Australian Finance Group Limited

ABN 11 066 385 822

Annual Report
30 June 2011

Contents

Australian Finance Group Limited
Directors' report
For the year ended 30 June 2011

The Directors present their report together with the financial report on the consolidated entity consisting of Australian Finance Group Limited ('the Company'), and its controlled entities ('the Group'), for the financial year ended 30 June 2011 and the auditor's report thereon.

DIRECTORS AND COMPANY SECRETARY

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

Tony Gill Chairman Non-Executive Director	Age: 58	Mr Gill is based in Sydney and has relevant experience that spans two decades with expertise in banking, mortgage origination and securitisation. Mr Gill was with Macquarie Bank Ltd for 16 years, most recently serving as the Group Head of the Banking and Securitisation Group.
Brett McKeon Managing Director	Age: 47	Mr McKeon is responsible for the Group's strategy and is also responsible for the AFG Home Loans and Securitisation lines of business.
Bradley McGougan Non-Executive Director	Age: 55	Mr McGougan's main areas of responsibility are Insurance lines.
Malcolm Watkins Executive Director	Age: 47	Mr Watkins has responsibility for the Group's technology development programmes, electronic delivery systems and marketing operations.
Kevin Matthews Executive Director	Age: 53	Mr Matthews is responsible for negotiating and managing relationships with financial institutions, product development and the Commercial line of business.
James Minto Non-Executive Director	Age: 59	Mr Minto is a Chartered Accountant who joined the board in August 2004. He is also Managing Director of TAL Life Ltd having served at CEO level roles for 22 years.
John Atkins Non-Executive Director	Age: 56	Mr Atkins is the former head of the Perth office of Freehills and is Chairman Western Australia – ANZ Banking Group Ltd. Mr Atkins is a senior commercial lawyer who has acted for major banks and other financial institutions together with property developers and other commercial enterprises and is an experienced public company director.
Company Secretary Lisa Bevan	Age: 39	Ms Bevan is a Chartered Accountant with over 15 years experience.

DIRECTORS MEETINGS

The number of directors' meetings and number of meetings attended by each of the directors of the Company during the financial year are:

Director	**Board Meetings**	
	A	**B**
Brett McKeon	7	8
Bradley McGougan	8	8
Kevin Matthews	8	8
Malcolm Watkins	7	8
Tony Gill	8	8
John Atkins	8	8
James Minto	6	8

A – Number of meetings attended
B – Number of meetings held during the time the director held office during the year

PRINCIPAL ACTIVITIES

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

TRADING RESULTS

The Group's net profit after income tax attributable to members of the parent entity for the year ended 30 June 2011 was $9,131 thousand (2010: $19,387 thousand) ; after a charge for income tax of $4,287 thousand (2010: $6,978 thousand) including from discontinued operations.

OPERATING RESULTS FOR THE YEAR

The highlight of the 2011 financial year was the relaunch of our AFG Securities business. Whilst settlement volumes to this aspect of the business were not significant during the 2011 financial year, the month on month growth in these volumes is particularly pleasing. Subsequent to the end of the year this growth trend has continued. The increased profile of the AFG Securities business has assisted the overall AFG Home Loans business in experiencing year on year growth of around 100% and again is a positive and solid base from which to launch the expansion of this business.

With respect to our core residential business we have continued to experience strong settlement volumes with recruitment levels continuing to be buoyant and supplementing the loss of some brokers which was anticipated as part of the transition to the new regulation scheme.

FINANCIAL RESULTS FOR THE YEAR

The Group's cash and cash equivalents as at 30 June 2011 amounted to $55,876 thousand, which represents an increase of 22% on 2010.

Australian Accounting Standards require us to reflect the inherent value within our residential trail book, which is influenced amongst other things by the runoff and discount rates applied to this valuation. Unlike in 2010, the change in assumptions for 2011 has decreased the earnings below the underlying earnings generated by the Group. Excluding this non cash adjustment, the underlying profit before tax is $15,696 thousand (2010: $17,727). The adjustment was based on the findings of an independent assessment of the Group's trail loan book as at 30 June 2011.

The following table has been prepared to illustrate the difference between underlying earnings, and the earnings recorded in accordance with A-IFRS:

	2011		2010	
	Total Revenue	Profit before tax	Total Revenue	Profit before tax
Underlying result from continuing operations	235,200	15,696	235,972	17,727
Adjustment to trail book due to changes in assumptions	(16,126)	(2,385)	56,914	5,263
Total result from continuing operations	219,074	13,311	292,886	22,990

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Group will continue to develop its property interests and also ensure the roll out and establishment of its new Securitisation facilities are completed as efficiently as possible with a view to being in a position to undertake its first term out by the beginning of the 2012/13 financial year. It will also aim to ensure that its products and services are of the highest standard, and to optimise the return on Shareholders' capital. Towards this aim it continues to invest in new technologies, conduct efficiency reviews and investigate new business opportunities.

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 likely result in unreasonable prejudice to the Group.

CHANGES IN STATE OF AFFAIRS

There were no other significant changes in the state of affairs of the Group, other than as outlined above.

CAPITAL STRUCTURE

There were no changes in the capital structure during 2011 year, and no options or shares have been granted since the end of financial year.

DIVIDENDS

Total dividends paid or declared during the financial year ended 30 June 2011 were $9 million (2010: $10 million), which included:

- A final fully franked ordinary dividend of $3 million (3.21 cents per fully paid share) was declared out of profits of the Company for the year ended 30 June 2010 and paid in September 2010
- An interim fully franked ordinary dividend of $3 million (3.21 cents per fully paid share) was declared out of profits of the Company for 2011 and paid in December 2010
- An interim fully franked ordinary dividend of $3 million (3.21 cents per fully paid share) was declared out of profits of the Company for 2011

SUBSEQUENT EVENTS

On 1 July 2011 the Directors paid a dividend of 3.21 cents per fully paid ordinary share, fully franked based on tax paid at 30%. The aggregate amount of the dividends paid out in July out of the retained profits at 30th June 2011 is $3 million. The financial effect of these dividends has been brought to account in the financial statements for the year ended 30 June 2011.

On 16 August 2011, the Group paid $986 thousand to Qube Havelock Street Development Pty Ltd being the final instalment of the consideration payable for the acquisition of 3,400 thousand ordinary shares.

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

INDEMNIFICATION OF OFFICERS AND AUDITORS

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

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

NON–AUDIT SERVICES

During the year KPMG, the Group auditor, has performed certain other services in addition to their statutory duties. The board of Directors has considered the non-audit services provided during the year by the auditor and in accordance with the advice received from the Audit Committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 as none of the services undermine the general principles relating to auditor independence as set out in APE S 110 Code of Ethics for Professional Accountants.

Details of the amounts paid to the auditors of the Group, KPMG, and its related practices for audit and non-audit services provided during the year are set out below.

In AUD	2011	2010
Audit services :		
Auditors of the Group:		
KPMG Australia		
Audit and review of financial reports	98,500	95,000
	98,500	95,000
Services other than statutory audit :		
Auditors of the Group-*KPMG Australia*		
Consulting services	-	385
Taxation services	79,800	60,131
	79,800	60,516

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 49 of this financial report for the year ended 30 June 2011.

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the class order applies.

This report is made with a resolution of the Directors.

B M McKeon
Managing Director

Dated at Perth, this 27 October 2011

Australian Finance Group Limited
Consolidated statements of financial position
As at 30 June 2011

In thousands of AUD	Note	2011	2010
Assets			
Cash and cash equivalents	14	55,876	45,917
Trade and other receivables	15	77,294	78,019
Loans and advances	16	15,589	10,182
Inventories	17	5,054	-
Other investments	18	356	191
Total current assets		154,169	134,309
Loans and advances	16	58,296	33,729
Trade and other receivables	15	266,050	283,241
Other investments	18	31	31
Investments in equity-accounted investees	19	2,404	-
Inventories	17	-	3,909
Property, plant and equipment	21	872	1,260
Intangible assets	22	463	787
Total non-current assets		328,116	322,957
Total assets		482,285	457,266
Liabilities			
Trade and other payables	23	92,851	90,118
Interest-bearing liabilities	24	14,684	39,964
Employee benefits	25	3,885	3,819
Current tax payable	20	1,754	3,037
Provisions	27	3,612	648
Deferred income	28	3,896	3,034
Total current liabilities		120,682	140,620
Trade and other payables	23	230,500	243,980
Interest-bearing liabilities	24	59,981	852
Deferred tax liability	20	10,710	11,949
Employee benefits	25	459	140
Provisions	27	82	74
Total non-current liabilities		301,732	256,995
Total liabilities		422,414	397,615
Net assets		59,871	59,651
Equity			
Share capital	29	11,434	11,345
Reserves	29	(71)	(71)
Retained earnings	29	48,508	48,377
Total equity	29	59,871	59,651

The notes on pages 9 to 46 are an integral part of these consolidated financial statements.

