

**AFG**

**2021**

**CORPORATE GOVERNANCE  
STATEMENT**

This Corporate Governance Statement is accurate and current  
as at **31 July 2021** and has been approved by the AFG Board.



## The Board of Directors (“Board”) of Australian Finance Group Ltd (“AFG” or “the Company”) has developed an approach to corporate governance that encompasses the Company’s purpose and values.

The Board has adopted relevant internal controls, risk management processes and corporate governance policies and practices which it believes are appropriate for AFG’s business and which are designed to promote the responsible management and conduct of the Company.

In preparing this statement, the Board has reported against the 4th Edition of the ASX Corporate Governance Council’s Corporate Governance Principles & Recommendations (“ASX Principles & Recommendations”).

A statement of the corporate governance policies adopted by AFG are outlined in the following pages.

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

## PURPOSE

# Brokering a better future

We exist to create competition and financial choice for Australians by protecting, backing and championing the broker industry on behalf of our members.

## VALUES



### Growth

Grow our business by investing in our people and supporting the growth of our partners.



### Customer

Understanding the needs of our customers and always aiming to exceed expectations.



### Innovation

Work towards the future, challenging the status quo.



### Integrity

We build trust by doing the right thing.



### Teamwork

Committed to supporting each other, sharing knowledge and ideas.

## PRINCIPLE 1

# Lay solid foundations for management and oversight

### The Board's roles and responsibilities

AFG has established a Board Charter which provides a framework for the effective operation of the Board.

The Board's role is to define the Company's purpose, statement of values and set its strategic objectives, including approving the Company's Code of Conduct to underpin the desired culture within the Company.

The Board also represents and serves the interests of shareholders by overseeing and appraising AFG's strategies, policies, performance and risk. Another key responsibility is keeping shareholders informed of AFG's performance and major developments affecting the Company.

This year the Board charter was updated to include the role of the Board in overseeing environment, social and governance ("ESG") matters including policies designed to operate ethically, responsibly and sustainably and communicate these policies to stakeholders of the Company.

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

- appointment of a Chair;
- appointment of directors to fill a vacancy or to add an additional director;
- establishment of Board committees, their membership and delegated authorities;
- approval of dividends and dividend policy;
- approval of major capital expenditure, acquisitions and divestments in excess of authority levels delegated to management;
- calling meetings of shareholders;
- selecting, appointing and evaluating the performance of the CEO and approving the appointment and replacement of the Chief Financial Officer, Company Secretary and other senior executives reporting to the CEO;
- succession planning for the CEO and other senior executives; and
- any other specific matters nominated by the Board from time to time.

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

### Management's roles and responsibilities

The management function is conducted by, or under the supervision of, the CEO as directed by the Board (and by other officers to whom the management function is properly delegated by the CEO).

Management must supply the Board with information in a form, timeframe and quality that will enable the Board to discharge its duties effectively. Directors are entitled to request additional information at any time they consider appropriate including financial performance information and the Company's compliance with material legal and regulatory requirements and any conduct that is materially inconsistent with the Company's values or Code of Conduct. As part of these responsibilities the Board will challenge management whenever required, and hold it to account.

### Information about Directors to security holders

The Company undertakes appropriate checks into the character, experience, criminal record and bankruptcy history of all directors.

The Company will provide shareholders with sufficient information in the general meeting notices, including the notice of Annual General Meeting, about any director standing for election or re-election at the meeting to enable them to make an informed decision on whether to elect or re-elect the candidate.

### Director and senior executive arrangements

Each of the directors and senior executives has a written agreement with the Company setting out the terms of their appointment. The Company also undertakes the same employment checks for senior executives as it undertakes for directors, prior to their appointment.

### Company secretary

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

All directors have direct access to the Company Secretary.

## Diversity and Inclusion Policy

The Company values a strong and diverse workforce and is committed to developing and applying measurable objectives of diversity and inclusion in its workplace.

The Board has adopted a Diversity and Inclusion Policy which is aligned with the Company's statement of values and focused on gender (including the representation of women in senior management positions and on the Board), ethnicity/culture, sexual orientation, gender identity, age, disability status, religious beliefs, socio-economic background, and promoting flexible work practices for employees with family and caring responsibilities.

The policy aims to facilitate a more diverse and representative management and leadership structure and workforce.

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

AFG is committed to ensuring that the recruitment and selection practices at all levels of the Company are appropriately structured so that a diverse range of candidates are considered.

In 2021, the Company introduced a Working From Home Policy available to all staff. This policy, which has been led and embraced by senior executives, has seen a majority of staff work from home at least one day per week. This policy has promoted flexible work practices which has benefited all employees but especially those with children or caring commitments for elderly parents.

