 June 2022 (FY20 Grant)	1 July 2020 – 30 June 2023 (FY21 Grant)
Performance assessment	30 June 2021 and 30 June 2022 Performance period not yet complete.	30 June 2023 Performance period not yet complete.

LTI Plan Rules & Design Considerations	
Link between performance and reward	***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.
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. This would include circumstances where 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.
Change of control	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.
Restrictions on dealing	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.
Reconstructions, corporate action, rights issues, bonus issues, etc.	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.

4. Statutory Remuneration Tables

Executive remuneration for the years ended 30 June 2020 and 30 June 2019

		Short-term				Post employment		Other bonuses	Long-term	Share-based payments		Other payments	Total Remuneration	Proportion of remuneration
KMP		Salary & fees	Cash bonus	Non-monetary benefits	Total	Superannuation	Retirement benefits	Discretionary bonuses	Long service leave	Rights	Shares	Other payments		Performance related
		$	$	$	$	$	$	$	$	$	$	$		%
D. Bailey	**2020**	**551,247**	**230,706**	**7,499**	**789,452**	**21,003**	**-**	**-**	**13,807**	**356,354**	**-**	**-**	**1,180,616**	**50%**
	2019	540,460	172,668	7,049	720,177	20,531	-	-	13,294	277,333	-	-	1,031,335	44%
B. McKeon[1]	**2020**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2019	119,233	17,008	7,049	143,290	12,975	-	-	3,311	113,348	-	-	272,924	48%
M. Watkins[1]	**2020**	**121,618**	**22,724**	**6,952**	**151,294**	**11,554**	**-**	**-**	**2,508**	**18,331**	**-**	**-**	**183,687**	**22%**
	2019	119,233	17,008	6,370	142,611	13,418	-	-	2,407	37,961	-	-	196,397	28%
L. Bevan[2]	**2020**	**249,501**	**88,785**	**7,499**	**345,785**	**21,003**	**-**	**-**	**4,803**	**110,657**	**-**	**-**	**482,248**	**41%**
	2019	244,669	66,452	7,049	318,170	20,531	-	-	4,710	104,067	-	-	447,478	38%
B. Jenkins	**2020**	**268,997**	**90,671**	**7,499**	**367,167**	**21,003**	**-**	**-**	**-**	**112,329**	**-**	**-**	**500,499**	**41%**
	2019	254,469	54,608	7,049	316,126	20,531	-	-	-	89,583	-	-	426,240	34%
J. Sanger	**2020**	**305,397**	**113,036**	**7,499**	**425,932**	**21,003**	**-**	**-**	**-**	**129,763**	**-**	**-**	**576,698**	**42%**
	2019	299,469	84,603	7,049	391,121	20,531	-	-	-	42,858	-	-	454,510	28%
Total	**2020**	**1,496,760**	**545,922**	**36,948**	**2,079,630**	**95,566**	**-**	**-**	**21,118**	**727,434**	**-**	**-**	**2,923,748**	**44%**
Total	2019	1,577,533	412,347	41,615	2,031,495	108,517	-	-	23,722	665,150	-	-	2,828,884	38%

Notes:

1 B. McKeon and M. Watkins are employed on a part time basis 2 days per week. Brett McKeon transitioned to Non-Executive Director 1 July 2019.

2 L. Bevan is employed on a part time basis 4 days per week.

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 and in line with the market. 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 as appropriate.

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 2020 AGM.

5.2 Structure

The remuneration of NEDs consists of Directors' fees, which is inclusive of statutory superannuation and Committee fees (if any). The below summarises the NED fees:

- Chairman: $158,000 inclusive of superannuation
- Non-Executive Directors: $95,000 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. The table below outlines the NED remuneration for the years ended 30 June 2020 and 30 June 2019:

	Year	Board and Committee Fees	Short-term benefits (non-monetary)	Superannuation	Total
		$	$	$	$
T. Gill	**2020**	**144,292**	**-**	**13,708**	**158,000**
	2019	136,986	-	13,014	150,000
K. Matthews*	**2020**	**28,285**	**-**	**2,687**	**30,972**
	2019	82,192	-	7,808	90,000
C. Carter	**2020**	**86,758**	**-**	**8,242**	**95,000**
	2019	82,192	-	7,808	90,000
M. Kiely	**2020**	**86,758**	**-**	**8,242**	**95,000**
	2019	82,192	-	7,808	90,000
J. Muirsmith	**2020**	**86,758**	**-**	**8,242**	**95,000**
	2019	82,192	-	7,808	90,000
B. McKeon	**2020**	**86,758**	**-**	**8,242**	**95,000**
	2019	-	-	-	-
Total	**2020**	**519,609**	**-**	**49,363**	**568,972**
Total	2019	465,754	-	44,246	510,000

* Kevin Matthews resigned as a Director on 28 October 2019

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 FY18, FY19 and FY20 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.

The 2018 plan vested on 30 June 2020 as detailed below.

KMP	Year / Tranches (T)	No. of rights awarded during the year[1]	Grant date	Fair value per rights at award date $	Vesting date	Exercise price	Expiry date	No. forfeited during the year	No. vested during the year[1]
B. McKeon	2018 / T1	11,274	1-Jul-17	$1.25	30-Jun-20	-	30-Jun-20	3,191	8,083
	2018 / T2	5,059	1-Jul-17	$0.75	30-Jun-20	-	30-Jun-20	-	6,275
	2018 / T3	4,927	1-Jul-17	$0.77	30-Jun-20	-	30-Jun-20	-	6,556
	2019 / T1	10,608	1-Jul-18	$1.36	30-Jun-21	-	30-Jun-21	-	-
	2019 / T2	4,899	1-Jul-18	$0.79	30-Jun-21	-	30-Jun-21	-	-
	2019 / T3	4,607	1-Jul-18	$0.84	30-Jun-21	-	30-Jun-21	-	-
M. Watkins	2018 / T1	16,910	1-Jul-17	$1.25	30-Jun-20	-	30-Jun-20	4,786	12,124
	2018 / T2	7,588	1-Jul-17	$0.75	30-Jun-20	-	30-Jun-20	-	9,412
	2018 / T3	7,391	1-Jul-17	$0.77	30-Jun-20	-	30-Jun-20	-	9,835
	2019 / T1	10,608	1-Jul-18	$1.36	30-Jun-21	-	30-Jun-21	-	-
	2019 / T2	4,899	1-Jul-18	$0.79	30-Jun-21	-	30-Jun-21	-	-
	2019 / T3	4,607	1-Jul-18	$0.84	30-Jun-21	-	30-Jun-21	-	-
	2020 / T1	9,285	1-Jul-19	$1.58	30-Jun-22	-	30-Jun-22	-	-
	2020 / T2	4,028	1-Jul-19	$0.98	30-Jun-22	-	30-Jun-22	-	-
	2020 / T3	3,795	1-Jul-19	$1.04	30-Jun-22	-	30-Jun-22	-	-
L. Bevan	2018 / T1	43,680	1-Jul-17	$1.25	30-Jun-20	-	30-Jun-20	12,361	31,319
	2018 / T2	19,600	1-Jul-17	$0.75	30-Jun-20	-	30-Jun-20	-	24,312
	2018 / T3	19,091	1-Jul-17	$0.77	30-Jun-20	-	30-Jun-20	-	25,404
	2019 / T1	41,255	1-Jul-18	$1.36	30-Jun-21	-	30-Jun-21	-	-
	2019 / T2	19,051	1-Jul-18	$0.79	30-Jun-21	-	30-Jun-21	-	-
	2019 / T3	17,916	1-Jul-18	$0.84	30-Jun-21	-	30-Jun-21	-	-
	2020 / T1	90,276	1-Jul-19	$1.58	30-Jun-22	-	30-Jun-22	-	-
	2020 / T2	39,161	1-Jul-19	$0.98	30-Jun-22	-	30-Jun-22	-	-
	2020 / T3	36,901	1-Jul-19	$1.04	30-Jun-22	-	30-Jun-22	-	-

KMP	Year / Tranches (T)	No. of rights awarded during the year[1]	Grant date	Fair value per rights at award date $	Vesting date	Exercise price	Expiry date	No. forfeited during the year	No. vested during the year[1]
D. Bailey	2018 / T1	143,000	1-Jul-17	$1.25	30-Jun-20	-	30-Jun-20	40,469	102,531
	2018 / T2	64,167	1-Jul-17	$0.75	30-Jun-20	-	30-Jun-20	-	79,593
	2018 / T3	62,500	1-Jul-17	$0.77	30-Jun-20	-	30-Jun-20	-	83,169
	2019 / T1	134,557	1-Jul-18	$1.36	30-Jun-21	-	30-Jun-21	-	-
	2019 / T2	62,136	1-Jul-18	$0.79	30-Jun-21	-	30-Jun-21	-	-
	2019 / T3	58,138	1-Jul-18	$0.84	30-Jun-21	-	30-Jun-21	-	-
	2020 / T1	228,672	1-Jul-19	$1.58	30-Jun-22	-	30-Jun-22	-	-
	2020 / T2	125,223	1-Jul-19	$0.98	30-Jun-22	-	30-Jun-22	-	-
	2020 / T3	117,999	1-Jul-19	$1.04	30-Jun-22	-	30-Jun-22	-	-
B. Jenkins	2018 / T1	44,200	1-Jul-17	$1.25	30-Jun-20	-	30-Jun-20	12,509	31,691
	2018 / T2	19,833	1-Jul-17	$0.75	30-Jun-20	-	30-Jun-20	-	24,601
	2018 / T3	19,318	1-Jul-17	$0.77	30-Jun-20	-	30-Jun-20	-	25,706
	2019 / T1	40,775	1-Jul-18	$1.36	30-Jun-21	-	30-Jun-21	-	-
	2019 / T2	18,830	1-Jul-18	$0.79	30-Jun-21	-	30-Jun-21	-	-
	2019 / T3	17,708	1-Jul-18	$0.84	30-Jun-21	-	30-Jun-21	-	-
	2020 / T1	92,622	1-Jul-19	$1.58	30-Jun-22	-	30-Jun-22	-	-
	2020 / T2	40,178	1-Jul-19	$0.98	30-Jun-22	-	30-Jun-22	-	-
	2020 / T3	37,861	1-Jul-19	$1.04	30-Jun-22	-	30-Jun-22	-	-
J. Sanger	2018 / T1	37,987	6-Mar-18	$1.54	30-Jun-20	-	30-Jun-20	10,750	27,237
	2018 / T2	14,189	6-Mar-18	$1.11	30-Jun-20	-	30-Jun-20	-	17,600
	2018 / T3	14,063	6-Mar-18	$1.12	30-Jun-20	-	30-Jun-20	-	18,714
	2019 / T1	43,174	1-Jul-18	$1.36	30-Jun-21	-	30-Jun-21	-	-
	2019 / T2	19,937	1-Jul-18	$0.79	30-Jun-21	-	30-Jun-21	-	-
	2019 / T3	18,750	1-Jul-18	$0.84	30-Jun-21	-	30-Jun-21	-	-
	2020 / T1	100,855	1-Jul-19	$1.58	30-Jun-22	-	30-Jun-22	-	-
	2020 / T2	43,750	1-Jul-19	$0.98	30-Jun-22	-	30-Jun-22	-	-
	2020 / T3	41,226	1-Jul-19	$1.04	30-Jun-22	-	30-Jun-22	-	-