Australian Finance Group Limited
Consolidated statements of comprehensive income
For the year ended 30 June 2011

In thousands of AUD

	Note	2011	2010
Continuing Operations			
Revenue	7	219,074	292,886
Cost of sales		(186,818)	(253,291)
Gross profit		32,256	39,595
Other income	8	6,731	6,238
Administration expenses		(2,559)	(1,748)
Other expenses	9	(26,444)	(24,594)
Results from operating activities		9,984	19,491
Financial income	12	6,167	5,893
Financial expenses	12	(2,829)	(2,394)
Net finance income		3,338	3,499
Share of profit (loss) of equity-accounted investees (net of tax)	19	(11)	-
Profit before income tax		13,311	22,990
Income tax expense	13	(4,255)	(6,753)
Profit from continuing operations		9,056	16,237
Discontinued operation			
Profit (loss) from discontinued operation (net of income tax)	6	75	3,150
Profit for the period		9,131	19,387
Other comprehensive income			
Net change in fair value of available–for–sale financial assets		-	(81)
Income tax on other comprehensive income	13	-	25
Other comprehensive income for the period, net of income tax		-	(56)
Total comprehensive income for the period		9,131	19,331
Profit attributable to:			
Owners of the Company		9,131	19,387
Profit for the period		9,131	19,387
Total comprehensive income for the period attributable to:			
Owners of the Company		9,131	19,331
Total comprehensive income for the period		9,131	19,331

The notes on pages 9 to 46 are an integral part of these consolidated financial statements.

Australian Finance Group Limited
Consolidated statements of changes in equity
For the year ended 30 June 2011

In thousands of AUD	Note	Share capital	Translation reserve	Fair value reserve	Retained earnings	Total equity
Balance at 1 July 2009		9,731	(15)	-	38,990	48,706
Total comprehensive income for the period						
Profit or loss		-	-	-	19,387	19,387
Other comprehensive income						
Net change in fair value of available-for-sale financial assets, net of tax		-	-	(56)	-	(56)
Total other comprehensive income		-	-	(56)	-	(56)
Total comprehensive income for the period		-	-	(56)	19,387	19,331
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Share buy back						
Share-based payment transactions		1,614	-	-	-	1,614
Dividends to equity holders		-	-	-	(10,000)	(10,000)
Total contributions by and distributions to owners		1,614	-	-	(10,000)	(8,386)
Total transactions with owners		1,614	-	-	(10,000)	(8,386)
Balance at 30 June 2010		11,345	(15)	(56)	48,377	59,651
Balance at 1 July 2010		11,345	(15)	(56)	48,377	59,651
Total comprehensive income for the period						
Profit or loss		-	-	-	9,131	9,131
Other comprehensive income		-	-	-	-	-
Total comprehensive income for the period		-	-	-	9,131	9,131
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends to equity holders		-	-	-	(9,000)	(9,000)
Share-based payment transactions		89	-	-	-	89
Total contributions by and distributions to owners		89	-	-	(9,000)	(8,911)
Total transactions with owners		89	-	-	(9,000)	(8,911)
Balance at 30 June 2011		11,434	(15)	(56)	48,508	59,871

The amounts recognised directly in equity are disclosed net of tax

The notes on pages 9 to 46 are an integral part of these consolidated financial statements

Australian Finance Group Limited
Consolidated statements of cash flows
For the year ended 30 June 2011

In thousands of AUD	Note	2011	2010
Cash flows from operating activities			
Cash receipts from customers		243,876	248,890
Cash paid to suppliers and employees		(226,782)	(229,379)
Cash generated from operations		17,094	19,511
Income taxes paid		(6,809)	(6,689)
Net cash from operating activities	14(b)	10,285	12,822
Cash flows from investing activities			
Decrease /(Increase) in securitisation customer loans		(29,384)	15,022
Increase/(Decrease) in loans from warehouse facility provider		33,291	(14,830)
Interest received		6,174	5,023
Interest paid		(2,689)	(2,451)
Acquisition of property, plant and equipment		(316)	(698)
Acquisition of equity-accounted investees	19	(2,414)	-
Investment in intangible assets		(331)	(293)
Increase /(Decrease) in loans from funders		569	158
Acquisition of other investments		(252)	-
Decrease/(Increase) in other loans and advances		(461)	(984)
Disposal of discontinued operation, net of cash disposed of	6	1,500	2,294
Net cash from (used in) investing activities		*5,687*	3,241
Cash flows from financing activities			
Repayment of lease liabilities		(13)	(350)
Proceeds from issue of share capital		-	1,010
Dividends paid to equity holders of the parent	29	(6,000)	(10,000)
Net cash (used) in financing activities		(6,013)	(9,340)
Net increase in cash and cash equivalents		9,959	6,723
Cash and cash equivalents at 1 July		45,917	39,194
Cash and cash equivalents at 30 June	14(a)	55,876	45,917

The notes on pages 9 to 46 are an integral part of these consolidated financial statements.

Contents

1. Reporting entity

The consolidated financial statements for the financial year ended 30 June 2011 comprise, Australian Finance Group Limited (the "Company") a company domiciled in Australia and its subsidiaries (together referred to as the 'Group') and the Group's interest in associates and jointly controlled entities. The Group's principal activities in the course of the financial year were mortgage origination and management. The Company's principal place of business is 22 Delhi Street, West Perth, Western Australia.

2. Basis of preparation

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') (including Australian Interpretations) adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. The consolidated financial report of the Group also complies with the International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorised for issue by the Board of Directors on 27 October, 2011.

(b) Basis of measurement

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

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

(c) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars.

The Group is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with AASBs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

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

Information about significant areas of estimation uncertainties and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 4: Determination of fair values
- Note 26: Measurement of share-based payments
- Note 27: Provisions
- Note 30: Valuation of financial instruments

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 Group entities.

Certain comparative amounts have been reclassified to conform with the current year's presentation. In addition, the comparative statement of comprehensive income has been re-presented as if an operation discontinued during the current period has been discontinued from the start of the comparative period (see note 6).

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) Special purpose entities

The Group has established a special purpose entity ('SPE'), AFG 2010-1 Trust, to conduct activities on behalf and according to the specific business needs of Australian Finance Group Securities Pty Ltd, a wholly owned subsidiary of the Company. The SPE is consolidated based on an evaluation of the substance of its relationship with the Group, and the SPE's risks and rewards. The Group concludes that it controls the SPE.

The SPE controlled by the Group was established under terms that impose strict limitations on the decision-making powers of the SPE's management that result in the Group receiving the majority of the benefits related to the SPE's operations and net assets, being exposed to risks incidental to the SPE's activities, and retaining the majority of the residual or ownership risks related to the SPE or its assets.

(iii) Investments in associates and jointly controlled entities (equity accounted investee)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Investment in associates and jointly controlled entities are accounted for using the equity method (equity accounted investee) and are initially recognised at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(iv) Transactions eliminated on consolidation

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

3. Significant accounting policies (continued)

(b) Foreign currency

(i) Foreign currency transactions

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

(ii) Foreign operations

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

Foreign currency differences are recognised in other comprehensive income. Since 1 July 2004, the Group's date of transition to AASBs, such differences have been recognised in the foreign currency translation reserve in equity.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the FCTR.

(c) Financial instruments

(i) Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

The Group has the following non-derivative financial assets: financial assets at fair value through profit or loss, loans and receivables and available-for-sale assets.

Financial assets at fair value through profit or loss

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

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less impairment losses.

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

Cash and cash equivalents comprise cash balances and call deposits with original maturities of 3 months or less.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. Subsequent to initial recognition, available-for-sale financial assets are measured at fair value and changes therein, other than impairment losses (see note 3(g)), are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss is transferred to profit or loss. The investments are measured at fair value based on the most recent official rate used to value the securities because there have no quoted prices in an active market and the fair value cannot be measured reliably.

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

(ii) Non-derivative financial liabilities

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

The Group has the following non-derivative financial liabilities: interest-bearing liabilities and trade and other payables.

Such financial liabilities are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method.

(iii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, 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 deduction from equity.

Dividends

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

(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(g)).

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

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

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 of property, plant and equipment 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 the profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in the profit and 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:

- plant and equipment 2-5 years
- fixtures and fittings 5-20 years

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

3. Significant accounting policies (continued)

(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 unamortised deferred costs in relation to that project, are expected beyond reasonable doubt, to be recoverable. Any deferred development costs are amortised over the estimated useful lives of the relevant assets. The balance of deferred software development costs is disclosed as such in note 22 to the financial statements.

The unamortised balance of software development costs deferred in previous periods is reviewed regularly and at each reporting date, to ensure the criterion for deferral continues to be met. Where such costs are no longer considered recoverable they are written-off as an expense in the income statement.

(ii) Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation (see above (i)) and impairment losses (see accounting policy 3(g)).

(iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the profit or loss when incurred.

(iv) Amortisation

Amortisation is recognised in the profit and 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:

- Capitalised software development costs 2.5 - 5 years
- Software licenses 2.5 - 5 years

(f) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised in the Group's statement of financial position.

(g) Impairment

(i) Financial assets (including receivables)

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

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

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

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

3. Significant accounting policies (continued)

(g) Impairment (continued)

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

(ii) Non-financial assets

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

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. 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").