In addition, AFG provides opportunities for employees on extended parental leave to maintain their connection with the Company, for example by attending work functions and training programs.

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

In accordance with the Workplace Gender Equality Act 2012, AFG makes public its annual filings with the Workplace Gender Equality Agency (WGEA) and publishes its "Gender Equality Indicators".

Interested parties can access the latest AFG filings at <https://www.afgonline.com.au/corporate/investors/>.

A summary of the measurable objectives set out in the Diversity and Inclusion Policy for the reporting period and the Company's progress towards achieving these are as follows:

Objective	Status as at 30 June 2021
Achieve a minimum of 40% women in management positions (including KMP, Senior Managers and Other Managers) by 2022 with increased year on year representation.	37% of our management positions are held by women. This is an increase of 1% from our reported numbers last year.
Continue to develop cultural awareness across AFG ensuring our workforce reflects the diverse Australian population, demonstrated by a positive cultural diversity score of at least 80% in our annual employee survey.	89% of employee agreed in our 2021 Employee Survey that AFG supports cultural diversity.  (Survey period closed 6 August 2021)
Maintain workplace diversity as one of the top three performing areas of our employee pulse surveys	Workplace diversity was our highest performing area in our 2021 Employee Survey.
Continue training and awareness programs to ensure employees maintain and uphold AFG's acceptable and expected behaviours and diversity and inclusion values in the workplace.	The Diversity & Inclusion Committee continues to deliver a quarterly program of training and awareness initiatives. Mental health was a key focus of the committee in response to challenges caused by COVID 19. Domestic violence awareness and support was also highlighted tying in with government education and awareness campaigns.
Maintain no less than 30% of each gender in the composition of AFG's Board of Directors.	AFG meets this objective with 33% female representation on the Board.

The table below shows the proportion of women in the whole organisation, women in senior management positions, women in key senior executive positions, and women on the Board. The Company defines “senior executives” as executive directors and senior leaders who make up the Executive Committee. To provide an accurate reflection of the proportion of women across the whole organisation, the Company has included contractors and part-time employees in the percentages below, which shows the proportion of women in the organisation at 30 June 2021.

Position	Total	# of Women	% of Women in Positions
Board	6	2	33%
Senior Executives	9	2	22%
Senior Managers	16	7	47%
<b>Total Workforce (including Directors)</b>	238	122	51%

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

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

## Board evaluation

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

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

Performance evaluations were undertaken in the financial year ended 30 June 2021 in accordance with the process described.

## Evaluation of senior executives

The CEO annually reviews the performance of all senior executives. The CEO conducts performance reviews by meeting individually with each direct report to review performance against the senior executive’s responsibilities as outlined in his or her contract with the Company and against key performance indicators set by the CEO or the Board.

The Remuneration and Nomination Committee reviews the senior management performance assessment processes and results including approving the short term and long term incentive strategy, performance targets and any bonus payments for senior executives, as they reflect the capability of management to realise the business strategy.

Senior executive performance reviews were undertaken in the financial year ended 30 June 2021 in accordance with the process described above.

## PRINCIPLE 2

# Structure the Board to be effective and add value

### Board membership and independence

At the end of the reporting period AFG's Board comprised six members, including one executive director and five non-executive directors (four of whom are considered independent, including the Chair). Detailed biographies and length of service for each director are provided in the Directors' Report forming part of the 2021 Annual Financial Statements.

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

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

Brett McKeon and Malcolm Watkins are founding directors and currently considered by the Board not to be independent because:

- Brett McKeon was an executive director of AFG until 30 June 2019. He is still considered by the Board not to be independent because he is a substantial shareholder and was employed in an executive capacity within the last three years; and
- Malcolm Watkins is an executive director of AFG and a substantial shareholder.

### Remuneration and Nomination Committee

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

Details of each member's qualifications and experience and details of the number of Remuneration and Nomination Committee meetings held and attended by members are set out in the 2021 Directors' Report and Financial Statements.

Under its Charter, the Remuneration and Nomination Committee has the following responsibilities in relation to the composition of the Board:

- Assisting the Board to develop a Board Skills Matrix setting out the mix of skills and diversity that the Board currently has or is looking to achieve in its membership.