T1 – Earnings Per Share allocation

T2 – TSR (Diversified Financials) allocation

T3 – TSR (Small Industrials) allocation

1 Number vested during the year is calculated on T1 72%, T2 124% and T3 133%

5.4 Shareholdings of KMP

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

30 June 2020	Balance 1 July 2019	Granted as remuneration	Sold during the period	Net change other [2]	Balance 30 June 2020[1]	Held nominally
Directors						
T. Gill	1,125,000	-	-	204,546	1,329,546	1,152,274
B. McKeon	21,179,773	240,440	(6,000,000)	869,566	16,289,779	16,289,779
M. Watkins	19,602,689	48,089	(5,000,000)	2,811,506	17,462,284	17,424,195
C. Carter	500,000	-	-	460,714	960,714	960,714
M. Kiely	67,164	-	-	22,212	89,376	89,376
J. Muirsmith	65,000	-	-	21,819	86,819	86,819
Executives						
L. Bevan	1,533,333	115,412	(565,412)	196,971	1,280,304	98,485
D. Bailey	1,066,666	224,410	(140,000)	47,668	1,198,744	609,334
B. Jenkins	-	80,148	(37,500)	7,755	50,403	-
J. Sanger	35,000	-	-	81	35,081	-

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

2 Direct market purchase due to equity raising

30 June 2019	Balance 1 July 2018	Granted as remuneration	Sold during the period	Net change other [2]	Balance 30 June 2019[1]	Held nominally
Directors						
T. Gill	1,125,000	-	-	-	1,125,000	1,125,000
B. McKeon	21,179,773	-	-	-	21,179,773	21,179,773
M. Watkins	19,602,689	-	-	-	19,602,689	19,602,689
K. Matthews	15,029,516	-	-	50,000	15,079,516	15,029,516
C. Carter	500,000	-	-	-	500,000	500,000
M. Kiely	67,164	-	-	-	67,164	67,164
J. Muirsmith	65,000	-	-	-	65,000	65,000
Executives						
L. Bevan	1,533,333	-	-	-	1,533,333	83,333
D. Bailey	1,066,666	-	-	-	1,066,666	546,666
B. Jenkins	-	-	-	-	-	-
J. Sanger	35,000	-	-	-	35,000	-

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

2 Direct market purchase

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
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
J. Sanger	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 2020 the Committee comprised independent Non-Executive Director Melanie Kiely (Chair), and independent Non-Executive Directors Craig Carter and Jane Muirsmith.

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, conduct 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.

No remuneration advice or recommendations from independent consultants was received during the financial period ended 30 June 2020.

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 2019 AGM*

The 30 June 2019 Remuneration Report was presented to shareholders and was approved at the 2019 Annual General Meeting.

8. Other Transactions and Balances with KMP and their Related Parties

(i) 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 $1,038k (2019: $464k). 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) Establish Property Group Ltd (EPG) was created as part of the demerger of AFG's former property business prior to listing on the ASX on 22 April 2015.

The Group's head office is located at 100 Havelock Street West Perth. The Group leases these premises at commercial arm's length rates from an investee of EPG, Qube Havelock Street Development Pty Ltd (Qube). AFG paid rent of $1,076k which has been paid to Qube (2019: $1,126k). In addition to the above McCabe Street Pty Ltd has an outstanding loan owing to AFG amounting to $224k (2019: $218k), this loan is on commercial terms at arms-length. EPG and McCabe Street Pty Ltd share a common director. Directors of McCabe Street Pty Ltd include B. McKeon, D. Bailey and L. Bevan.

End of Audited Remuneration Report

9. Independent Audit of Remuneration Report

The Remuneration Report has been audited by Ernst & Young. Please see page 85 of this Annual Report for Ernst & Young's report on the Remuneration Report.

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

Tony Gill
Chairman

Sydney
27 August 2020

Independence declaration under Section 307C of the Corporations Act 2001

Building a better working world

Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
ey.com/au

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

As lead auditor for the audit of the financial report of Australian Finance Group Limited for the financial year ended 30 June 2020, I declare to the best of my knowledge and belief, there have been:

a. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Australian Finance Group Limited and the entities it controlled during the financial year.

Ernst & Young

Ernst & Young

F Drummond
Partner

27 August 2020

FD:LC:AFG:127

Consolidated Statement of Financial Position

As at 30 June 2020

In thousands of AUD	Note	2020	2019
Assets			
Cash and cash equivalents	14(a)	161,528	96,818
Trade and other receivables	15	5,446	5,409
Contract assets	16	974,599	899,727
Property, plant and equipment	17	506	849
Intangible assets	17	3,318	812
Loans and advances	18	2,920,773	2,072,004
Investment in associate	19	17,034	14,341
Right of use assets	25	6,323	-
Total assets		4,089,527	3,089,960
Liabilities			
Trade and other payables	20	950,792	874,076
Interest-bearing liabilities	21	2,914,562	2,073,772
Employee benefits	22	5,194	5,234
Current tax payable	13(b)	5,988	2,808
Provisions	23	2,787	3,129
Contract liability	24	5,619	4,296
Lease Liability	25	6,559	-
Deferred tax liability	13(c)	19,813	21,823
Total liabilities		3,911,314	2,985,138
Net assets		**178,213**	**104,822**
Equity			
Share capital	26(a)	102,157	43,541
Share-based payment reserve		2,604	1,630
Other capital reserves		(14)	(96)
Retained earnings		73,466	59,747
Total equity		**178,213**	**104,822**

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 2020

In thousands of AUD	Note	2020	2019
Continuing Operations			
Commission and other income	7	589,342	569,702
Securitisation interest income		92,841	73,137
Operating income		**682,183**	**642,839**
Commission and other cost of sales		(538,282)	(514,091)
Securitisation interest expense		(53,316)	(53,513)
Gross profit		**90,585**	**75,235**
Other income	8	14,488	15,132
Administration expenses		(5,770)	(4,947)
Other expenses	9	(48,848)	(42,515)
Results from operating activities		**50,455**	**42,905**
Finance income	12	940	2,028
Finance expenses	12	(163)	-
Share of profit of an associate	19	2,314	1,526
Net finance and investing income		**3,091**	**3,554**
Profit before tax from continuing operations		**53,546**	**46,459**
Income tax expense	13(a)	(15,468)	(13,430)
Profit for the period		**38,078**	**33,029**
Attributable to:			
Owners of the Company		38,078	33,029
		38,078	**33,029**
Other comprehensive loss for the year, net of income tax		-	-
Total comprehensive income for the year		**38,078**	**33,029**
Total comprehensive income for the year attributable to:			
Owners of the Company		38,078	33,029
Total comprehensive income for the year		**38,078**	**33,029**
Earnings per share			
Basic earnings per share (cents per share)	27	17.30	15.38
Diluted earnings per share (cents per share)	27	17.09	15.24

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

Consolidated of Changes in Equity

For the year ended 30 June 2020

In thousands of AUD	Share capital	Foreign currency translation reserve	Fair value reserve	Share-based payment reserve	Retained earnings	Total equity
Balance at 1 July 2018	43,541	(14)	(73)	814	49,056	93,324
Total comprehensive income for the period	-	-	-	-	-	-
Profit	-	-	-	-	33,029	33,029
Other comprehensive income	-	-	(9)	-	-	(9)
Total comprehensive income for the period	-	-	(9)	-	33,029	33,020
Transactions with owners, recorded directly in equity						
Dividends to equity holders	-	-	-	-	(22,338)	(22,338)
Share-based payment transactions	-	-	-	816	-	816
Total transactions with owners	-	-	-	816	(22,338)	(21,522)
Balance at 30 June 2019	**43,541**	**(14)**	**(82)**	**1,630**	**59,747**	**104,822**
Balance at 1 July 2019	43,541	(14)	(82)	1,630	59,747	104,822
Total comprehensive income for the period	-	-	-	-	-	-
Profit	-	-	-	-	38,078	38,078
Transferred to Statement of Profit or Loss	-	-	82	-	-	82
Total comprehensive income for the period	-	-	82	-	38,078	38,160
Transactions with owners, recorded directly in equity						
Shares issued	60,001	-	-	-	-	60,001
Share issue costs (net of tax)	(1,385)	-	-	-	-	(1,385)
Dividends to equity holders	-	-	-	-	(24,359)	(24,359)
Share-based payment transactions	-	-	-	974	-	974
Total transactions with owners	58,616	-	-	974	(24,359)	35,231
Balance at 30 June 2020	**102,157**	**(14)**	**-**	**2,604**	**73,466**	**178,213**

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

Consolidated Statement of Cash Flows

For the year ended 30 June 2020

In thousands of AUD	Note	2020	2019
Cash flows from operating activities			
Cash receipts from customers		521,491	483,933
Cash paid to suppliers and employees		(506,401)	(463,541)
Interest received		92,841	73,137
Interest paid		(53,317)	(53,513)
Income taxes paid		(14,298)	(11,926)
Net cash generated by operating activities	14(b)	**40,316**	**28,090**
Cash flows from investing activities			
Net interest received		940	2,014
Acquisition of property, plant and equipment		(330)	(291)
Purchase of intangible assets		(2,645)	(529)
Investment in Thinktank		(379)	-
Decrease in broker loans and advances		1,977	270
Net loans and advances to borrowers		(847,490)	(690,655)
Net cash used in investing activities		**(847,927)**	**(689,191)**
Cash flows used in financing activities			
Proceeds from warehouse facility		1,255,852	707,306
Repayments of warehouse facility		(602,798)	(160,090)
Proceeds from securitised funding facilities		432,543	391,777
Repayments to securitised funding facilities		(245,740)	(247,423)
Proceeds from issue of ordinary shares, net of issue costs	26(a)	58,616	-
Payment of principal portion of lease liability		(1,793)	-
Decrease in loans from funders		-	(21)
Dividends paid	26(b)	(24,359)	(22,340)
Net cash generated by financing activities		**872,321**	**669,209**
Net increase in cash and cash equivalents		64,710	8,108
Cash and cash equivalents at 1 July		96,818	88,710
Cash and cash equivalents at 30 June	14(a)	**161,528**	**96,818**

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

Notes to the Financial Statements

1 Reporting entity

The Consolidated Financial Statements for the financial year ended 30 June 2020 comprise Australian Finance Group Ltd (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 lending. 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 ("AASB").

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 AFG Group of companies.

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 27 August 2020.

(b) Basis of measurement

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

- Payables relating to trailing commission are initially measured at fair value and subsequently at amortised cost;
- Contract assets are measured using the expected value method under AASB 15.

(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 AASB's 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:

- Note 3(a)(i) – Consolidation of special purpose entities
- Note 3(b)(i) – Impairment of financial assets held at amortised cost being customer loans and advances
- Note 3(i) – Expected value of trail commission income contract assets

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 3(i) and 29(d) - Determination of assumptions used in forecasting and discounting future trail commissions
- Note 28 - Measurement of share-based payments
- Note 29 - Valuation of contract assets and Expected Credit losses

Taxation

The Group's accounting for taxation requires Management's judgement 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. Judgements 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.

(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

New and revised Standards and amendments thereof and interpretations effective for the current year end that are relevant to the Group include:

- AASB 16 Leases;
- AASB 2017-7 Amendments to Australian Accounting Standards - Long-term Interests in Associates and Joint Ventures;
- AASB 2017-6 Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation;
- AASB 2018-1 Amendments to Australian Accounting Standards – Annual Improvements 2015-2017 Cycle;
- AASB 2018-2 Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement;
- AASB interpretation 23 Uncertainty over Income tax Treatments.