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

(h) Employee benefits

(i) Long-term employee benefits

The Group's liability in respect of long-term employee benefits represents the present obligation of benefits that employees have earned in return for their service in the current and prior periods plus on-costs; that benefit is discounted to determine its present value, and the fair value of any related assets deducted.

(ii) Short term benefits

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

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

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

(iii) Share-based payment transactions

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

(i) Provisions

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

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

3. Significant accounting policies (continued)

(j) Revenue

(i) Commission revenues

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

- Origination commissions

  Origination commissions are recognised upon the loans being settled and receipt of commission.

- Trailing commissions

  The Group receives trailing commissions from lenders on loans they have settled that were originated by the Group. The trailing commissions are received over the life of the loans based on individual loan balance outstanding. The Group also makes trailing commission payments to authorised mortgage originators (Members) based on the individual loan balance outstanding.

  On initial recognition, trailing commission revenue and receivables are recognised at fair value, being the expected future trailing commission receivables discounted to their net present value. In addition, an associated payable and expense to the Members are also recognised, initially measured at fair value being the future trailing commission payable to Members discounted to their net present value.

  Subsequent to initial recognition and measurement both the trailing commission asset and trailing commission payable are measured at amortised cost. The carrying amount of the trailing commission asset and trailing commission payable are adjusted to reflect actual and revised estimated cash flows by recalculating the carrying amount by computing the present value of estimated future cash flows at the original effective interest rate. The resulting adjustment is recognised as income or expense in the income statement.

(ii) Mortgage Management revenues

The Group provides mortgage management services to its clients as an alternative to traditional bank home loans. Revenue generated includes origination commission, trailing commission and fees associated with loans' settlement and management. Origination commissions are recognised upon the loans being settled and receipt of the commission. Trailing commissions are recognised with reference to the stage of completion for the contract of service. Other fees are recognised in the income statement in proportion to the stage completion of the transaction at the reporting date.

(iii) Property development services

The Group provides project management services for property syndication projects. The Group receives an ongoing management fee for providing these services. Revenue is recognised by reference to the stage of completion of the contract.

(iv) Fees for services

In 2010 Australian Finance Group Financial Planning Pty Ltd provided a number of services to its authorised representatives, including information technology, product research, training and compliance services. The Group received a regular fee for providing these services. Fees were recognised in the income statement on cash receipt. This operation has since been discontinued.

(v) Sale of goods and disposal of assets

Revenue from the sale of goods and disposal of assets is recognised when the Group has passed control of the goods or other assets to the buyer.

(vi) Rendering of other services and sponsorship income

Revenue from the contract to provide other services is recognised by reference to the stage of completion of the contract. Sponsorship income is brought to account when services relating to the income have been performed.

3. Significant accounting policies (continued)

(j) Revenue (continued)

(vii) Securitisation and residential mortgage backed securities programme

Revenue arising from issuing residential loans which are funded by the warehouse facility is initially recognised at the fair value of the consideration received or receivable when it is probable that future economic benefits will flow to the Group and these benefits can be measured reliably.

Subsequent to initial recognition, the loans are measured at amortised cost over the estimated actual (but not contractual) life of the mortgage loan, taking into account all income and expenditure directly attributable to the loan. Interest income is the key component of this revenue stream and it is recognised as it accrues using the effective interest method.

(k) Lease payments

Payments made under operating leases are recognised in the profit or loss on a straight line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(l) Finance income and expenses

Finance income comprises interest income on funds invested, changes in the fair value of financial assets at fair value through profit or loss and foreign currency gains. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise interest payable on borrowings, unwinding of the discount on provisions, changes in fair value financial assets at fair value through profit or loss and impairment losses recognised on financial assets.

(m) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

(n) Income tax expense

Income tax expense comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill; the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit; and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a set basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

3. Significant accounting policies (continued)

(n) Income tax expense (continued)

(i) Tax consolidation

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

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

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

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

(ii) Nature of tax funding arrangements and tax sharing arrangements

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

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

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

(o) Goods and services tax

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

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

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

(p) Deferred income

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

Sponsorship and other deferred income are brought to account when services relating to the income have been performed.

3. Significant accounting policies (continued)

(q) Inventories

Inventories are measured at lower of cost and net realisable value. The cost of inventories includes the costs of acquisition, development and holding costs, including such costs as borrowing costs rates and taxes. Holding costs incurred post completion of development are expensed.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(r) Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

(s) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2011, but have not been applied in preparing this financial report:

- AASB 9 *Financial Instruments*, which becomes mandatory for the Group's 2014 consolidated financial instruments and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.
- AASB 124 *Related Party Disclosures* simplifies and clarifies the intended meaning of the definition of a related party and provides a partial exemption from disclosure requirements for government-related entities .The amendments, which will become mandatory for the Group's 30 June 2012 financial statements, are not expected to have any impact on the financial statements.
- AASB 2009-5 *Further amendments to Australian Accounting Standards arising from the Annual Improvements Process* affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Group's 30 June 2012 financial statements, are not expected to have significant impact on the financial statements.
- AASB 11 *Joint Arrangements,* which becomes mandatory for the Group's 30 June 2014 financial statements and could change the classification and measurement of investments in jointly controlled entities. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.
- Amended AASB 119 *Employee Benefits*, which becomes mandatory for the Group's 30 June 2014 financial statements and could change the definition of short-term and other long-term employee benefits and some disclosure requirements. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.
- AASB 10 *Consolidated Financial Statements* which becomes mandatory for the Group's 30 June 2014 financial statement. This standard introduces a new approach to determining which investees should be consolidated. Retrospective application will be required where there is a change in the control conclusion but the standard is still waiting on approval by the AASB but is not expected to have a significant impact on the financial statements. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.
- AASB 12 *Disclosures of Interests in Other Entities* which becomes mandatory for the Group's 30 June 2014 financial statement. This standard contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associated and/or unconsolidated entities. The amendments will require additional disclosure but are not expected to have a significant impact on the financial statements. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

3. Significant accounting policies (continued)

(S) New standards and interpretations not yet adopted (continued)

- AASB 13 *Fair Value Measurement* which becomes mandatory for the Group's 30 June 2014 financial statement. This standard explains how to measure fair value when required to by other IFRSs. It does not introduce new fair value measurements, nor does it eliminate the practicability exceptions to fair value that currently exist in certain standards. The Group has not yet determined the potential effect of the standard.

4. Determination of fair value

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

Trailing commissions

The Group receives trailing commissions from lenders on settled loans over the life of the loan based on the loan book balance outstanding. The Group is entitled to the trailing commissions without having to perform further services. The Group also makes trailing commission payments to Members when trailing commission is received from lenders.

The fair value of trailing commission receivable from lenders and the corresponding payable to Members is determined by using a discounted cash flow valuation. These calculations require the use of assumptions which are determined by management with the assistance of external actuaries. The key assumptions underlying the fair value calculations of trailing commission receivable and the corresponding payable to Members at balance date is summarised in the following table:

	2011	2010
Average loan life	Between 3.8 and 4.4 years	Between 3.6 and 5.1 years
Discount rate	Between 11.5% and 13.5%	Between 11.5% and 13.5%
Percentage paid to Members	Between 85% and 89%	Between 85% and 88%

The percentage paid to Members is fixed by the terms of their agreement with the Group. As a consequence, management does not expect changes to the percentage paid to Members to be reasonably possible.

Fixed rate instruments

The carrying amounts of the fixed rate instruments at year end is a reasonable approximation of their fair values with the exception of the net present value of future trailing commissions receivable which are accounted for at amortised cost.

At reporting date a change in interest rate will not affect the fair values of the fixed rate instruments.

Trade and other receivables/payables

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

Investments in equity

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

The fair value of available-for-sale assets cannot be measured reliably because it does not have a quoted price in an active market and its fair value cannot be reliably measured (see note 3(c)(i)).

5. Financial risk management

(a) Overview

The Group has exposure to the following risks from their use of financial instruments:

Credit risk;
Liquidity risk; and
Market risk.

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

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

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

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

(b) Credit risk

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

Receivables

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk.

The Group's trade and other receivables relate mainly to high credit quality financial institutions who are the members of the lender panel. New panel entrants are subject to commercial due diligence by the Group's management prior to joining the panel. The Group bears the risk of non-payment of future trailing commissions by lenders should they not maintain solvency.

However, should a lender not meet its obligations as a debtor then the Group is under no obligation to pay out any future trailing commissions to Members.

Excluding financial institutions on the lender panel, limits are established for each customer, which represents the maximum open amount without requiring approval from the Group's Directors. These limits are reviewed on an ongoing basis. The risk limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis. The Group does not require collateral in respect of trade and other receivables.

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 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 revision.

The Group's maximum exposure is the excess of the net realisable value and the carrying amount of the loans, net of any impairment losses. Importantly, all residential mortgages are covered by a lender's mortgage insurance contract which covers 100% of the principal.