- Reviewing and recommending to the Board the size and composition of the Board, including succession plans and the succession of the Board Chair, CEO, and direct reports to the CEO, having regard to the objective that the Board comprise directors with a broad range of skills, expertise and experience from a broad range of backgrounds including gender, age and ethnicity.
- Reviewing and recommending to the Board the criteria for Board membership.
- Assisting the Board as required in relation to the performance evaluation of the Board, its committees and individual directors, and in developing and implementing plans for identifying, assessing and enhancing director competencies.
- Reviewing and making recommendations in relation to any corporate governance issues as requested by the Board from time to time.
- Reviewing the Remuneration and Nomination Committee Charter on a periodic basis and recommending any amendments for Board consideration.
- Establishing an effective director induction process, regularly reviewing its effectiveness and whether there is a need for existing directors to undertake appropriate professional development.

A copy of the Remuneration and Nomination Committee Charter is available on the Company's website.

### Director induction program and professional development

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

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

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

## Board Skills Matrix

The Board undertook its annual skills evaluation to identify the Board's strengths and where its existing skills and experience may best be enhanced or complemented. The results of the 2021 evaluation demonstrated that the Board is comprised of members with an extensive and relevant skill-set with depth of experience across key areas. To the extent that any skills are not directly represented on the Board, they are augmented through close collaboration with key executives and external advisers. The Board will continue to review and monitor the skills required to address existing and emerging business and governance issues relevant to the Company's activities.

On a collective basis for the reporting period the Board has the following skills:

Board Skills Matrix		Number of directors by competency level
	<b>Q1 – Banking and Financial Services Experience</b> Experience outside of AFG in components of the financial services industry including banking, and equity and debt capital markets. Any understanding of financial services industry including economic drivers and global business perspectives.	
	<b>Q2 – Securitisation</b> Experience in structured finance, warehouse funding and securitisation.	
	<b>Q3 – Financial Acumen</b> Ability to understand and analyse financial statements and financial performance, and to contribute to the oversight of the integrity of financial reporting and the effectiveness of financial controls.	
	<b>Q4 – Leadership and Strategy</b> Leadership, effective communication and influencing skills. Strategic thinking capability and transactional expertise.	
	<b>Q5 – Risk Management and Compliance</b> Competence in financial risk management, risk management frameworks and non-financial risks such as operational, compliance, conduct and cyber security.	
	<b>Q6 – Governance</b> Public listed company experience, knowledge and commitment to the highest standards of governance, experience in the establishment and oversight of governance frameworks, policies and processes.	
	<b>Q7 – Technology and Digital</b> Experience in businesses with technology focus, including adaptation to digital change and innovation. Use and governance of critical information technology infrastructure.	
	<b>Q8 – Legal Expertise</b> Demonstrated ability and understanding in the application of legal principles.	
	<b>Q9 – People and Remuneration</b> Experience in, or understanding of leadership and organisational design to contribute to talent management, succession planning, setting of remuneration frameworks and promotion of diversity and inclusion.	
	<b>Q10 – Portfolio Management</b> Familiarity outside of AFG in the management of banking portfolios, credit risk and treasury functions.	
	<b>Q11 – Regulatory Experience</b> Dealing with and understanding regulators and the regulatory environment.	

 Some Competency    
  Demonstrated Competency    
  Advanced Competency

## PRINCIPLE 3

# Instill a culture of acting ethically and responsibly

### Disclosure of values

The Company's values are: Growth; Customer; Innovation; Integrity and Teamwork and are set out in more detail in the introduction of this statement and in the Code of Conduct available on the Company's website.

The Board has charged the senior executive team with integrating these values through the organisation. This includes through regular employee training, recognition of employees who are practicing these values and continual reinforcement of these values by senior executives in their behaviours and interactions with staff, brokers and other stakeholders.

### Code of Conduct

The Board has adopted a Code of Conduct which outlines how the Company expects its representatives to behave and conduct business in the workplace and includes legal and compliance guidelines on appropriate ethical standards. All employees of AFG (including temporary employees, contractors and directors) must comply with the Code of Conduct. Any breaches of the Code of Conduct are taken seriously, and appropriate and proportionate disciplinary action is taken. The Risk and Compliance Committee are notified of any material breaches of the Code of Conduct.

The Code of Conduct is designed to:

- Provide a benchmark for professional behaviour throughout the Company;
- support the Company's business reputation and corporate image within the community;
- make directors and employees aware of the consequences if they breach the policy; and,
- reinforce and communicate the Company's values to its employees, shareholders, brokers, lender partners, suppliers and the broader community.

### Whistleblower Policy

AFG has adopted a Whistleblower Policy, available on its website, setting out the matters that may be reported under the policy including the whistleblower officers to whom reports can be made at any time. Confidentiality of whistleblowers are paramount, and the policy sets out how the confidentiality regime will apply to a whistleblower report. All employees are trained on the Whistleblower Policy and their rights and obligations under it. The Risk and Compliance Committee Chair is advised upon the lodgement of a whistleblower report, and will be provided with a Findings report when the investigation of a whistleblower report is finalised.