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

AASB 16 Leases

In the context of the transition to AASB 16, right of use assets of $6.8M and lease liabilities of $6.8M were recognised as at 1 July 2019. The Group transitioned to AASB 16 in accordance with the modified retrospective approach. The prior year figures were not adjusted. As part of the application of AASB 16, the Group chooses to apply the option to adjust the right of use asset by the amount of any provision for onerous leases recognised in the balance sheet immediately before the date of initial application.

The following reconciliation to the opening balance for the lease liabilities as at 1 July 2019 is based upon the operating lease obligations as at 30 June 2019:

	$'000
In thousands of AUD	
Operating lease commitments at 30 June 2019	**9,175**
Lease obligations relating to new lease entered into after 1 July 2019	(1,347)
Gross operating lease liabilities at 1 July 2019	**7,828**
Discounting	(1,022)
Lease liabilities at 1 July 2019	**6,806**

The lease liabilities were discounted at the incremental borrowing rate as at 1 July 2019. The weighted average incremental borrowing rate was 5%. Non lease components have been included in future cashflows of the lease liability.

The Group also applied the available practical expedients whereby it used a single discount rate to a portfolio of leases with reasonably similar characteristics.

(ii) Accounting Standards and Interpretations Issued But Not Yet Effective

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*	Application date for Group
Conceptual Framework for Financial Reporting	1 January 2020	30 June 2021
AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework	1 January 2020	30 June 2021
AASB 2018-6 Amendments to Australian Accounting Standards –Definition of a Business	1 January 2020	30 June 2021
AASB 2019-3 Amendments to Australian Accounting Standards –Interest rate Benchmark Reform	1 January 2020	30 June 2021
AASB 2018-7 Amendments to Australian Accounting Standards –Definition of Material	1 January 2020	30 June 2021
AASB 2019-5 Amendments to Australian Accounting Standards –Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia	1 January 2020	30 June 2021
AASB 2020-4 Amendments to Australian Accounting Standards – COVID-19 Related Rent Concessions	1 June 2020	30 June 2021
AASB 17 Insurance Contracts	1 January 2021	30 June 2022
AASB 2020-2 Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities	1 July 2021	30 June 2022
AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-Current	1 January 2022	30 June 2023
AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments	1 January 2022	30 June 2023
AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2022	30 June 2023
Amendments to IFRS 17 - Insurance Contracts	1 January 2023	30 June 2024

* Reporting period commences on or after the application date

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
- Right 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.

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

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company. 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 9 as it becomes a financial instrument on loss of significant influence.

(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.

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 2016-1 Trust, AFG 2017-1 Trust, AFG 2018-1 Trust and AFG 2019-1 Trust, AFG 2019-2 Trust and AFG 2020-1 Trust. (SPE-RMBS) to hold securitised assets and issue Residential Mortgage Backed Securities (RMBS).
- AFG 2010-2 Pty Ltd and AFG 2010-3 Pty Ltd to hold and fund investments in some of our Residential Mortgage Backed Securities (RMBS) to meet risk retention requirements.

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

The elements indicating control include, but are 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.

As a result, the Company controls the special purpose entities and on consolidation the underlying loans and notes issued are recognised as assets and liabilities.

(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 (see Note 19).

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.

(b) Financial instruments

(i) Financial assets

Initial recognition and measurement

With the exception of trade receivables that do not contain a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Trade receivables that do not contain a significant financing component are initially measured at the transaction price determined under AASB 15 (see Note 3(i) Revenue from contracts with customers).

Subsequent measurement

Financial assets at amortised cost

A financial asset is measured at amortised cost if it meets the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows;
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding; and
- it is not designated at Fair Value through Profit and Loss (FVPL).

The amortised cost of a financial asset is:

- the amount at which the financial asset is measured at initial recognition;
- minus the principal repayments;
- plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount; and
- adjusted for any loss allowance.

Interest income, foreign exchange gains and losses and impairment are recognised in profit and loss.

Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. When assessing whether or not to derecognise an asset, the entity considers whether there has been a change in counterparty and whether there has been a substantial modification to the terms of the arrangement. If the modification does not result in cashflows that are substantially different, the modification does not result in derecognition.

(ii) Impairment

The Group applies the Expected Credit Loss ("ECL") model under AASB 9. This applies to contract assets, and financial assets measured at amortised cost and debt investments at FVOCI, but not to investments in equity instruments.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). It consists of 3 components:

a) probability of default (PD): represents the possibility of a default over the next 12 months and remaining lifetime of the financial asset;

b) a loss given default (LGD): expected loss if a default occurs, taking into consideration the mitigating effect of collateral assets and time value of money; and

c) exposure at default (EAD): the expected loss when a default takes place.

The Group measures the loss allowance for a financial instrument at an amount equal to the lifetime ECL if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. If the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Group measures the loss allowance for that financial instrument at an amount equal to a 12-month ECL.

The Group has assessed the loans and advances (securitised assets) and recognised the ECL for these assets.

Impairment of Loans and Advances

The Group has applied the three-stage model based on the change in credit risk since initial recognition to determine the loss allowances of its loans and advances.

Stage 1: 12-month ECL

At initial recognition, ECL is collectively assessed and measured by classes of financial assets with the same level of credit risk based on the PD within the next 12 months and LGDs with consideration to forward looking economic indicators. Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Stage 2: Lifetime ECL

When the Group determines that there has been a significant increase in credit risk since initial recognition but not considered to be credit impaired, the Group recognises a lifetime ECL calculated as a product of the PD for the remaining lifetime of the financial asset and LGD, with consideration to forward looking economic indicators. Similar to Stage 1, loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Stage 3: Lifetime ECL - credit impaired

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. For financial assets that have been assessed as credit impaired, a lifetime ECL is recognised as a collective or specific provision, and interest revenue is calculated in subsequent reporting periods by applying the effective interest rate to the amortised cost instead of the carrying amount.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment including forward-looking information.

As part of the forward-looking assessment, the Group has considered:

- actual or expected adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations such as market interest rates, unemployment rates or property growth rates are incorporated in the model;
- external (if available) credit ratings;
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements;
- significant changes in the quality of the underwriter; and
- S&P assumptions such as first homebuyer, occupancy, employment type, geographical concentration, principal and interest and interest only.

In addition to the above, the Group has considered the impact of COVID-19 in preparing the ECL.

As part of this assessment, the Group has also considered:

- Government support to borrowers;
- Increased probability weightings for downside cases; and
- Staging for borrowers who have asked for a deferral of mortgage payments.

The 30 June 2020 results included a significant increase in impairment charges due to the expected economic impact of the COVID-19 pandemic. ECL provision has increased by $2,515k from $757k to $3,272k for the year ended 30 June 2020. Impairment charges are discussed further in Note 29 of the 2020 Annual Report.

Given the dynamic and evolving nature of COVID-19, limited recent experience of the economic and financial impacts of such a pandemic, and the short duration between the declaration of the pandemic and the preparation of these financial statements, changes to the estimates and outcomes that have been applied in the measurement of the Group assets and liabilities may arise in the future.

In response to the current COVID-19 pandemic, the Group has provided support to its customers by implementing a range of initiatives, such as granting deferrals of residential mortgage loan repayments to customers affected by the COVID-19 pandemic.

A summary of the assumptions underpinning the Groups ECL model is as follows:

Category	Definition of Category	Basis for recognition of ECL provision
Performing	Customers have a low risk of default and a strong capacity to meet contractual cash flows	12 month expected losses
Doubtful	Loans for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if interest and/or principal repayments are 30 days past due	Lifetime expected losses
In default	Interest and/or principal repayments are 90 days past due	Lifetime expected losses
Write off	Interest and/or principal repayments are past due and there is no reasonable expectation of recovery	Asset is written off

Given the uncertainty around further lockdowns and the flow on effect to unemployment rates, interest rates and property prices and therefore probability of default, the final probability of default was calculated as the maximum of:

- the probability of default calculated using S&P methodology;
- the probability of default floor based on days past due; and
- the probability of default floor based on restructuring status, which takes into account any hardship arrangements.

The group assumes the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have a low credit risk at the reporting date. A financial instrument is determined to have a low credit risk if:

(1) the financial instrument has a low risk of default;

(2) the debtor has a strong capacity to meets its contractual cash flow obligation in the near term; and

(3) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

Impairment of Contract Assets and Cash and Cash Equivalents

The Group's contract assets relate to trail commission receivable mainly from high credit quality financial institutions who are the members of AFG's lender panel (Refer to Note 5(a)). There have been no historical instances where a loss has been incurred, including through the global financial crisis. Even when forward looking assumptions are considered the ECL would not be material.

Impairment of trade receivables

Trade and other receivables from other customers are rare given the nature of the Group's business. The Group has assessed its history of losses as well as performing a forward-looking assessment, both of which have not resulted in any historical or expected material forward looking losses. Group does not require collateral in respect of trade and other receivable (refer to Note 5(a)).

Write off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Groups recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss within impairment expense.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments.

(iii) Financial Liabilities

Initial recognition and measurement

Financial liabilities within the scope of AASB 9 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 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. The Group considers a modification substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten per percent.

(iv) Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. For financial assets other than purchased or originated creditimpaired financial assets (i.e. assets that are creditimpaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated creditimpaired financial assets, a creditadjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

(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.

(c) Cash and short-term deposits

Cash and short-term deposits in the Consolidated 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.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation (see (iii) below) and impairment losses (see accounting policy 3(f)).

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Borrowing costs related to the acquisition or construction of qualifying assets are capitalised as part of the cost of the assets.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for separately.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount and are recognised net within "other income" in profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its costs can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful life unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

(i)	plant and equipment	2-5 years
(ii)	fixtures and fittings	5-20 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

(e) Intangibles

(i) Software development costs

Software development costs are recognised as an expense when incurred, except to the extent that such costs, together with previous unamortised deferred costs in relation to that project, are expected probable, to provide future economic benefits.

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(f)).

(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

(f) 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 (except goodwill) 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.

(g) 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 and high quality corporate 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 and annual 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.

(h) 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.

Provision for clawbacks on settlements within the period are raised on both commission received and commission payable. Clawbacks will be re-measured each reporting period.

(i) Revenue from contracts with Customers

The Group accounts for revenue under AASB 15 Revenue from contracts with customers. The standard has introduced a single principle based five step recognition measurement model for revenue recognition:

(1) Identifying the contract with a customer;

(2) Identifying the separate performance obligations;

(3) Determining the transaction price;

(4) Allocating the transaction price to the performance obligations;

(5) Recognising revenue when or as performance obligations are satisfied.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers. The Group recognises contract liabilities (see note 24) for consideration received in respect of unsatisfied performance obligations and reports these amounts as other liabilities in the statement of financial position. Similarly, if the Group performs a performance obligation before it receives the consideration, the Group recognises either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due. In relation to the Group the contract asset is recognised to account for the revenue in relation to the satisfaction of a performance obligation.

Under AASB 15, revenue is recognised when the Group satisfies performance obligations by transferring the promised services to its customers. Determining the timing of the transfer of control - at a point in time or over time - requires judgement. Below is a summary of the major services provided and the Group's accounting policy on recognition as a result of adopting AASB 15.

The Group's significant income streams under AASB 15 include:

- Commissions – origination and trail commissions and associated interest income to account for the time value of money.
- Other income – sponsorship income and fees for services.

The Group often enters into transactions that will give rise to different streams of revenue. In all cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties.