5. Financial risk management (continued)

(b) Credit risk (continued)

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

(c) Liquidity risk

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

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

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

(d) Market risk

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

Currency risk

The Group is exposed to foreign currency risk on cash assets that are denominated in a currency other than AUD. The currencies giving rise to this risk are denominated in US dollars (USD) and New Zealand dollars (NZD). The Group elects not to enter into foreign exchange contracts to hedge this exposure as the net movements would be immaterial. 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 terms; and should there be changes in pricing the Group has the option to review its position and offset those costs by passing on interest rate changes to the end customer.

Prepayment risk

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

The Group's key exposure relates to the net present value of future trailing commissions receivable and payable. The Company 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, the Group minimises the prepayment risk by passing back all principal repayments to the warehouse facility provider. Deferred establishment fees are charged to the customer on early repayment of loans to minimise losses on the costs of acquisition.

Other market risk

The Company is exposed to an increase in the securitisation programme credit support loan from changes in the credit rating of mortgage insurers used by the SPE, and the composition of the available collateral held. The Group uses reputable valuers and management to regularly review and report on the credit ratings of those insurers as well as the Company's maximum cash flow requirements should there by any adverse movement in those credit ratings.

5. Financial risk management (continued)

(e) Capital management

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

The SPE managing the securitisation programme is subject to the external requirements imposed by the warehouse facility provider. The terms of the warehouse facility provide a mechanism for managing the lending activities of the SPE, and ensure that all outstanding principal and interest is paid at the end of each reporting period.

6. Discontinued operation

In September 2009 the Group sold 100% of its ordinary shares in its wholly owned subsidiary, Australian Finance Group Financial Planning Pty Ltd; and the comparative statement of comprehensive income has been re-presented to show the discontinued operation separately from continuing operations.

In thousands of AUD	*Note*	2011	2010
Results of discontinued operation			
Revenue		-	5,404
Expenses		-	(5,922)
Results from operating activities		-	(518)
Income tax expense/(benefit)	13	-	(76)
Results from operating activities, net of income tax		-	(594)
Gain on sale of discontinued operation	14(b)	107	3,893
Income tax expense on gain on sale of discontinued operation	13	(32)	(1,151)
Less income tax benefit brought to account	13	-	1,002
Profit / (loss) for the period		75	3,150

The profit from discontinued operation of $75 thousand (2010:$3,150 thousand) is attributable entirely to the owners of the Group. Deferred consideration was received in 2011 which gave rise to additional gain of $107 thousand.

In thousands of AUD	2011	2010
Cash flows from (used in) discontinued operation		
Net cash used in operating activities	-	(677)
Net cash from investing activities	1,500	(95)
Net cash from financing activities	-	-
Net cash from (used in) discontinued operation	1,500	(772)

Effect of disposal on the financial position of the Group

In thousands of AUD	2011	2010
Trade and other receivables	-	9
Cash and cash equivalents	-	206
Trade and other payables	-	195
Net assets and liabilities	-	20
Consideration received, satisfied in cash	1,500	2,500
Cash and cash equivalents disposed of	-	206
Net cash inflow	1,500	2,294

7. Revenue

In thousands of AUD	Continuing operations		Discontinued operation*		Total	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
Commissions	176,506	263,464	-	5,084	176,506	268,548
Interest on commission income receivable	40,996	28,121	-	-	40,996	28,121
Mortgage management services	1,383	1,061	-	-	1,383	1,061
Property development services	43	-	-	-	43	-
Securitisation transaction fees	146	240	-	-	146	240
Fees for services	-	-	-	306	-	306
	219,074	292,886	-	5,390	219,074	298,276

*See discontinued operation -note 6.

8. Other income

In thousands of AUD	**2011**	**2010**
Sponsorship income	825	1,026
Performance bonus income	657	870
Software licence fees	1,332	1,007
Professional indemnity insurance	1,522	1,528
Other	2,395	1,807
	6,731	6,238

9. Other expenses

In thousands of AUD	**Note**	**2011**	**2010**
Advertising and promotion		1,577	1,912
Consultancy and professional fees		925	912
Information technology		1,648	1,405
Occupancy costs		405	326
Employee costs	10	18,678	17,092
Depreciation and amortisation		1,350	1,389
Operating lease costs		1,851	1,545
Net loss on disposal of property, plant and equipment		10	13
		26,444	24,594

10. Personnel expenses

In thousands of AUD	**Note**	**2011**	**2010**
Wages and salaries		12,169	11,105
Other associated personnel expenses		4,782	4,554
Change in liability for long service leave		195	120
Change in liabilities for annual and sick leave		154	(64)
Equity-settled share based payment transactions	26	89	604
Superannuation		1,289	1,169
		18,678	17,488

Personnel expenses for 2010 include personnel expenses from discontinued operation (see note 6).

11. Auditors' remuneration

In AUD	2011	2010
Audit services		
Auditors of the Company		
KPMG Australia		
Audit and review of financial reports	98,500	95,000
	98,500	95,000
Other services		
Auditors of the Company-*KPMG Australia*		
Consulting services	-	385
Taxation services	79,800	60,131
	79,800	60,516

12. Finance income and expenses

Recognised in profit or loss

In thousands of AUD	2011	2010
Interest income on loans and receivables	3,333	3,998
Interest income on bank deposits	2,834	1,895
Finance income	6,167	5,893
Interest expense on finance liabilities measured at amortised cost	(2,689)	(2,403)
Interest expense on finance lease	-	(15)
Net foreign exchange loss	-	(11)
Net change in fair value of financial assets designated at fair value through profit or loss	(32)	56
Impairment loss on trade receivables	(14)	37
Interest on loans from funders	(94)	(58)
Finance expense	(2,829)	2,394
Net finance income and expense	3,338	3,499
The above financial income and expense include the following in respect of assets (liabilities) (not at fair value through profit or loss):		
Total interest income on financial assets	6,167	5,893
Total interest expense on financial liabilities	(2,783)	(2,476)

Recognised in other comprehensive income

In thousands of AUD	2011	2010
Net change in fair value of available-for-sale financial assets	-	(81)
Income tax on income and finance costs recognised in other comprehensive income	-	25
Finance income/(cost) recognised in other comprehensive income, net of tax *	-	(56)

* Attributable to equity holders of the Company

Other finance income and expenses

Revenue includes the interest income from the unwinding of the discount in relation to the net present value of future trailing commission receivable of $40,996 thousand (2010: $28,121 thousand). Refer to note 7 and 15. Cost of sales includes the interest expense from the unwinding of the discount in relation to the net present value of future trailing commission payable of $35,327 thousand (2010: $24,519 thousand). Refer to note 23.

13. Income tax expense

Recognised in the income statement

In thousands of AUD	2011	2010
Current tax expense		
Current period	5,316	6,773
Adjustments for prior periods	180	(168)
	5,496	6,605
Deferred tax expense		
Origination and reversal of temporary differences	(1,243)	152
Adjustments for prior periods	2	(4)
	(1,241)	148
Income tax expense excluding tax on sale of discontinued operation	4,255	6,753
Income tax from continuing operations	4,255	6,753
Income tax expense/(benefit) from discontinued operation (excluding gain on sale)	-	76
	4,255	6,829
Income tax expense on gain on sale of discontinued operation	32	1,151
Less income tax benefit from carried forward losses brought to account	-	(1,002)
Total income tax expense	4,287	6,978

Income tax recognised in other comprehensive income

For the year ended 30 June

In thousands of AUD	2011			2010		
	Before tax	Tax (expense) benefit	Net of tax	Before tax	Tax (expense) benefit	Net of tax
Net change in fair value of available-for-sale financial assets	-	-	-	81	(25)	56
Total income tax recognised directly in equity	-	-	-	81	(25)	56

Numerical reconciliation between tax expense and pre-tax accounting profit

In thousands of AUD	2011	2010
Profit for the period	9,131	19,387
Total income tax expense	4.287	6,978
Profit excluding income tax	13,418	26,365
Income tax using the Company's domestic tax rate of 30% (2010: 30%)	4,025	7,910
Difference in effective tax rate of equity accounting		-
Non-deductible expenses	79	242
Capital gains offset against capital losses of previous years not brought to account	-	(1,002)
Under/(over) provided in prior periods	183	(172)
	4,287	6,978

14. Cash and cash equivalents

(a) Cash and cash equivalents

In thousands of AUD	2011	2010
Bank balances	49,738	45,779
Call deposits	6,138	138
Cash and cash equivalents	55,876	45,917
Cash and cash equivalents in the statement of cash flows	55,876	45,917

The effective interest rate on at call deposits in 2011 was 5.80% (2010: 4.28%). The deposits had an average maturity of 30 days (2010:30 days).