Commissions – origination and trail commissions

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 on loans other than those originated by the Group are recognised upon the loans being settled and receipt of commission net of clawbacks. Commissions may be clawed back by lenders in accordance with individual contracts. These potential clawbacks are estimated and recognised at the same time as origination commission and included in origination commission revenue.
- Trailing commissions: The Group receives trail commissions from lenders on settled loans over the

life of the loan based on the loan balance outstanding. The Group also makes trail commission payments to brokers when trail commission is received from lenders. The future trail commission receivable is recognised upfront as a contract asset. Trailing commissions include revenue on residential, commercial and AFGHL white label trail books.

- Interest income: This is the financing component of the trail commission contract asset which brings into consideration the time value of money.

Trail commissions – significant estimates and judgements

The Group applies the AASB 15 variable consideration guidance to the measurement of the contract asset.

On initial recognition, the Group recognises a contract asset which represents management's estimate of the variable consideration to be received from lenders on settled loans. The Group uses the 'expected value' method of estimating variable consideration which requires significant judgement. A corresponding expense and payable is also recognised, initially measured at fair value being the net present value of expected future trailing commission payable to brokers.

The value of trail commission receivable from lenders and the corresponding payable to brokers is determined by using a discounted cash flow valuation to determine the expected value. These calculations require the use of assumptions which are determined by management using a variety of inputs including external actuarial analysis of historical information. Key assumptions underlying the calculation include the average loan life, discount rate and the percentage paid to brokers. Refer to Note 29(d) for details on these key assumptions.

Other income

Sponsorship income is the income received in advance from sponsorship payment arrangements with lenders. The income is brought to account once the sponsored event has occurred.

Fees for services relates to providing marketing, compliance and administration services to the brokers. This revenue is recognised with reference to the stage of completion for the contract of services.

Impact of application of AASB 15 Revenue from Contracts with Customers

Determining performance obligations are satisfied (over time or a point in time) requires judgement. The below table illustrates a summary of the impact of AASB 15 on the Group's significant revenue from contracts with customers.

Payment for upfront commissions and fees for services are all typically due within 30 days of satisfying performance obligations.

"Point in time" or "Over time"	Types of Service	Nature and timing of satisfaction of performance obligations	Revenue recognition policy under AASB 15
Point in time	Commissions – origination commissions	At the point in time when the loan is settled with the lender.	The Group recognises revenue at the point in time when the loan is settled with the lender. The transaction price is adjusted for any expected clawbacks.
Point in time	Commissions – trail commissions	At the point in time when the loan is settled with the lender.	The Group recognises this revenue at the point in time, when the loan is settled with the lender. On initial recognition a contract asset is recognised, representing managements estimate of the variable consideration to be received. The Group uses the "expected value" method of estimating the variable consideration, which includes significant financing component, by recalculating the net present value of the estimated future cash flows at the original effective interest rate.
Over time	Interest income – discount unwind on the NPV trail commission contract asset	Revenue arising from the discount rate applied to the trail commission contract asset.	Interest income from the unwinding of the discount rate on the trail commission contract asset is recognised over time.

"Point in time" or "Over time"	Types of Service	Nature and timing of satisfaction of performance obligations	Revenue recognition policy under AASB 15
Point in time	Other income – sponsorship income	The performance obligation is that a sponsored event has occurred.	Funds are received in advance and initially recognised as contract liability (deferred income). Revenue is recognised at a point in time when the sponsored event has occurred.
Over time	Other income – Fees for services	The performance obligation is the provision of services to brokers, including marketing, compliance and administration services. The income is recognised with reference to the stage of completion for the contract of the services.	Revenue is recognised when performance obligation is satisfied.

(j) Leases

The Group adopted AASB 16 on 1 July 2019.

Recognition and measurement

When a contract is entered into, the Group assesses whether the contract contains a lease. A lease arises when the Group has the right to direct the use of an identified asset which is not substitutable and to obtain substantially all economic benefits from the use of the asset throughout the period of use. The leases recognised by the Group relate to office space.

Right of Use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease Liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Key estimates and judgements

(a) Control - Judgement is required to assess whether a contract is or contains a lease at inception by assessing whether the Group has the right to direct the use of the identified asset and obtain substantially all the economic benefits from the use of that asset.

(b) Lease term - Judgement is required when assessing the term of the lease and whether to include optional extension and termination periods. Option periods are only included in determining the lease term at inception when they are reasonably certain to be exercised. Lease terms are reassessed when a significant change in circumstances occurs.

(c) Discount rates - Judgement is required to determine the discount rate, where the discount rate is the Group's incremental borrowing rate if the rate implicit in the lease cannot be readily determined.

(k) Finance income and expenses

Finance income comprises interest income on funds invested and foreign currency gains. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise interest payable on borrowings.

(l) Securitisation interest income and expense

Interest income is the key component of this revenue stream and it is recognised using the effective interest method in accordance with AASB 9. 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 relating to trail commission to brokers are also spread across the estimated life of the loan using the effective interest method.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost.

For financial assets other than purchased or originated credit impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit impaired.

For financial assets that have subsequently become credit impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit impaired financial instrument improves so that the financial asset is no longer credit impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Securitisation expense comprises interest payable on borrowings.

(m) 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 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.

(iii) 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.

(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 and subsequently amortised over the life of that asset. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in the profit or loss using the effective interest method.

(o) Trail commissions payable

The Group pays trail commissions to brokers. This is initially measured at expected value being the net present value of expected future trailing commission payable to brokers.

The trail commissions payable to brokers is determined by using a discounted cash flow valuation. These calculations require the use of assumptions which are determined by management using a variety of inputs including external actuarial analysis of historical runoff information. Refer to Note 29(d) for details on the key assumptions.

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.

Contract Asset

The Group receives trail commissions from lenders on settled loans over the life of the loan based on the loan book balance outstanding. This is initially recognised as a contract asset and is measured using the 'expected value' method under AASB 15 (refer to Note 3(i) Revenue from Contracts with Customers).

The contract asset from lenders is determined by using a discounted cash flow valuation. These calculations require the use of assumptions which are determined by management using a variety of inputs including external actuarial analysis of historical runoff information. Refer to Note 29(d) for details on the key assumptions.

Trade and other payables

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

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 trail commission payables that are initially recognised at fair value and subsequently measured at amortised cost based on an actuarial assessment of future cashflow using appropriate discount rates.

5 Financial risk management

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 below risks, the objectives, policies and processes for measuring and managing risk, and the management of capital. Refer to note 3(b)(i) for details. 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.

(a) 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. Refer to Note 29(a) for details.

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.

Excluding financial institutions on the lender panel, trade and other receivables from other customers are rare given the nature of the Group's business. The Group has assessed its history of losses as well as performing a forward-looking assessment, both of which have not resulted in any historical or expected material forward looking losses. Group does not require collateral in respect of trade and other receivables.

Contract assets

The Group's contract assets 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 prior to joining the panel. The Group bears the risk of non-payment of future trail commissions by lenders (contract assets) 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 trail commissions to brokers. Majority of all lenders have confirmed they will pay trail on COVID-19 hardship cases. The final adjustment on foreclosures is not expected to have a material impact on the trail book. No expected credit loss required as the credit risk of the underlying borrower as well as the impact of COVID-19 is built into the variable constraint used in the calculation. Refer to note 29(a)(ii) for details.

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 carrying amount of the loans, net of any impairment losses. Subsequent to June 2014 all residential loans with a loan to value ratio of greater than 80% are subject to a lenders mortgage insurance contract.

The Group has applied an ECL model to determine the collective impairment provision of its loans and advances. Refer note 3(b)(ii)) and 29(a)(ii) for details. COVID-19 economic impacts have increased the likelihood of losses due to such things as increased unemployment and potentially decreasing property prices. These factors have been included in the ECL model which has seen the provision increase to $3,272k (2019: $757k).

(b) 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.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Group is exposed to foreign currency risk on cash assets that are denominated in a currency other than AUD. The currencies giving rise to this risk are denominated in US dollars (USD) and New Zealand dollars (NZD). The Group elects not to enter into foreign exchange contracts to hedge this exposure as the net movements would not be material. The Group has no significant exposure to currency risk.

Interest rate risk

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

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

Prepayment risk

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

The Group's key exposure relates to the net present value of contracts assets and future trail commissions 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.

(d) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity and aims to maintain a capital structure that ensures the lowest cost of capital available to the Group. The Board of Directors also monitors the level of dividends to ordinary shareholders.

The SPEs 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-RMBS 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 of the covenants or funding terms imposed by the warehouse and RMBS transactions 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.

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. All external customers are Australian entities.

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 contracted brokers 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;

- 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 contracted brokers and are generating trail income.

AFG Home Loans

AFGHL offers the Group's branded mortgage products, funded by third party wholesale funding providers (white label products) or AFG Securities mortgages (securitised loans issued by AFG Securities Pty Ltd) that are distributed through the Group's distribution network. AFGHL sits on the Group's panel of lenders alongside the other residential 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 loans funded by its securitisation programme. Segment results that are reported to the Board of Directors include items directly attributable to the relevant segment as well as those that can be allocated on a reasonable basis.

Other/Unallocated

Other/unallocated items are comprised mainly of other operating activities from which the Group earns revenue and incurs expenses that are not required to be reported separately since they don't meet the quantitative thresholds prescribed by AASB 8 or are not managed separately and include corporate and taxation overheads, assets and liabilities. Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before tax, as included in the internal management reports that are reviewed by the Board of Directors.

Year ended 30 June 2020 *In thousands of AUD*	**AFG Wholesale Mortgage Broking**	**AFG Home Loans**	**Other / Unallocated / Eliminations**	**Total**
Income				
Operating income	551,283	129,421	1,479	682,183
Inter-segment[1]	34,871	-	(34,871)	-
Other income	1,119	-	13,369	14,488
Finance income	-	105	835	940
Share of profit of an associate	-	-	2,314	2,314
Total segment income	**587,273**	**129,526**	**(16,874)**	**699,925**
Timing of revenue recognition				
At a point in time	587,273	35,546	(29,789)	593,030
Over time	-	93,980	12,915	106,895
Results				
Segment profit/(loss) before income tax	**43,980**	**11,430**	**(1,864)**	**53,546**
Income tax expense				(15,468)
Net profit after tax				**38,078**
Assets and liabilities				
Total segment assets	**971,979**	**3,079,982**	**37,566**	**4,089,527**
Total segment liabilities	**946,520**	**2,967,384**	**(2,590)**	**3,911,314**
Other segment information				
Depreciation and amortisation	(87)	(22)	(2,377)	(2,486)

Year ended 30 June 2019 *In thousands of AUD*	**AFG Wholesale Mortgage Broking**	**AFG Home Loans**	**Other / Unallocated / Eliminations**	**Total**
Income				
Operating income	530,095	111,288	1,456	642,839
Inter-segment[1]	31,622	-	(31,622)	-
Other income	1,603	-	13,529	15,132
Finance income	-	33	1,995	2,028
Share of profit of an associate	-	-	1,526	1,526
Total segment income	**563,320**	**111,321**	**(13,116)**	**661,525**
Timing of revenue recognition				
At a point in time	563,320	37,335	(25,306)	575,349
Over time	-	73,986	12,190	86,176
Results				
Segment profit/(loss) before income tax	**33,223**	**16,728**	**(3,492)**	**46,459**
Income tax expense				(13,430)
Net profit after tax				**33,029**
Assets and liabilities				
Total segment assets	**880,616**	**2,184,060**	**25,284**	**3,089,960**
Total segment liabilities	**868,931**	**2,115,354**	**853**	**2,985,138**
Other segment information				
Depreciation and amortisation	(149)	(21)	(855)	(1,025)

1 Relate to Intercompany transactions

7 Commissions and other income

In thousands of AUD	**2020**	**2019**
Timing of revenue recognition *At a point in time*		
Commissions	530,654	514,124
Securitisation transaction fees	1,764	1,263
Over time		
Interest on commission income receivable	55,785	53,466
Mortgage management services	268	213
Securitisation transaction fees	871	636
Total commissions and other income	589,342	569,702

Commission and other income is accounted for in accordance with AASB 15 – Revenue from contracts with customers. Refer to Note 3(i) for accounting policy.

8 Other income

In thousands of AUD	2020	2019
Timing of revenue recognition *At a point in time*		
Sponsorship and incentive income	2,977	3,605
Performance bonus income	512	834
Over time		
Professional indemnity insurance(i)	2,358	2,321
Software licence fees (ii)	2,925	2,883
Fees for services	5,114	4,996
Other(iii)	602	493
Total Other income	14,488	15,132

i. Professional indemnity insurance is the income generated from professional indemnity insurance cover. AFG purchases a third-party professional indemnity insurance policy for which it pays a premium and offers AFG's brokers the option to be included under AFG's policy cover. If this offer is taken up, brokers will be charged a fee. This revenue from this fee is brought to account over time.

ii. Software Licenses is the income generated from FLEX & SMART. This revenue relates to AFG software and marketing services used by brokers and is recognised over time.

iii. Other income is accounted for in accordance with AASB 15 – Revenue from contracts with customers. Refer to Note 3(i) for accounting policy.

9 Other expenses

In thousands of AUD	Note	2020	2019
Advertising and promotion		3,588	3,977
Consultancy and professional fees		4,244	2,148
Information technology		4,993	3,433
Occupancy costs		397	423
Employee costs	10	30,528	29,391
Depreciation and amortisation		2,486	1,026
Operating lease costs		-	1,609
Impairment loss on loans and advances		2,612	508
		48,848	42,515

10 Employee costs

In thousands of AUD	2020	2019
Wages and salaries	21,324	20,344
Other associated personnel expenses	6,165	6,268
Change in liabilities for employee benefits	31	(13)
Share-based payment transactions	924	772
Superannuation	2,084	2,020
	30,528	29,391

11 Auditors' remuneration

In thousands of AUD	2020	2019
Fees to Ernst & Young (Australia)		
Fees for auditing the statutory financial report of the parent covering the group and auditing the statutory financial reports of any controlled entities	240,000	-
Fees for assurance services that are requires by legislation provided by the auditor – AFSL	15,000	-
Fees for other services – CBA lender review program	30,000	-
Total fees to Ernst & Young (Australia)	285,000	-
Fees to other overseas member firms of Ernst & Young (Australia)	-	-
Total Fees to Ernst & Young	285,000	-
Fees to Deloitte Touche Tohmatsu (Australia)		
Fees for auditing the statutory financial report of the parent covering the group and auditing the statutory financial reports of any controlled entities	-	189,500
Fees for assurance services that are requires by legislation provided by the auditor – AFSL	-	15,500
Fees for other services - Actuarial Services	101,500	97,500
Total fees to Deloitte Touche Tohmatsu (Australia)	101,500	302,500
Fees to other overseas member firms of Deloitte Touche Tohmatsu (Australia)	-	-
Total Fees to Deloitte Touche Tohmatsu	101,500	302,500

12 Finance income and expenses

Recognised in profit or loss		
In thousands of AUD	**2020**	**2019**
Interest income on broker loans and receivables	400	599
Interest income on cash and cash equivalents	540	1,415
Net foreign exchange gain	-	14
Finance income	940	2,028
Interest expense on lease liability	163	-
Finance expense	163	-

13 Income tax

(a) Current tax expense

In thousands of AUD	2020	2019
Income tax recognised in profit or loss		
Current tax expense		
Current period	17,321	12,853
Adjustments for prior periods	-	(126)
Other adjustments	-	(26)
Deferred tax expense		
Origination and reversal of temporary differences	(1,853)	729
Income tax expense reported in the statement of profit or loss	15,468	13,430

Numerical reconciliation between tax expense and pre-tax accounting profit

In thousands of AUD	2020	2019
Profit before tax from continuing operations	53,546	46,458
Income tax using the Company's domestic tax rate of 30% (2019: 30%)	16,064	13,938
Non-deductible expenses	(596)	(356)
Over provision in prior periods	-	(126)
Other adjustments	-	(26)
	15,468	13,430

(b) Current tax assets and liabilities

The current tax liability for the Group of $5,988k (2019: $2,808k) represents the amount of income taxes payable in respect of current and prior financial years.

(c) Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
In thousands of AUD	2020	2019	2020	2019	2020	2019
Property, plant and equipment and intangibles	(265)	(34)	-	-	(265)	(34)
Trade and other receivables	-	-	-	-	-	-
Contract asset	-	-	285,195	263,014	285,195	263,014
Employee benefits	(1,364)	(1,459)	-	-	(1,364)	(1,459)
Trade and other payables	(260,465)	(237,881)	-	-	(260,465)	(237,881)
Other items	(3,288)	(1,817)	-	-	(3,288)	(1,817)
Tax (assets) / liabilities	(265,382)	(241,191)	285,195	263,014	19,813	21,823
Set off of tax	265,382	241,191	(265,382)	(241,191)	-	-
Net deferred tax liabilities	-	-	19,813	21,823	19,813	21,823

14 Cash and cash equivalents

(a) Cash and cash equivalents

In thousands of AUD	2020	2019
Cash at bank	106,895	48,297
Short term deposits	1,252	1,276
Unrestricted cash	108,147	49,573
Cash collections accounts[1]	41,348	30,611
Restricted cash[2]	12,033	16,634
Restricted cash	53,381	47,245
Cash and cash equivalents	161,528	96,818
Cash and cash equivalents in the Statement of Cash Flows	161,528	96,818

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, liquidity reserve account and cash provided in trust by the warehouse providers to fund pending settlements

The effective interest rate on short term deposits in 2020 was 1.30% (2019: 2.32%). The deposits had an average maturity of 68 days (2019: 73 days).

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

(b) Reconciliation of cash flows from operating activities

In thousands of AUD	2020	2019
Cash flows from operating activities		
Profit for the period from continuing operations	38,078	33,029
Adjustments to reconcile the profit to net cash flows:		
Income tax expense from continuing operations	15,468	13,430
Depreciation and amortisation	2,486	1,025
Term out cost amortisation	932	259
Interest on leases	343	-
Net interest income from investing activities	(940)	(2,014)
Expense recognised in respect of equity-settled share-based payments	976	773
Share of profit in an associate	(2,314)	(1,526)
Present value of future trail commission income	(74,872)	(94,674)
Present value of future trail commission expense	72,284	88,298
Other non-cash movements	2	10
	52,443	38,610
Working capital adjustments:		
Changes in assets and liabilities		
Decrease in receivables and prepayments	(5,717)	(2,909)
Increase in ECL provision	2,516	333
Increase in trade and other payables	4,077	3,205
Increase/(Decrease) in contract liability	1,678	(178)
(Decrease)/Increase in employee entitlements	(41)	681
(Decrease)/Increase in provisions	(342)	274
Cash generated from operations	54,614	40,016
Income tax paid	(14,298)	(11,926)
Net cash generated by operating activities	40,316	28,090

15 Trade and other receivables

In thousands of AUD	2020	2019
Current		
Trade receivables	214	239
Other receivables[1]	2,031	1,256
Accrued income	150	375
	2,395	1,870
Prepayments	3,051	3,539
	5,446	5,409

1 Other receivables include the Think Tank Pty Ltd term deposit. Refer Note 19.

16 Contract Asset

In thousands of AUD	2020	2019
Current		
Net present value of future trail commissions contract asset	209,863	194,283
Non-current		
Net present value of future trail commissions contract asset	764,736	705,444
	974,599	899,727

The Group's exposure to credit and currency risks and impairment losses related to contract assets are disclosed in Note 29.

17 Property, plant and equipment and Intangibles

Property, plant and equipment

In thousands of AUD	Plant and equipment	Fixtures and fittings	Total
Balance at 1 July 2018	246	1,133	1,379
Acquisitions	254	11	265
Disposals and write-offs	(3)	-	(3)
Depreciation	(185)	(607)	(792)
Balance at 30 June 2019	312	537	849
Balance at 1 July 2019	312	537	849
Acquisitions	185	145	330
Depreciation	(206)	(467)	(673)
Balance at 30 June 2020	291	215	506

Intangibles

In thousands of AUD	2020
	Software Development
Balance at 1 July 2018	526
Acquisitions	529
Depreciation	(243)
Balance at 30 June 2019	812
Balance at 1 July 2019	812
Acquisitions	2,726
Depreciation	(220)
Balance at 30 June 2020	3,318

18 Loans and advances

In thousands of AUD	2020	2019
Current		
Securitised assets[1]	457,834	353,943
Other secured loans[2]	1,223	1,574
	459,057	355,517
Non-current		
Securitised assets[1]	2,462,787	1,713,417
Other secured loans[2]	2,201	3,827
Less: Provision for expected credit loss[3]	(3,272)	(757)
	2,461,716	1,716,487
	2,920,773	2,072,004

(1) The originated mortgage loans and 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 Brokers secured over future trail commissions' payable to the broker and in some cases personal guarantees. Interest is charged on average at 9.77% p.a. (2019: 10.70% p.a.).

b) Loan and advances to McCabe St Limited (related party) $224k (2019: $218k) are secured over its land and assets. Interest is charged on average at 2.94% p.a. (2019: 4.13% p.a.).

(3) Refer to Note 29(a)(ii) for a reconciliation of opening and closing expected credit losses on loans and advances including movements between credit risk stages.

At the end of the reporting period, the balance of the Group's securitised assets includes a provision for expected credit loss of $3,272k (2019: $757k).

During the financial year, new loans issued in the Group's securitisation programme were $1,354,499k (2019: $1,059,513k).

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

19 Investment in associate

In thousands of AUD	2020	2019
Non-current		
Cost of investment[1]	11,141	11,141
Contingent consideration liability	1,488	1,488
Share of post-acquisition profit	4,026	1,712
Purchase additional shares	379	-
	17,034	14,341

1 Includes transaction costs

AFG

AFG holds a 32.81% investment in Think Tank Group Pty Ltd ("Thinktank") with additional contingent consideration payable of $1,488k. In connection with the investment AFG distributes a white label commercial property product through its network of brokers. The strategic investment in Thinktank represents the next evolutionary step for AFG to diversify its earnings base. The ongoing success of AFGHL and the introduction of AFG Business are important contributors to the future growth of AFG. The investment in Thinktank allows AFG to participate further in commercial property lending - both directly through the white label opportunity and indirectly through AFG's shareholding to generate further earnings for AFG.

Associates are all entities over which the Group has significant influence but not control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. This investment has been classified as an investment in an associate due to the Group's significant involvement in the financial and operating policy decisions including Board representation of Thinktank.

In thousands of AUD	2020	2019
Thinktank's summarised financial information		
Balance Sheet		
Current assets	72,006	42,162
Non-current assets	1,647,111	1,071,871
Total Assets	1,719,117	1,114,033
Current liabilities	919,756	410,141
Non-current liabilities	778,984	692,378
Total Liabilities	1,698,740	1,102,519
Net assets	20,377	11,514
Income Statement		
Profit after tax	8,584	3,794
Reconciliation to carrying amounts:		
Carrying amount of investment	17,034	14,341
Group's share of profit after tax for the period	4,026	1,712
Acquisition costs	11,141	11,141
Contingent consideration liability	1,488	1,488
Purchase additional shares	379	-
	17,034	14,341

20 Trade and other payables

In thousands of AUD	Note	2020	2019
Current			
Present value of future trail commissions payable	4	187,347	172,430
Other trade payables		65,483	63,282
Non-trade payables and accrued expenses		6,212	3,981
		259,042	239,693
Non-current			
Net present value of future trail commissions payable		691,750	634,383
		691,750	634,383
		950,792	874,076

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

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

The Group's exposure to liquidity risk related to trade and other payables is disclosed in Note 29.