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

(b) Reconciliation of cash flows from operating activities

In thousands of AUD	Note	2011	2010
Cash flows from operating activities			
Profit for the period		9,131	19,387
Adjustments for:			
Depreciation	21	694	662
Reversal of accumulated depreciation on disposed property, plant and equipment	21	(66)	(45)
Amortisation of intangible assets	22	655	731
Loss on sale of property, plant and equipment	9	10	13
Impairment losses on receivables		(11)	5
Impairment losses on securitised assets		25	(24)
Net change in the fair value of financial assets designated at fair value through profit or loss	12	32	(57)
Financing income	12	(3,343)	(2,555)
Equity-settled share-based payment	10	89	604
Share of profit of equity accounted investees	19	11	-
Gain on sale of discontinued operation	6	(107)	(3,893)
Operating profit before changes in working capital and provisions		7,120	14,828
Change in trade and other receivables		17,213	(57,120)
Change in prepayments		(758)	861
Change in trade and other payables		(9,921)	56,852
Change in inventories		(1,147)	(3,907)
Change in deferred income		911	550
Change in provisions for employee entitlements		(611)	493
Change in tax provision		(2,522)	265
Net cash from operating activities		10,285	12,822

15. Trade and other receivables

In thousands of AUD	2011	2010
Current		
Trade receivables	389	362
Net present value of future trailing commissions receivable[1]	73,608	73,749
Other trade receivables and prepayments	2,266	2,888
Accrued income	1,031	1,020
	77,294	78,019
Non-current		
Net present value of future trailing commissions receivable[1]	266,050	283,241
	266,050	283,241

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

Trade and other receivables are shown net of a provision for impairment of $20 thousand (2010: $18 thousand).

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

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

16. Loans and advances

Current

In thousands of AUD	2011	2010
Securitised assets[1]	12,809	7,804
Other secured loans[2]	2,780	2,378
	15,589	10,182

(1) The securitised assets are held security for the various debt interests in the special purpose securitised trusts and series.

(2) Other secured loans include:

- Loans and advances to Members secured over future trailing commissions' payable to the Member and in some cases personal guarantees. Interest is charged on average at 14.54% p.a (2010: 13.54% p.a).
- Loans and advances secured over the underlying assets and fixed and floating charge over the borrowing entity's assets. Interest is charged on average at 14.88% p.a (2010: Nil).

Non-current

In thousands of AUD	2011	2010
Securitised assets[1]	57,866	33,487
Unamortised effective yield fees	291	133
Other secured loans[2]	203	148
Less: Provision for impairment	(64)	(39)
	58,296	33,729

(1) The securitised assets are held as security for the various debt interests in the special purpose securitised trusts and series.

(2) Other secured loans include loans and advances to Members secured over future trailing commissions payable to the Member and in some cases personal guarantees. Interest is charged on average at 14.54%p.a (2010:13.54%).

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

At the end of the reporting period, the balance of the Group's non-current loans and advances includes a provision for impairment of $64 thousand (2010: $39 thousand).

During the financial year, new loans issued in the Group's securitisation program were $38,738 thousand (2010: nil).

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

17. Inventories

In thousands of AUD	2011	2010
Land at cost	3,909	3,909
Work in progress	1,145	-
Inventories carried at lower of cost and net realisable value	5,054	3,909

18. Other investments

In thousands of AUD	2011	2010
Current		
Financial assets designated at fair value through profit or loss	356	191
	356	191
Non-current		
Available-for-sale financial assets	31	31
	31	31

The financial assets designated at fair value through profit or loss are equity securities that otherwise would have been classified as available-for-sale.

No change in the fair value of available-for-sale financial assets has been recognised in 2011 (2010: $81 thousand).

The Group's exposure to credit, currency and market risks related to other investments is disclosed in note 30.

19. Investments in equity-accounted investees

The Group's share of loss in its equity-accounted investees for the year was $11 thousand (2010: nil), and the carrying amount was $2,404 thousand (2010: nil).

None of the Group's equity-accounted investees are publicly listed entities and consequently do not have published price quotations.

Summary financial information for equity-accounted investees, not adjusted for the percentage ownership held by the Group:

In thousands of AUD **2011**	Reporting date	Ownership	Current Assets	Non-Current Assets	Total assets	Current liabilities	Total liabilities	Income	Expenses	Profit/ (loss)
Qube Havelock Street Development Pty Ltd [1]	30 June	40%	320	8,379	8,699	-	2,733	1	(26)	(25)
Venture Lending Pty Ltd [2]	30 June	51%	1	-	1	4	4	-	(3)	(3)
			321	8,379	8,700	4	2,737	1	(29)	(28)

(1) Associate

(2) Joint venture. The arrangement between First National Group of Real Estate Agents (FN) and the Company is of a Jointly controlled entity type because it involved the establishment of Venture Lending Pty Ltd in which each venturer has an interest, there are contractual arrangements establishing joint control over its economic activity, and is able to contract in its own name and raise finance for the purpose of the joint venture activity.

20. Tax assets and liabilities

(a) Current tax assets and liabilities

The current tax liability for the Group of $1,754 thousand (2010: $3,037 thousand) represents the amount of income taxes payable in respect of current and prior financial periods.

(b) Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
In thousands of AUD	2011	2010	2011	2010	2011	2010
Property, plant and equipment and intangibles	(256)	(32)	-	-	(256)	(32)
Trade and other receivables	(3,777)	(6,295)	102,037	107,156	98,260	100,861
Employee benefits	(1,339)	(963)	-	26	(1,339)	(937)
Trade and other payables	(89,180)	(92,300)	3,240	5,321	(85,940)	(86,979)
Other items	(69)	(964)	54	-	(15)	(964)
Tax (assets) / liabilities	(94,621)	(100,554)	105,331	112,503	10,710	11,949
Set off of tax	94,621	100,554	(94,621)	(100,554)	-	-
Net tax (assets) / liabilities	-	-	10,710	11,949	10,710	11,949

21. Property, plant and equipment

In thousands of AUD	Plant and equipment	Fixtures and fittings	Total
Cost			
Balance at 1 July 2009	3,218	1,717	4,935
Additions	678	20	698
Disposals	(59)	-	(59)
Balance at 30 June 2010	3,837	1,737	5,574
Balance at 1 July 2010	3,837	1,737	5,574
Additions	303	13	316
Disposals	(76)	-	(76)
Balance at 30 June 2011	4,064	1,750	5,814
Depreciation			
Balance at 1 July 2009	2,773	924	3,697
Depreciation charge for the year	658	4	662
Disposals	(45)	-	(45)
Balance at 30 June 2010	3,386	928	4,314
Balance at 1 July 2010	3,386	928	4,314
Depreciation charge for the year	689	5	694
Disposals	(66)	-	(66)
Balance at 30 June 2011	4,009	933	4,942
Carrying amounts			
At 1 July 2009	445	793	1,238
At 30 June 2010	451	809	1,260
At 1 July 2010	451	809	1,260
At 30 June 2011	55	817	872

22. Intangible assets

In thousands of AUD	Financed Leased Asset	Software development	Total
Cost			
Balance at 1 July 2009	613	8,191	8,804
Acquisitions – internally developed	-	294	294
Balance at 30 June 2010	613	8,485	9,098
Balance at 1 July 2010	613	8,485	9,098
Acquisitions	-	331	331
Balance at 30 June 2011	613	8,816	9,429
Amortisation and impairment losses			
Balance at 1 July 2009	306	7,274	7,580
Amortisation for the year	204	527	731
Balance at 30 June 2010	510	7,801	8,311
Balance at 1 July 2010	510	7,801	8,311
Amortisation for the year	68	587	655
Balance at 30 June 2011	578	8,388	8,966
Carrying amounts			
At 1 July 2009	307	917	1,224
At 30 June 2010	103	684	787
At 1 July 2010	103	684	787
At 30 June 2011	35	428	463

23. Trade and other payables

In thousands of AUD	*Note*	2011	2010
Current			
Net present value of future trailing commissions payable	4	63,490	63,264
Other trade payables		17,595	24,389
Non-trade payables and accrued expenses		11,766	2,465
		92,851	90,118
Non-current			
Net present value of future trailing commissions payable		230,500	243,980
		230,500	243,980

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

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

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

24. Interest-bearing liabilities

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

Current

In thousands of AUD	2011	2010
Securitisation warehouse facility	13,377	39,613
Finance lease liabilities	-	12
Loans from funders	1,307	339
	14,684	39,964

Non-current

In thousands of AUD	2011	2010
Securitisation warehouse facility	59,528	-
Loans from funders	453	852
	59,981	852

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

	2011				2010			
In thousands of AUD	Nominal interest rate	Year of maturity	Face value	Carrying amount	Nominal interest rate	Year of maturity	Face value	Carrying amount
Warehouse facility	5.99%	2012	72,905	72,905	*5.39%*	2010	39,613	39,613
Finance lease liabilities	10%	2009-2010	-	-	*10.00%*	2009-2010	13	12
Loans from funders	6.22%	2011-2016	1,760	1,760	*5.10%*	2010-2015	1,191	1,191
			74,665	74,665			40,817	40,816

24. Interest-bearing liabilities (continued)

(a) Warehouse facility - Securitised mortgage borrowings

The warehouse facility provides funding for the financing of loans and advances to customers within the SPE.

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

Borrowings are secured against residential properties only, and each mortgage is covered by a lender's mortgage insurance contract which covers 100% of the principal of the loan. The carrying amount of the collaterals pledged as security is $98,593 thousand (2010: $55,163 thousand).