21 Interest-bearing liabilities

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate risk, see Note 29.

In thousands of AUD	2020	2019
Current		
Securitisation warehouse facilities[2]	1,615,500	962,444
Securitised funding facilities[1]	203,515	191,722
	1,819,015	1,154,166
Non-current		
Securitised funding facilities[1]	1,095,547	919,606
	1,095,547	919,606
	2,914,562	2,073,772

1 Securitised funding facilities include RMBS and risk retention facilities

2 On 30 July 2020, the Group successfully completed the AFG 2020-1 Trust issue, a $700 million Residential Mortgage Backed Securities (RMBS) issue. Refer Note 35.

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

In thousands of AUD	2020				2019			
	Weighted Average Effective interest rate	Year of maturity	Face value	Carrying amount	Weighted Average Effective interest rate	Year of maturity	Face value	Carrying amount
Warehouse facilities	2.13%	2020-2021	1,615,500	1,615,500	3.13%	2019-2020	962,444	962,444
Securitised funding facilities	2.16%	2020-2024	1,294,978	1,299,062	3.17%	2019-2024	1,106,674	1,111,328
			2,910,478	2,914,562			2,069,118	2,073,772

(a) Warehouse and Securitised funding facilities

(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 being loans and advances to customers. 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.

Customer loans and advances 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 or equal to 80% were settled on the basis that no lenders mortgage insurance policy was required. When purchased, a lender's mortgage insurance contract covers 100% of the principal of the loan.

As at the reporting date the unutilised securitisation warehouse facility for all Series is $401,000k (2019: $44,356k). The interest is recognised at an effective rate of 2.13% (2019: 3.13%).

As at the reporting date we have two securitisation warehouse facilities, expiring on the 14 December 2020 and 10 May 2021.

(ii) Securitised funding facilities

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 borrowing customer 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 a weighted effective rate of 2.13% (2019: 3.17%).

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 being 1% of the aggregated invested amount of all notes at that time,
- $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 $5,640k (2019: $5,940k).

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.

Other Securitised funding facilities

Securitised funding facilities are secured only on the assets of each of the individual securitisation trusts. As at the reporting date we have two other securitised funding facilities, provided for the purpose of funding the purchase of Notes in our RMBS issues required to be retained under the EU Regulations. These facilities are also supported by a guarantee provided by AFG Securities Pty Ltd. Total funding provided in financial year ending 30 June 2020 was $38,304k.

(b) Other finance facilities

In thousands of AUD	2020	2019
Standby facility	200	200
Bank guarantee facility	252	276
	452	476
Facilities utilised at reporting date		
Standby facility	38	118
Bank guarantee facility	252	276
	290	394
Facilities not utilised at reporting date		
Standby facility	162	82
	162	82

The facilities are subject to annual review.

22 Employee benefits

In thousands of AUD	2020	2019
Current		
Salaries and wages accrued	2,421	2,491
Liability for long service leave	1,317	1,444
Liability for annual leave	1,358	1,181
	5,096	5,116
Non-Current		
Liability for long-service leave	98	118
	98	118
	5,194	5,234

23 Provisions

In thousands of AUD	2020	2019
Provision for Clawbacks[1]	1,089	1,291
Provision for Contingent Payment [2]	1,488	1,488
Provision for make good	210	350
	2,787	3,129

1 Provision for clawbacks relates to commissions that maybe clawed back by lenders in accordance with individual contracts. These potential clawbacks are estimated, and a provision raised (see note 3(i)).

2 Provision for contingent payment to Thinktank (see note 19). The contingent payment refers to the contingent consideration payable of $1,488k (2019: $1,488k) in relation to the Thinktank strategic investment.

24 Contract liability

Contract Liability *In thousands of AUD*	2020	2019
Current		
Sponsorship income	5,287	3,936
Lease incentives	-	10
Unearned income	332	350
	5,619	4,296

25 Leases

In the context of the transition to AASB 16, right of use assets of $6.8M and lease liabilities of $6.8M were recognised as at 1 July 2019. The Group transitioned to AASB 16 in accordance with the modified retrospective approach. The prior year figures were not adjusted. As part of the application of AASB 16, the Group chooses to apply the option to adjust the right of use asset by the amount of any provision for onerous leases recognised in the balance sheet immediately before the date of initial application.

The following reconciliation to the opening balance for the lease liabilities as at 1 July 2019 is based upon the operating lease obligations as at 30 June 2019:

In thousands of AUD	$'000
Operating lease commitments at 30 June 2019	9,175
Lease obligations relating to new lease entered into after 1 July 2019	(1,347)
Gross operating lease liabilities at 1 July 2019	7,828
Discounting	(1,022)
Lease liabilities at 1 July 2019	6,806

The lease liabilities were discounted at the incremental borrowing rate as at 1 July 2019. The weighted average incremental borrowing rate was 5%. Non lease components have been included in future cashflows.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics.

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.

Lease Assets *In thousands of AUD*	$'000
At 1 July 2019	6,806
Additions	1,134
Lease remeasurements	-
Depreciation	(1,617)
Carrying amount at 30 June 2020	6,323
At 30 June 2020	
Historical cost	7,940
Accumulated depreciation and impairment	(1,617)
Carrying amount at 30 June 2020	6,323

Lease Liabilities	
In thousands of AUD	**$'000**
At 1 July 2019	6,806
Additions	1,134
Repayments	(1,723)
Accretion of interest	342
Lease remeasurements	-
Carrying amount at 30 June 2020	6,559

	$'000
At 30 June 2020	
Current	1,292
Non-current	5,267
Carrying amount at 30 June 2020	6,559

Maturity profile of lease liabilities. The table below presents the contractual discounted cash flows associated with the Group's lease liabilities, representing principal and interest.

Maturity profile of lease liabilities	
Due for payment in:	
In thousands of AUD	**$'000**
1 year or less	1,292
1-2 years	1,236
2-3 years	1,242
3-4 years	1,348
4-5 years	1,239
More than 5 years	202
	6,559

26 Capital and reserves

(a) Share capital

The Company	**Share Capital ($'000)**		**Ordinary shares ('000)**	
	2020	**2019**	**2020**	**2019**
On issue at 1 July	43,541	43,541	214,813	214,813
Issued for cash	60,001	-	52,928	-
Share issue costs	(1,385)	-	-	-
On issue at 30 June – fully paid	102,157	43,541	267,741	214,813

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) Dividends

Dividends paid in the current year by the Group are:

	Cents per share	Total amount ($'000)	Franked / unfranked	Date of payment
2020				
Final 2019 ordinary	5.9	12,719	100%	03/10/2019
1st interim 2020 ordinary	5.4	11,640	100%	26/03/2020
		24,359		
2019				
Final 2018 ordinary	5.7	12,244	100%	27/09/2018
1st interim 2019 ordinary	4.7	10,096	100%	28/03/2019
		22,340		

Declared and unrecognised as a liability:

2020				
Final 2020 ordinary	4.7	12,584	100%	29/09/2020
		12,584		

Dividends declared or paid during the year or after 30 June 2020 were franked at the rate of 30%.

In thousands of AUD	2020	2019
Dividend franking account	18,379	15,114
30 per cent franking credits available to shareholders of Australian Finance Group Limited for subsequent financial years	42,885	35,267
	61,264	50,381

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 $61,264k (2019: $50,381k) franking credits.

27 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	30 June 2020	30 June 2019
Profit attributable to ordinary equity holders of the Company	38,078	33,029
	Thousands	Thousands
Weighted average number of ordinary shares for basic EPS (thousands)	220,149	214,813
Effect of dilution: Performance rights	2,676	1,956
Weighted average number of ordinary shares adjusted for the effect of dilution	222,825	216,769

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.

28 Share based payments

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 plan 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 the plan are subject to instalment vesting over a three-year period. The rights are subject to Total Shareholder Return (TSR) and Earnings Per Share (EPS) performance hurdles in addition to continuous service vesting conditions. 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. Refer to section 3.5 of the remuneration report for further detail.

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

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
1/07/2016	30/06/2019	-	593,136	-	-	-	593,136
1/07/2017	30/06/2020	593,136	695,396	-	-	-	1,288,532
1/07/2018	30/06/2021	1,288,532	710,560	554,199	-	38,937	1,405,956
1/07/2019	30/06/2022	1,405,956	1,325,215	554,056	-	141,340	2,035,775

29 Financial instruments

(a) Credit risk

Exposure to credit risk

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

(i) Contract assets

The majority of the Group's net present value of future trail commission receivables 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. An impairment assessment using forward looking assumptions has been undertaken refer to Note 3(b)(ii) for further information.

In thousands of AUD	Current	Non-Current	Current	Non-Current
Standard & Poor's Credit rating	**2020**	**2020**	**2019**	**2019**
AA+	-	-	-	-
AA-	148,402	540,772	142,095	515,948
A+	28,519	103,923	16,154	58,656
A	1,673	6,096	4,178	15,169
A-	3,421	12,465	8,654	31,422
BBB+	6,820	24,852	6,461	23,460
BBB	7,098	25,863	8,401	30,503
BBB-	2,452	8,934	-	-
Not rated	11,479	41,830	8,340	30,286
	209,864	764,735	194,283	705,444

(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	**2020**	**2019**
Customer type		
Residential mortgage borrowers	2,912,074	2,064,586
Mortgage brokers	3,199	5,183
Other	5,500	2,235
	2,920,773	2,072,004

Residential mortgage borrowers

The Group minimises credit risk by obtaining security over residential mortgage property for each loan. The estimated value of collateral held at balance date was $5,145,814k (2019: $3,729,217k). During the year ended 30 June 2020 the Group did not take possession of any residential securities or manage any assisted shortfall sales loans. During the financial year 3 securities were sold as mortgagee in possession with all three properties taking into possession during the FY19. Of the 3 securities sold one returned a shortfall after the LMI claim to the value of $1k.

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

The table below summarises the Group exposure to residential mortgage borrowers by current LVR, with the valuation used determined as at the time of settlement of the individual loan. The ECL model considers the different risk profiles across the different loan portfolios full doc, near prime and low doc. The assumptions applied are the same across the portfolios.

	Carrying amount	
In thousands of AUD	**2020**	**2019**
Loan to value ratio		
Greater than 95%[1]	403	2,188
Between 90%-95%[1]	37,528	43,971
Between 80%-90%[1]	421,061	319,534
Less than 80%	2,453,082	1,698,893
	2,912,074	2,064,586

1 LVR greater than 80% is required to have Lenders Mortgage Insurance (LMI), resulting in 100% of this balance being insured.

The COVID-19 pandemic economic impacts have increased the likelihood of losses due to such things as increased unemployment and potentially decreasing property prices. These factors have been included in the ECL model which has seen the provision increase to $3,272k (2019: $757k).

Given the dynamic and evolving nature of the COVID-19 pandemic, limited recent experience of the economic and financial impacts of such a pandemic, and the short duration between the declaration of the pandemic and the preparation of these financial statements, changes to the estimates and outcomes that have been applied in the measurement of the Group assets and liabilities may arise in the future.