During the financial year there were no material breaches to the agreement that permitted the warehouse facility provider to demand payment of the outstanding value. All the breaches of the pool parameters that occurred during the financial year have been waived by the warehouse facility provider.

As at the reporting date the unutilised securitisation warehouse facility is $67,325 thousand (2010: $35,387 thousand).

The Group negotiated a new warehouse facility for a term of two years commencing from 21 December 2010.

(b) Finance facilities

In thousands of AUD	**2011**	**2010**
Standby facility	20	270
Bank guarantee facility	500	500
	520	770
Facilities utilised at reporting date		
Bank guarantee facility	408	408
	408	408
Facilities not utilised at reporting date		
Standby facility	20	270
Bank guarantee facility	92	92
	112	362

The facilities are subject to annual review.

(c) Finance lease liabilities

During 2008 the Group secured a financial lease for the purpose of purchasing software licences.
Finance lease liabilities of the Group are payable as follows:

	Future minimum lease payments	**Interest**	**Present value of minimum lease payments**	**Future minimum lease payments**	**Interest**	**Present value of minimum lease payments**
In thousands of AUD	**2011**	**2011**	**2011**	**2010**	**2010**	**2010**
Less than one year	-	-	-	13	1	12
Between one and five years	-	-	-	-	-	-
	-	-	-	13	1	12

(d) Loans from funders

Some of the funders used by the Group provide payment of an upfront commission at the point of origination of a mortgage loan. A portion of this upfront commission is then repaid via reduced ongoing management fees over a period of 5 years. Interest is also charged on this facility. The Group recognises the upfront commission from these funders as a loan. The principal and interest will be paid back over the 5 year period. Interest is recognised at an effective rate of 6.22% (2010: 5.10%).

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

25. Employee benefits

In thousands of AUD	2011	2010
Current		
Salaries and wages accrued	2,249	2,213
Liability for sick leave	18	22
Liability for long service leave	718	842
Liability for annual leave	900	742
	3,885	3,819
Non Current		
Liability for long-service leave	459	140
	459	140

26. Share based payments

(a) Options

At 29 August 2001, the Group established a share option programme that grants key management personnel and employees shares in the entity.

No options were issued to key management personnel or employees during 2011 (2010: Nil).

(b) Employee share scheme

An employee share scheme has been established where the Group may, at the discretion of management, grant ordinary shares in the Group to certain members of staff of the Group. The shares issued for nil consideration, are granted in accordance with the performance guidelines established by the directors of the Group.

With respect to the share scheme:

(i) Unless the Board otherwise determines, all issues of Plan Shares are made subject to the following restrictions:

- an Eligible Participant may not deal with 1/2 of the Plan Shares prior to the expiration of 24 months from the issue date.
- an Eligible Participant may not deal with 1/2 of the Plan Shares prior to the expiration of 12 months from the issue date; and

(ii) No issues may be made under the Plan at a time when the number of Plan Shares exceeds 5% of the total number of issued ordinary shares in the capital of the Company.

Each Plan Share will rank equally with other fully paid ordinary shares of the Company in respect of voting rights and dividends, and will be entitled to participate in any Bonus Issues and Entitlement Issues made by the Company on the same basis as other issued fully paid ordinary shares in the Company, save as regards any rights attaching to shares by reference to a record date prior to the Issue Date.

Issue Date	Number Issued	Vested	Non Vested	Total	Value per Share	Total Value
28 Sep 2001	234,000	234,000	-	234,000	$0.031	$7,254
31 Dec 2001	562,500	562,500	-	562,500	$0.027	$15,187
27 May 2002	50,000	50,000	-	50,000	$0.014	$700
30 Sep 2003	77,000	77,000	-	77,000	$0.011	$847
31 Oct 2003	146,000	146,000	-	146,000	$0.011	$1,606
8 July 2004	53,000	53,000	-	53,000	$0.150	$7,950
25 Aug 2004	60,000	60,000	-	60,000	$0.150	$9,000
28 July 2005	10,000	10,000	-	10,000	$0.200	$2,000
25 Nov 2005	95,000	95,000	-	95,000	$0.180	$17,100
24 Jan 2006	66,667	66,667	-	66,667	$0.200	$13,333
18 July 2006	50,000	50,000	-	50,000	$0.150	$7,500
4 May 2009	650,000	650,000	-	650,000	$0.300	$195,000

26. Share based payments (continued)

The fair values of services received in return for the issue of shares under the Scheme are measured by reference to the fair value of the shares issued under the Scheme. The valuation of the shares issued under the Scheme considered the following factors:

- The Group is a non listed group and as such the relative liquidity of the shares
- The number of shares held or controlled by director, related entities and other significant shareholders
- The net tangible assets of the Group as at the time of the issue of shares under the scheme

In 2011, $89,375 (2010: $97,500) was expensed to employee expenses being the fair value of shares issued under the terms of the Employee Share Scheme recognised on a pro-rata basis.

No shares were bought back during the financial year from ex-employees, as allowed under the terms of the Scheme (2010: NIL).

27. Provisions

In thousands of AUD	Dividend	Terminated members	Make good	Total
Balance at 1 July 2010	-	648	74	722
Provision made during the period	3,000	14	8	3,022
Provision reversed during the period	-	(50)	-	(50)
Balance at 30 June 2011	3,000	612	82	3,694
Non-current	-	-	82	82
Current	3,000	612	-	3,612
	3,000	612	82	3,694

Provision for terminated members
The provision for terminated members relates mainly to commission currently disputed with terminated Members and as such have been withheld. The provision has been raised in certain circumstances where it is expected that there is a possibility of legal action from the terminated member.

Provision for make good
It is a condition of the lease of the Group's premises to return the property in its original condition at the end of the lease term. The Group recognises a provision for make good as the expected cost of the refurbishment over the life of the lease.

28. Deferred income

Current

In thousands of AUD	2011	2010
Sponsorship income	1,010	760
Lease incentives	13	62
Unearned professional indemnity insurance	831	1,142
Other deferred income	2,042	1,070
	3,896	3,034

29. Capital and reserves

(a) Share capital

The Company

In thousands of shares	Ordinary shares ('000) 2011	2010
On issue at 1 July	93,340	92,272
Issued for cash or nil consideration	-	1,068
On issue at 30 June – fully paid	93,340	93,340

29. Capital and reserves (continued)

(a) Share capital

Effective 1 July 1998, the Company Law Review Act abolished the concept of par value shares and the concept of authorised capital. Accordingly, the Company does not have authorised capital or par value in respect of its issued shares.

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

(b) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

(c) Fair value reserve

The fair value reserve comprises the cumulative net change in fair value of available-for-sale financial assets until the investments are derecognised or impaired.

(d) Dividends

Dividends recognised in the current year by the Group are:

	Cents per share	Total amount ($'000)	Franked / unfranked	Date of payment
2011				
Final 2010 ordinary	3.21	3,000	Franked	03/09/2010
Interim 1 2011 ordinary	3.21	3,000	Franked	15/12/2010
Interim 2 2011 ordinary	3.21	3,000	Franked	27/05/2011
		9,000		
2010				
Final 2009 ordinary	3.25	3,000	Franked	05/08/2009
Interim 1 2010 ordinary	3.25	3,000	Franked	06/11/2009
Interim 2 2010 ordinary	4.29	4,000	Franked	11/05/2010
		10,000		

Franked dividends declared or paid during the year were franked at the tax rate of 30%.

In thousands of AUD	2011	2010
Dividend franking account	9,628	6,628
30 per cent franking credits available to shareholders of Australian Finance Group Limited for subsequent financial years	32,092	22,092

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for:

(a) franking credits that will arise from the payment of the current tax liabilities;

(b) franking debits that will arise from the payment of dividends recognised as a liability at the year-end;

(c) franking credits that will arise from the receipt of dividends recognised as receivables by the tax consolidated group at the year-end (Nil); and

(d) franking credits that the entity may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

30. Financial instruments

(a) Credit risk

Exposure to credit risk

The carrying amount of the Group financial assets represents the maximum credit exposure. The Group maximum exposure to credit risk at the reporting date is outlined below.

		Carrying amount	
In thousands of AUD	***Note***	**2011**	**2010**
Cash and cash equivalents	14	55,876	45,917
Trade and other receivables	15	343,344	361,261
Loans and advances	16	73,885	43,911
Financial assets at fair value through profit or loss	18	356	191
Available-for-sale financial assets	18	31	31
		473,492	451,311

(i) Trade and other receivables

Exposure to credit risk

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

	Carrying amount	
In thousands of AUD	**2011**	**2010**
Type of customer		
Financial institutions	340,949	358,255
Members	89	140
Other	2,306	2,865

All outstanding trade and other receivables are with customers located within Australia. The amounts owing from financial institutions include the net present value of trailing commissions' receivable of $339,658 thousand (2010: $356,990 thousand).