In response to the current COVID-19 pandemic, the Group has provided support to its customers by implementing a range of initiatives, such as granting deferrals of residential mortgage loan repayments to customers affected by the COVID-19 pandemic.

A summary of the assumptions underpinning the Groups ECL model is as follows:

Category	Definition of Category	Basis for recognition of ECL provision
Performing	Customers have a low risk of default and a strong capacity to meet contractual cash flows	12 month expected losses
Doubtful	Loans for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if interest and/or principal repayments are 30 days past due	Lifetime expected losses
In default	Interest and/or principal repayments are 90 days past due	Lifetime expected losses
Write off	Interest and/or principal repayments are past due and there is no reasonable expectation of recovery	Asset is written off

Given the uncertainty around further lockdowns and the flow on effect to unemployment rates, interest rates and property prices and therefore probability of default, the final probability of default was calculated as the maximum of:

- The probability of default calculated using S&P methodology;
- The probability of default floor based on days past due; and
- The probability of default floor based on restructuring status, which takes into account any hardship arrangements.

30 June 2019

	ECL rate	Basis of recognition of ECL provision	Estimated gross carrying amount at default	Carrying amount (net of impairment provision)	Basis for calculation of interest revenue
In thousands of AUD					
Performing	0.02%	12 month expected losses	2,059,376	2,058,927	Gross carrying amount
Underperforming	3.62%	Lifetime expected losses	2,919	2,813	Gross Carrying amount
Non-performing	8.84%	Lifetime expected losses	2,291	2,089	Amortised cost
Write off	-	Asset is written off	174	-	None
Total Loans			2,064,760	2,063,829	

30 June 2020

In thousands of AUD	ECL rate	Basis of recognition of ECL provision	Estimated gross carrying amount at default	Carrying amount (net of impairment provision)	Basis for calculation of interest revenue
Performing	0.05%	12 month expected losses	2,638,147	2,636,820	Gross carrying amount
Underperforming	0.56%	Lifetime expected losses	246,634	245,255	Gross Carrying amount
Non-performing	2.08%	Lifetime expected losses	27,293	26,727	Amortised cost
Write off	-	Asset is written off	-	-	None
Total Loans			2,912,074	2,908,802	

30 June 2019

In thousands of AUD	Performing	Under performing	Non-performing	Write off	Total
Opening loss allowance as at 1 July 2018	74	-	175	174	423
Individual financial assets transferred to under-performing (lifetime expected credit losses)	-	-	-	-	-
Individual financial assets transferred to non-performing (credit-impaired financial assets)	-	-	-	-	-
New financial assets originated or purchased	-	-	-	-	-
Write-offs	-	-	-	(174)	(174)
Recoveries	-	-	(175)	-	(175)
Other changes	375	106	202	-	683
Closing loss allowance as at 30 June 2019	449	106	202	-	757

30 June 2020

In thousands of AUD	Performing	Under performing	Non-performing	Write off	Total
Opening loss allowance as at 1 July 2019	449	106	202	-	757
Individual financial assets transferred to under-performing (lifetime expected credit losses)	-	-	-	-	-
Individual financial assets transferred to non-performing (credit-impaired financial assets)	-	-	-	-	-
New financial assets originated or purchased	395	877	359	-	1,631
Write-offs	-	-	-	-	-
Recoveries	-	(106)	(201)	-	(307)
Other changes	482	502	207	-	1,191
Closing loss allowance as at 30 June 2020	1,326	1,379	567	-	3,272

In thousands of AUD	30 June 2020	30 June 2019
Performing	2,638,147	2,059,376
Underperforming	246,634	2,919
Non-performing	27,293	2,291
Loans written off	-	174
Total gross loans and advances	2,912,074	2,064,760
Less Loan loss allowance	(3,272)	(757)
Less Write off	-	(174)
Loans and advances net of ECL as at 30 June	2,908,802	2,063,829

The reconciliation of opening and closing expected credit losses on loans and advances are as follows:

In thousands of AUD	30 June 2019	Movement	30 June 2020
Stage 1	449	877	1,326
Stage 2	106	1,273	1,379
Stage 3*	202	365	567
Total Provision for ECL	757	2,515	3,272

In thousands of AUD	30 June 2020	30 June 2019
Opening loss allowance as at 1 July	757	423
Stage 1	877	375
Stage 2	1,273	106
Stage 3*	365	(147)
Closing loss allowance as at 30 June	3,272	757

* Amount was written off in the reporting period ended 30 June 2019 or 30 June 2020. The Group has written off the financial asset due to the fact that there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery.

Securitisation assets

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 securitised loans at reporting date is the carrying amount of subordinated notes.

The SPE-RMBS loans and advances: Under the current trust terms, a default by the customers 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. The Group's maximum exposure is the loss of future interest income on its Class C notes investment, which eliminate on consolidation. No impairment loss was recognised during 2020 (2019: Nil).

Other secured loans

The Group has minimal exposure to credit risk for loans made during the year. No impairment loss was recognised during 2020 (2019: 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.

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.

2020							
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	1,615,500	1,647,613	1,364,658	282,955	-	-	-
Secured funding facilities[1]	1,299,060	1,313,068	102,288	102,288	253,585	854,907	-
Net present value of future trail commissions payable	879,096	1,036,190	120,658	109,695	189,051	377,219	239,567
Trade and other payables	71,696	71,696	71,696	-	-	-	-
	3,865,352	4,068,567	1,659,300	494,938	442,636	1,232,126	239,567

1 Excludes set up costs amortisation

2019							
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	962,444	983,944	778,678	205,266	-	-	-
Secured funding facilities[1]	1,111,027	1,128,618	96,723	96,722	160,289	774,884	-
Net present value of future trail commissions payable	806,813	959,597	112,221	102,067	175,934	349,582	219,793
Trade and other payables	64,612	64,612	64,612	-	-	-	-
	2,944,896	3,136,771	1,052,234	404,055	336,223	1,124,466	219,793

The obligation in respect of the net present value of future trail commission only arises if and when the Group receives the corresponding trail 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

Secured bond issuances are based on expected cashflows rather than contractual cashflows as each must be repaid to secured bondholders on receipt of funds from underlying mortgage customers. 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 and inability to fund new loans.

The expiry dates of our warehouse facilities are the 14 December 2020 and 10 May 2021.

Securitised funding facilities

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 the securities 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 trail commissions payable refer to Note 20.

(c) Market risk

(i) Currency risk

Exposure to currency risk

As at reporting date the Group held cash assets denominated in NZD and USD. Fluctuations in foreign currencies are not expected to have a 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

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

	Carrying amount	
In thousands of AUD	**2020**	**2019**
Fixed rate instruments[1]		
Contract assets	974,599	899,727
Financial liabilities	(879,096)	(806,813)
	95,503	92,914
Variable rate instruments		
Loans and advances	3,082,301	2,168,749
Financial liabilities	(2,914,562)	(2,073,772)
	167,739	94,977

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 the ability to pass any rate increases onto borrowers.

1 Discount rate for trail commission receivable and payable is fixed for the life of the loan.

Cash flow sensitivity analysis for variable rate instruments

Due to the market conditions existing at 30 June 2020, 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 remain constant. The analysis is performed on the same basis for 2019 and 2020.

	After tax profit		After tax equity	
Effect in thousands of AUD	**100bp increase**	**100bp decrease**	**100bp increase**	**100bp decrease**
30 June 2020				
Variable rate contract assets	21,538	(21,538)	21,538	(21,538)
Variable rate financial liabilities	(16,155)	16,155	(16,155)	16,155
Cash flow sensitivity (net)	5,383	(5,383)	5,383	(5,383)
30 June 2019				
Variable rate contract assets	15,143	(15,143)	15,143	(15,143)
Variable rate financial liabilities	(6,737)	6,737	(6,737)	6,737
Cash flow sensitivity (net)	8,406	(8,406)	8,406	(8,406)

(iii) Prepayment risk

Net present value of contract assets and future trail commissions 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 trail commissions contract asset and future trail commission payables. Refer to Note 29(d) for more details.

Sensitivity analysis

Management have engaged the use of actuaries for the purposes of reviewing the run-off rate of the loans under management. Management does not expect the run-off rate to change in excess of 5% positive or 5% negative of the rates revealed from the actuarial analysis performed on AFG's historical loan data. 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	2020		2019	
	+5%	-5%	+5%	-5%
After tax profit and equity	(2,894)	3,058	(3,982)	4,208

Securitised assets

The Group is exposed to prepayment risk on its securitised assets. The warehouse facilities and the securitised funding facilities 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) 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.

(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 not measured at fair value (but fair value disclosures are required)

The table below reflects the fair value of the trail commission payable, non-current loans and advances and non-current securitised funding facilities. The carrying amount of all the other financial assets and liabilities recognised in the Statement of Financial Position approximate their fair value due to their short-term nature.

	30 June 2020		30 June 2019	
In thousands of AUD	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Non-current loans and advances	2,464,989	2,457,168	1,717,244	1,711,854
Financial liabilities				
Future Trailing commission payable[1]	879,096	917,984	806,813	826,777
Non-current securitised funding facilities	1,095,547	1,086,130	919,606	916,687

1 Note 4% discount rate applied to the Fair value calculations. Run off rate and pay out percentage remain consistent with the carrying value calculation assumptions.

Loans and advances

The fair values of loans and advances are estimated using a discounted cash flow analysis, based on current lending rates for similar types of lending arrangements ranging from 2.6% to 6.8%.

For the purpose of fair value disclosure under AASB 13 Fair Value Measurement, the loans and advances would be categorised as a level 3 asset where the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Future Trailing commission payable

Trailing commissions are received from lenders on settled loans over the life of the loan based on the loan book balance outstanding if the respective loans are in good order and not in default. The Group is entitled to the trailing commissions without having to perform further services. The Group also makes trailing commission payments to Members when trailing commission is received from lenders. Trail commissions are actuarially assessed on future cashflow based on a number of assumptions including estimated loan life, discount rate, payout ratio and income rate.

The trail commission assets and liabilities at 30 June 2020 relate to the Residential, Commercial and the AFGHL white label loan books.

The movement in the future trail commission balances for the period are mostly attributable to the growth of the respective trail books over the financial year as opposed to any significant changes in the assumptions applied.

The fair value of trailing commission contract asset 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, reviewed by external actuaries, by reference to market observable inputs. The valuation is classified as level 3 in the fair value measurement hierarchy.

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

	30 June 2020	30 June 2019
Average loan life	Between 3.1 and 5.1 years	Between 3.2 and 5.1 years
Discount rate per annum	Between 4% and 13.5%	Between 5% and 13.5%
Percentage paid to brokers	Between 85% and 94%	Between 85% and 93.8%

Securitised funding facilities

The fair values of securitised funding facilities are estimated using discounted cash flow analysis, based on current borrowing rates for similar types of borrowing arrangements ranging from 1.4% to 1.6%.

For the purposes of fair value disclosure under AASB 13 Fair Value Measurement, the subordinated notes would be categorised as a level 3 liability where the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

30 Group entities

Composition of the Group

	Country of incorporation	Ownership interest 2020	Ownership interest 2019
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 2016-1 Trust	Australia	100	100
AFG 2017-1 Trust	Australia	100	100
AFG 2018-1 Trust	Australia	100	100
AFG 2019-1 Trust	Australia	100	100
AFG 2019-2 Trust	Australia	100	-
AFG 2020-1 Trust	Australia	100	-
AFG 2010-2 Pty Ltd	Australia	100	100
AFG 2010-3 Pty Ltd	Australia	100	-
New Zealand Finance Group Ltd	New Zealand	100	100
AFG Home Loans Pty Ltd	Australia	100	100
Investment in associates			
Think Tank Group Pty Ltd	Australia	32.81	33.55

AFG 2019-2 Trust and AFG 2010-3 Pty Ltd were established during the year ended 30 June 2020.