More than 78 percent of the Group's net present value of future trailing commissions receivable is from counterparties rated A and above (2010: 91%). The following table provides information on the credit ratings at balance date according to the Standard & Poor's counterparty credit with AAA and BBB being respectively the highest and the lowest possible ratings:

	Current	Non Current
In thousands of AUD	**2011**	**2011**
Standard & Poor's Credit rating		
AA	46,561	168,290
A+	8,153	29,468
A	2,723	9,841
A-1+	784	2,835
BBB+	1,327	4,795
BBB	635	2,295
BBB^{-}	153	555
Not rated	13,272	47,971
	73,608	266,050

30. Financial instruments (continued)

(a) Credit risk (continued)

(i) Trade and other receivables (continued)

In thousands of AUD	Current 2010	Non Current 2010
Standard & Poor's Credit rating		
AA+	90	347
AA	49,095	188,555
A+	5,437	20,882
A	6,038	23,189
A-	835	3,208
BBB+	1,256	4,824
BBB	693	2,662
Not rated	10,305	39,574
	73,749	283,241

Impairment losses

The ageing of the Group's trade and other receivables (excluding the net present value of future trailing commissions), at the reporting date was:

In thousands of AUD	Gross 2011	Impairment 2011	Gross 2010	Impairment 2010
Not past due	3,232	-	3,893	-
Past due 0-30 days	266	-	137	-
Past due 30-60 days	4	(4)	27	(5)
Past due not impaired more than 61 days	204	(16)	231	(13)
	3,706	20	4,288	(18)

During the year ended 30 June 2011 the Group has not renegotiated or entered into any agreement to renegotiate a trade receivable that would otherwise be past due or impaired.

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

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

In thousands of AUD	2011	2010
Balance at 1 July	18	52
Impairment loss recognised	2	(34)
Balance at 30 June	20	18

(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	2011	2010
Customer type		
Residential mortgage borrower	70,902	41,385
Members	489	346
Other	2,494	2,180
	73,885	43,911

30. Financial instruments (continued)

(a) Credit risk (continued)

(ii) Loans and advances (continued)

Residential mortgage borrowers

The Group minimises credit risk by obtaining security over residential mortgage property for each loan. The estimated value of collaterals held at balance date was $98,593 thousands (2010: $55,163 thousands). During the year ended 30 June 2011 the Group has taken possession of two residential properties that were held as security for loans issued by the Group. The carrying amount of the repossessed residential property was $457 thousand (2010: Nil). A specific allowance for impairment loss on these loans of $52 thousand (2010: $27 thousand) has been raised although mortgages are 100% covered by a lender's mortgage insurance contract. One of the properties has been sold subsequent to balance sheet date.

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

The table below summarises the Group exposure to residential mortgage borrowers by LVR.

	Carrying amount	
In thousands of AUD	**2011**	**2010**
Loan to value ratio		
Greater than 95%	4,793	4,793
Between 90%-95%	9,717	4,917
Between 80%-90%	19,676	11,777
Less than 80%	36,489	19,804
	70,675	41,291

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

Impairment Losses

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

	Gross	Impairment	Gross	Impairment
In thousands of AUD	**2011**	**2011**	**2010**	**2010**
Not past due	72,721	(12)	43,269	(12)
Past due 31-120 days	769	-	466	-
Past due 121 days to one year	459	(52)	181	-
Past due more than one year	-	-	34	(27)
	73,949	(64)	43,950	(39)

The impairment loss at 30 June 2011 of $64 thousand (2010: $39 thousand) includes:

- $52 thousand specific provision for loans that are past due; and
- $12 thousand collective provision.

The movement in the allowance for impairment in respect of loans and advances for the Group during the year was as follows:

In thousands of AUD	**2011**	**2010**
Balance at 1 July	39	63
Impairment loss recognised	25	(24)
Balance at 30 June	64	39

Securitisation loans

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

No impairment loss was recognised at 30 June 2011 (2010: NIL).

30. Financial instruments (continued)

(a) Credit risk (continued)

(ii) Loans and advances (continued)

Other secured loans

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

No impairment loss was recognised at 30 June 2011 (2010: NIL).

(b) Liquidity risk

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

2011 *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 facility	72,905	77,138	7,326	6,629	63,183	-	-
Loans from funders	1,760	1,863	271	256	491	845	-
Net present value of future trailing commissions payable	293,990	404,728	48,714	44,978	76,840	146,451	87,745
Trade and other payables	29,361	29,361	29,241	120	-	-	-
	398,016	513,090	85,552	51,983	140,514	147,296	87,745
2010							
Finance lease liabilities	12	13	13	-	-	-	-
Securitisation warehouse facility	39,613	40,680	40,680	-	-	-	-
Loans from funders	1,191	1,274	180	170	254	670	-
Net present value of future trailing commissions payable	307,244	428,364	49,486	45,872	79,376	154,937	98,693
Trade and other payables	26,854	26,854	26,739	115	-	-	-
	374,914	497,185	117,098	46,157	79,630	155,607	98,693

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

For terms and conditions relating to trade payables and net present value of future trailing commissions payable refer to notes 4 and 23. For terms and conditions relating to finance lease liabilities and the securities warehouse facility, refer to notes 24.

(c) Market risk

(i) Currency risk

Exposure to currency risk

As at reporting date the Group held cash assets denominated in New Zealand dollars (NZD).

Fluctuations in the NZD currency are not expected to have material impact on the profit or loss and equity of the Group and have therefore not formed part of the disclosures.

30. Financial instruments (continued)

(c) Market risk (continued)

(ii) Interest rate risk

Profile

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

In thousands of AUD	Carrying amount 2011	Carrying amount 2010
Fixed rate instruments		
Financial assets	342,641	359,516
Financial liabilities	293,990	307,256
	48,651	52,260
Variable rate instruments		
Financial assets	126,779	87,302
Financial liabilities	74,665	40,804
	52,114	46,498

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss therefore a change in interest rates at reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

Due to the market conditions existing at 30 June 2011, the Group does not expect that interest rates will move in excess of 100 basis points (bps) from current conditions in the next reporting period. This has therefore formed the basis for the sensitivity analysis.

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2010.

Effect in thousands of AUD	After tax profit 100bp increase	After tax profit 100bp decrease	Equity 100bp increase	Equity 100bp decrease
30 June 2011				
Variable rate financial assets	710	(710)	710	(710)
Variable rate financial liabilities	325	(324)	325	(324)
Cash flow sensitivity (net)	385	(386)	385	(386)
30 June 2010				
Variable rate financial assets	649	(649)	649	(649)
Variable rate financial liabilities	340	(338)	340	(338)
Cash flow sensitivity (net)	309	(311)	309	(311)

Fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

In thousands of AUD	*Note*	2011 Carrying amount	2011 Fair value	2010 Carrying amount	2010 Fair value
Assets carried at fair value					
Financial assets designated at fair value through profit or loss	18	356	356	191	191
Available-for-sale financial assets	18	31	31	31	31
Assets carried at amortised cost					
Cash and cash equivalents	14(a)	55,876	55,876	45,917	45,917
Trade and other receivables	15	343,344	343,344	361,260	361,260
Loans and advances	16	73,885	73,885	43,911	43,911
Liabilities carried at amortised cost					
Trade and other payables	23	(323,351)	(323,351)	(334,098)	(334,098)
Interest-bearing liabilities	24	(74,665)	(74,665)	(40,816)	(40,816)
		75,476	75,476	76,396	76,396

30. Financial instruments (continued)

(c) Market risk (continued)

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method.

The different levels have been defined as follows:

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

	Fair value measurement at end of the reporting period using :			
Effect in thousands of AUD	**Level 1**	**Level 2**	**Level 3**	**Total**
30 June 2011				
Available-for-sale financial assets	-	-	31	31
Financial assets designated at fair value through profit or loss	356	-	-	356
	356	-	31	387
30 June 2010				
Available-for-sale financial assets	-	-	31	31
Financial assets designated at fair value through profit or loss	136	-	55	191
	136	-	86	222

There have been no transfers between levels during the year ended 30 June 2011 (2010: no transfers in either direction).

Reconciliation of movement per class pertaining to Level 3 financial instruments for the period:

In thousands of AUD	**Available-for-sale financial assets**	**Financial assets designated at fair value through profit or loss**
Balance at 1 July 2010	31	55
Total gains and losses recognised in comprehensive income	-	-
Purchases and disposals	-	(55)
Balance at 30 June 2011	31	-

(iii) Prepayment risk

Net present value of future trailing commissions receivable and payable

Exposure to prepayment risk

The Group will incur financial loss if customers or counterparties repay or request repayment earlier or later than expected. A change in the pattern of repayment by end consumers will have an impact on the fair value of future trailing commissions receivable and payable. Refer to note 4 for more details.

Sensitivity analysis

Management have engaged the use of actuaries for the purposes of reviewing the run-off rate of the loans under management. Management does not expect the run-off rate to change in excess of 14% positive or 14% negative of the rates revealed from the actuarial analysis.

30. Financial instruments (continued)

(c) Market risk (continued)

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

In thousands of AUD	2011		2010	
	+14%	-14%	+11%	-11%
After tax profit	(3,600)	4,161	(2,774)	3,076
Equity	(3,600)	4,161	(2,774)	3,076

Securitised assets

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

(iv) Equity price risk

Exposure to equity price risk

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

At 30 June 2011 a decrease in the fair value of financial assets designated at fair value through profit or loss of $32 thousand (2010: $57 thousand increase) was recognised.

(v) Other market risks

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

31. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

In thousands of AUD	2011	2010
Less than one year	2,162	1,647
Between one and five years	1,292	1,653
	3,454	3,300

The Group leases a number of office facilities under operating leases. The leases run for a period of up to 7 years, with an option to renew the lease after that date. Lease payments are generally increased every year to at least reflect CPI movements, with regular adjustments to reflect market rentals.

During the financial year ended 30 June 2011, $1,851 thousand was recognised as an expense in the income statement in respect of operating leases (2010: $1,562 thousand).

Parts of the leased properties have been sublet by the Group. The lease and sublease expire in 31 December 2012. Sublease payments of $391 thousand are expected to be received during the following financial year.

During the financial year a new operating lease agreement has been signed, however the terms of the lease are yet to be finalised.

32. Group entities

Significant subsidiaries

	Country of incorporation	Ownership interest 2011	2010
Parent entity			
Australian Finance Group Limited	Australia	100	100
Significant subsidiaries			
Australian Finance Group (Commercial) Pty Ltd	Australia	100	100
Australian Finance Group Insurance Brokers Pty Ltd	Australia	100	100
Australian Finance Group Securities Pty Ltd	Australia	100	100
AFG Securities Pty Ltd	Australia	100	100
AFG 2010-1 Trust	Australia	100	100
New Zealand Finance Group Ltd	New Zealand	100	100
Lilydale Pastures Estate Pty Ltd	Australia	100	100
Longford Road Pty Ltd	Australia	100	-

33. Parent entity

As at, and throughout, the financial year ending 30 June 2011 the parent Company of the Group was Australian Finance Group Limited.

In thousands of AUD	2011	2010
Results of the parent entity		
Profit for the period	8,753	17,469
Other comprehensive income	-	(56)
Total comprehensive income for the period	8,753	17,413

In thousands of AUD	2011	2010
Financial position of parent entity at year end		
Current assets	136,492	131,362
Total assets	408,111	416,826
Current liabilities	107,004	100,723
Total liabilities	349,153	357,711
Total equity of the parent entity comprising of:		
Share capital	11,435	11,346
Reserves	(85)	(85)
Retained earnings	47,608	47,854
Total equity	58,958	59,115

See notes 34 and 35 for the parent entity capital and other commitments, and contingencies.
Refer to note 24 (b) for the parent entity's guarantees.

As at reporting date the credit support facility provided by the parent entity to AFG 2010-1 Trust was $1.6 million.

34. Capital and other commitments

In AUD	Consolidated 2011	Consolidated 2010	The Company 2011	The Company 2010
Capital expenditure commitments				
Contracted but not provided for and payable :				
Within one year	-	41	-	41
One year or later and no later than five years	-	82	-	82
	-	123	-	123

The Group has no commitment to incur capital expenditure for 2011 (2010: $123 thousand).

The Group is committed to pay $986 thousand to Qube Havelock Street Development Pty Ltd on or before 31 August 2011, being the final instalment of the consideration payable for the acquisition of 3,400 thousand ordinary shares.

35. Contingencies

Warranties

On sale of its subsidiary in 2009, the Group has given warranties to the purchaser in accordance with the terms and conditions of the Share Sale Agreement.

In the directors' opinion, the information usually required by AASB 137 Provisions, Contingent Liabilities and Contingent Assets, is not disclosed on the grounds that it would be prejudicial to the interest of the Group. At 30 June 2011, there were no claims in progress that are expected to have a material impact on the Group.

Third Party Guarantees

Bank guarantees have been issued by a third party financial institution 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.

36. Related parties

(a) Key management personnel compensation

The key management personnel compensation included in 'personnel expenses' (see note 10) are as follows:

In AUD	Note	2011	2010
Short-term employee benefits[1]		2,445,155	2,193,623
Other long term benefits – long service leave		352,792	282,755
Termination benefits		-	91,795
Post-employment benefits		164,404	164,441
Share-based payments	26	89,375	604,318
		3,051,726	3,365,154

In addition to their salaries, the Group also provides non-cash benefits to key management personnel.

(1) Short-term employee benefits include salaries and other payments in relation to key management personnel's services rendered to the Group.

Executive officers may also participate in the Group's employee share scheme (see note 26).

Balance outstanding to key management personnel and other related parties at reporting date arising from the above transactions is a payable amount of $597,627 (2010: $526,277).

(b) Loans to key management personnel

Loan balance outstanding at the reporting date to key management personnel is $100,623 (2010: Nil). The loan is unsecured and the interest is charged at 7.8% p.a. The principal and interest charges have been fully repaid in July 2011.

36. Related parties (continued)

(c) Other related parties

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

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

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

	Transactions value year ended 30 June	
In AUD	**2011**	**2010**
Gill Family Pty Ltd - Provision of chairman services	65,000	65,000

(i) During the year the Group received payments from TAL Life Ltd. Jim Minto is a director of TAL Life Ltd and also a non-executive director of the Company. These dealings were in the ordinary course of business and were on normal terms and conditions. These payments were received as commission for life and risk insurance products provided by TAL Life Ltd. Total commissions received during the financial year was $426 thousand (2010 : $149 thousand).

(ii) During 2010 the Company granted 150,000 ordinary shares to the Chairman of the Company Mr Tony Gill for nil consideration, and 850,000 ordinary shares at a discounted share price of $1.10.The fair value of the issued shares was measured based on independent share valuation of $1.42 which was obtained by the Group on 29 October 2009. On the same date 68,182 ordinary shares were issued to Mr John Atkins (non executive director of the Company) at a discounted share price of $1.10.

(d) Joint venture

The parent entity has 51% interest in Venture Lending Pty Ltd. From time to time the Group provides working capital to support the activities of the joint venture. The payments made on behalf of the joint venture are unsecured and the balance outstanding as at the reporting date is $3,791 (2010: nil). All the outstanding balance with the joint venture is priced on an arm's length basis and is to be settled as the joint venture activities become more profitable.

(e) Subsidiaries

Loans are made by the parent entity to wholly owned subsidiaries to fund working capital and purchases of shares from one subsidiary to the other subsidiary. With the exception of the specific transactions noted below, loans outstanding between the Company and its subsidiaries are unsecured, have no fixed date of repayment and are non-interest bearing.

Interest-free loans made by the parent entity to all its subsidiaries are payable on demand. Each of the individual loans owed to/by the subsidiaries are detailed below:

	Parent entity	
In AUD	**2011**	**2010**
Loan to Australian Finance Group Securities Pty Ltd	655,011	2,109,200
Loan to AFG Securities Pty Ltd	2,103,211	1,475,193
Loan to New Zealand Finance Group Ltd	328,792	328,792
Loan to Lilydale Pastures Estate Pty Ltd	5,082,140	3,907,139
Loan to Longford Road Pty Ltd	58,513	-
Less impairment loss	(3,238,392)	(2,675,358)
	4,989,275	5,144,967

36. Related parties (continued)

(e) Subsidiaries (continued)

Allowance for non recovery of subsidiaries debt is as follows:

	Impairment Allowance	
In AUD	**2011**	**2010**
New Zealand Finance Group Ltd [1]	328,792	328,792
AFG Securities Pty Ltd [2]	2,254,589	1,388,868
Australian Finance Group Securities Pty Ltd	655,011	957,701
	3,238,392	2,675,358

(1) Cash generated from NZFG Pty Ltd small operations in the short term will not be sufficient to repay the debt owed to the Company.
(2) Cash generated from the operations of AFG Securities Pty Ltd in the short term will not be sufficient to repay the debt to the Company

37. Subsequent events

On 1 July 2011 the Directors paid a dividend of 3.21 cents per fully paid ordinary share, fully franked based on tax paid at 30%.The aggregate amount of the dividend paid out in July 2011 of the retained profits at 30th June 2011 is $3,000 thousand. The financial effect of these dividends has been brought to account in the financial statements for the year ended 30th June 2011.

On 16 August 2011, the Group paid $986 thousand to Qube Havelock Street Development Pty Ltd being the final instalment of the consideration payable for the acquisition of 3,400 thousand ordinary shares.

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

1 In the opinion of the Directors:

(a) the financial statements and notes, set out on pages 5 to 46, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the consolidated entity as at 30 June 2011 and of its performance, as represented by the results of its operations and its cash flows, for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

2 The directors draw attention to note 2(a) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

B M McKeon
Director

Dated at Perth, Western Australia on 27 day of October 2011.

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

We have audited the accompanying financial report of Australian Finance Group Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2011, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 37 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

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

KPMG

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2011and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

KPMG
KPMG

Grant Robinson
Grant Robinson
Partner

Perth

27 October 2011

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Australian Finance Group Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2011 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Grant Robinson

Grant Robinson
Partner

Perth

27 October 2011