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 securitisation vehicles. 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 outstanding loans as at time of settlement was below 70% and as at year end, approximately 63% (2019: 63%) 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 24% (2019: 32%).

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	2020	2019
Subordinated notes held in AFG 2010-1 Trust and Series[1]	32,113	21,500
Subordinated notes held in SPE-RMBS trusts following a term transaction:		
• AFG 2013-2	-	-
• AFG 2016-1	450	450
• AFG 2017-1	560	560
• AFG 2018-1	700	700
• AFG 2019-1	3,930	3,930
• AFG 2019-2	-	n/a

1 The level of subordination subscribed by the Company or Group will increase or decrease over time depending upon a number of factors including the size of the warehouse or RMBS term structure 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).

31 Parent entity

Throughout the financial year ending 30 June 2020, the parent Company of the Group was Australian Finance Group Ltd.

In thousands of AUD	2020	2019
Results of the parent entity		
Profit for the period	34,992	31,112
Other comprehensive income	-	-
Total comprehensive income for the period	34,992	31,112

In thousands of AUD	2020	2019
Financial position of parent entity at year end		
Current assets	265,200	216,754
Total assets	1,072,748	951,661
Current liabilities	231,929	237,080
Total liabilities	936,978	886,188
Total equity of the parent entity comprising of:		
Share capital	102,157	43,542
Reserves	2,504	1,455
Retained earnings	31,109	20,476
Total equity	135,770	65,473

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

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 KMP 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-KMP related entities on an arm's length basis.

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

(i) Mr T. Gill is an Independent Director of First Mortgage Services (FMS), one of the Group's 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 $1,038k (2019: $464k). 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) Establish Property Group Ltd (EPG) was created as part of the demerger of AFG's former property business on 22 April 2015.

The Group's head office is located at 100 Havelock Street West Perth. The Group leases these premises at commercial arm's length rates from an investee of EPG, Qube Havelock Street Development Pty Ltd (Qube). AFG paid rent of $1,076k which has been paid to Qube. (2019: $1,126k) In addition to the above McCabe Street Pty Ltd has an outstanding loan owing to AFG amounting to $224k (2019: $218k), this loan is on commercial terms at arms-length. EPG and McCabe Street Pty Ltd share a common director. Directors of McCabe Street Pty Ltd include B. McKeon, D. Bailey and L. Bevan.

(b) Subsidiaries

Loans are made by the parent entity to wholly owned subsidiaries to fund working capital. 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 30 July 2020, the Group successfully completed the AFG 2020-1 Trust issue, a $700 million Residential Mortgaged Backed Securities (RMBS) issue.

As at 21 August 2020, there has been a meaningful reduction in the number of AFG Securities customers requesting hardship arrangements due to the pandemic with overall hardship reducing from 9.56% on 7 May 2020 to 5.33% at 21 August 2020.

On 27 August 2020, the Directors recommended the payment of a dividend of 4.7 cents per fully paid ordinary share, fully franked based on tax paid at 30%. The dividend has a record date of 10 September 2020 and a payment date of 29 September 2020. The aggregate amount of the proposed dividend expected to be paid out of retained earnings at 30 June 2020 is $12,584k. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2020.

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 2020 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 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 Sydney, New South Wales on 27 August 2020

Independent Audit Report

to the members of Australian Finance Group Limited

Building a better working world

Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
ey.com/au

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

Report on the audit of the financial report

Opinion

We have audited the financial report of Australian Finance Group Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a. giving a true and fair view of the consolidated financial position of the Group as at 30 June 2020 and of its consolidated financial performance for the year ended on that date; and

b. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

FD:LC:AFG:128

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Provision for expected credit loss

Why significant	How our audit addressed the key audit matter

As described in Notes 3 *Significant accounting policies*, 5 *Financial risk management* and 29 *Financial Instruments*, the provision for expected credit losses (ECL) is determined in accordance with Australian Accounting Standards - AASB 9 *Financial Instruments* (AASB 9).
 	
This was a key audit matter due to the size and timing of the recognition of the provision, and the degree of judgement and estimation uncertainty associated with the calculations, including the impacts of COVID 19 on the ECL.
 	
Key areas of judgement included:
 	
► the application of the impairment requirements within AASB 9, which is reflected in the Group's expected credit loss model;
 	
► the identification of exposures with a significant deterioration in credit quality;
 	
► assumptions used in the expected credit loss model (for exposures assessed on an individual and collective basis);
 	
► the incorporation of forward-looking information to reflect current or future external factors (e.g. unemployment rates, interest rates, gross domestic product growth rates, and property prices)
 	
► forward-looking macroeconomic factors, including developing macroeconomic scenarios and their associated weightings given the wide range of potential economic outcomes and impacts from COVID-19 that may impact future expected credit losses.
	Our audit procedures included the following:
	
	We assessed:
	
	► the alignment of the Group's expected credit loss model and its underlying methodology with the requirements of AASB 9;
	
	► the approach determined by the Group for the incorporation of forward-looking macroeconomic factors including specifically the consideration of impacts from COVID-19;
	
	► the effectiveness of relevant controls relating to the:
	
	   ► capture of data used to determine the provision for credit impairment, including transactional data captured at loan origination, ongoing internal credit quality assessments, storage of data and interfaces to the expected credit loss model;
	
	   ► expected credit loss model, including functionality, ongoing monitoring/validation and model governance.
	
	We examined a sample of exposures assessed on an individual basis to consider the reasonableness of provisions adopted.
	
	We assessed the significant modelling assumptions for exposures evaluated on a collective basis and overlays, with a focus on the:
	
	► basis for and data used to determine overlays;
	
	► sensitivity of the collective provisions to changes in modelling assumptions; and
	
	► reasonableness of macroeconomic scenarios and impact of COVID-19 at balance date.
	
	We have involved our Actuarial and IT specialists in the performance of these procedures where their specific expertise was required.
	
	We considered the adequacy and appropriateness of the disclosures related to credit impairment within the Financial Report.

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3

Future trailing commission

Why significant	How our audit addressed the key audit matter
As described in Note 3 *Significant accounting policies*, 4 *Determination of fair values* and 29 *Financial instruments*, the Group recognised a contract asset representing the expected value of future trailing commission receivable in accordance with AASB 15 *Revenue from Contracts with Customers* (AASB 15) and a corresponding trailing commission payable was recognised under AASB 9 *Financial Instruments* (AASB 9) representing the net present value of future trailing commissions payable by the Group. This is a key audit matter due to the size of the contract assets and trailing commission payable and the degree of judgment and estimation uncertainty associated with the calculations. Key areas of judgement included: ► the estimation of the discount rate; ► the percentage of commissions paid to members; and ► loan book run-off rate assumptions.	Our audit procedures included the following: We assessed: ► the alignment of the Group's trailing commission model and its underlying methodology with the requirements of AASB 15 for the contract asset and AASB 9 for the trailing commission payable; ► the effectiveness of relevant controls relating to the approval and determination of the net present value of the future trailing commission receivable and payable; ► the reasonableness of management's assumptions applied, including the discount rate and loan run-off rates; ► the historical accuracy of management's estimates by comparing the previously forecast trailing commission income and expense to the actual results. We have tested: ► the capture of the data used in management's trail commission model for completeness; ► a sample of loans from the data used in the model to external supporting documents such as lender commission statements for accuracy; ► the mathematical accuracy of the models; and ► the expected percentage to be paid to members by recalculation based on the loan book data and applicable remuneration structure. We involved our Actuarial and IT specialists in areas that required their specific expertise. We assessed the adequacy and appropriateness of the disclosures related to trailing commission within the Financial Report.

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Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2020 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors 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 preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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Report on the audit of the remuneration report

Opinion on the remuneration report

We have audited the Remuneration Report included in pages 21 to 33 of the directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Australian Finance Group Limited for the year ended 30 June 2020, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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.

Ernst & Young

Ernst & Young

Fiona Drummond
Partner
Perth

27 August 2020

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 July 2020.

(a) Number of holders of equity securities

Ordinary share capital

267,741,761 fully paid ordinary shares are held by 6,705 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	221,030,372	82.55	74	1.10
10,001 to 100,000	33,207,598	12.40	1,317	19.64
5,001 to 10,000	6,308,184	2.36	846	12.62
1,001 to 5,000	6,012,434	2.25	2,325	34.68
1 to 1,000	1,183,173	0.44	2,143	31.96
Total	**267,741,761**	**100**	**6,705**	**100**
Unmarketable Parcels*	42,199	0.02	257	3.83

* An unmarketable parcel is considered to be a shareholding of 294 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 July 2020 of $1.70.

(c) Substantial shareholders

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

	# Shares	% of issued capital
Mitsubishi UFJ Financial Group	23,622,399	8.82%
MSW Investments ATF The Malcolm Stephen Watkins Family Trust	17,462,284	6.52%
MBM Investments ATF The Brett McKeon Family Trust	16,289,779	6.08%
Banyard Holdings Pty Ltd ATF The B&K McGougan Trust	14,788,765	5.52%

(d) Twenty largest holders of quoted equity securities

Top holders		# Shares	% of issues capital
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED		44,404,240	16.58
NATIONAL NOMINEES LIMITED		37,353,326	13.95
CITICORP NOMINEES PTY LIMITED		28,009,439	10.46
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED		23,216,973	8.67
MBM INVESTMENTS PTY LTD	THE BRETT MCKEON FAMILY	16,289,779	6.08
BANYARD HOLDINGS PTY LTD	B & K MCGOUGAN	14,788,765	5.52
PERPETUAL CORPORATE TRUST LTD	<983L AC>	12,345,025	4.61
OCEANCITY INVESTMENTS PTY LTD	THE MATTHEWS FAMILY	11,818,182	4.41
BNP PARIBAS NOMINEES PTY LTD	<AGENCY LENDING DRP A/C>	4,130,713	1.54
BNP PARIBAS NOMS PTY LTD	<DRP>	3,247,986	1.21
MRS KAREN JANE MCGOUGAN	<B&K MCGOUGAN NO 2 A/C>	3,243,637	1.21
ASSURED FINANCIAL SERVICES PTY LTD		2,089,637	0.78
NEWECONOMY COM AU NOMINEES PTY LIMITED	<900 ACCOUNT>	1,326,864	0.50
UBS NOMINEES PTY LTD		1,223,975	0.46
LISA BEVAN		1,181,819	0.44
NATIONAL NOMINEES LIMITED	<DB A/C>	1,176,831	0.44
EDI NOMINEES PTY LTD	<THE BUFFALO CREEK S/F A/C>	1,051,819	0.39
ANGELA MIDDLETON		1,000,000	0.37
EGMONT PTY LTD	<CRAIG CARTER SUPER FUND A/C>	960,714	0.36
NOLDEX PTY LTD		700,000	0.26

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)

Craig Carter
(Non-Executive Director)

Malcolm Watkins
(Executive Director)

Melanie Kiely
(Non-Executive Director)

Brett McKeon
(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 Friday 27 November 2020 at 9.00am WST 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).

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www.afgonline.com.au

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

Australian Finance Group Ltd.
Australian Credit Licence: 389087
ABN: 11 066 385 822
ACN: 066 385 822