### Anti-Bribery and Corruption Policy

AFG has adopted an Anti-Bribery and Corruption Policy, available on its website, applicable to all employees and directors. The policy sets out the prohibition on giving bribes and secret commissions and provides for controls around political donations, and offering and accepting gifts and entertainment.

Managers and certain relevant employees are also trained on how to recognize and deal with any incidents that may constitute bribery or corruption. The Board is notified of any material breaches of this policy.



## PRINCIPLE 4

# Safeguard the integrity of corporate reports

### Audit Committee

The Board has established an Audit Committee comprised of independent non-executive directors Craig Carter (Chair), Melanie Kiely and Jane Muirsmith.

Details of each member's qualifications and experience and details of the number of Audit Committee meetings held and attended by members are set out in the 2021 Directors' Report and Financial Statements.

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

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

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

A copy of the Audit Committee Charter is available on the Company's website.

### Declaration by Chief Executive Officer and Chief Financial Officer

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

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

### External auditor

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

The Audit Committee is responsible for the Company's policy on the engagement of the external auditor to supply non-audit services and ensure compliance with the policy. To ensure auditor independence is maintained the Company requires all engagements of the external

auditor to provide non-audit services to be approved in writing by the Chief Financial Officer and, in some circumstances, by the Audit Committee.

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

### Periodic reports

The Company has developed practices that are intended to ensure that periodic corporate reports which are not externally audited or reviewed (Periodic Reports) contain information which is materially accurate, balanced, and provides investors with appropriate information to make informed investment decisions.

The Company has disclosed the following periodic corporate reports during the financial year ending 30 June 2021: annual Directors' Report, included in the 2020 Annual Report and the AFG Index released at the end of each quarter. These reports are verified by the following process:

- Periodic reports are prepared by, or under the supervision of, subject-matter experts.
- Data sources for periodic reports are updated regularly to provide the most reasonably practicable relevant information.
- Where available, the data sources are verified by external sources (i.e. for loan application data for the AFG Index, via cross referenced data supplied by lenders).
- Where available, automated monitoring of data processes are put in place to allow for manual remediation if there is a system failure.
- Where available, peer review and reconciliation of the data sources post processing is undertaken .
- Material statements in the periodic reports are reviewed for accuracy and material requirements.
- Information in a periodic report that relates to financial projections, statements as to future financial performance or changes to the policy or strategy of the Company (taken as a whole) must be approved by the Board.

This process is intended to ensure that all applicable laws, regulations and Company policies have been complied with, and that appropriate approvals are obtained before a periodic report is released to the market.



**Sahani & Peter**

Learning & Development

## PRINCIPLE 5

# Make timely and balanced disclosure

### Continuous disclosure

The Company is committed to observing its disclosure obligations under the ASX Listing Rules and the *Corporations Act 2001* (Cth).

The Company has a Continuous Disclosure Policy which establishes procedures aimed at ensuring that directors and management are aware of, and fulfil their obligations, in relation to the timely disclosure of material price-sensitive information.

In the majority of cases, the Board has an opportunity to review material market announcements prior to release however where this not practicable all Board members are provided with a copy of the announcement promptly after it is made.

Information is communicated to shareholders through the lodgement of all material price-sensitive financial and other information on the ASX company announcements platform and continuous disclosure announcements are also made available on the Company's website.

If the Company gives a new or substantive investor or analyst presentation a copy of the presentation materials is released on the ASX Market Announcements Platform ahead of the presentation.

A copy of the Continuous Disclosure Policy is available on the Company's website.

## PRINCIPLE 6

# Respect the rights of security holders

### Shareholder communication strategy

The Company aims to ensure that shareholders are kept informed of all major developments affecting the affairs of the Company and have the opportunity to express their views to the Company on matters of concern or interest to them. Additionally, the Company recognises that potential investors and other interested stakeholders may wish to obtain information about the Company from time to time.

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

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

The website contains information about the Company's values, the Company's directors and executives, and the Company's constitution, corporate governance practices, policies and Board committee charters. All ASX announcements including annual and half year financial results are posted on the website as soon as they have been released on the ASX company announcements platform. The full text of all notices of shareholder meetings and explanatory material including audio recordings of those meetings, the Company's Annual Report and copies of investor presentations made to analysts are also posted in the Investor Centre section of the website.

### Participation at meetings

The Company encourages full participation of shareholders at any extraordinary general meetings and its Annual General Meeting each year. All substantive resolutions at shareholder meetings are decided by a poll rather than by a show of hands.

For those shareholders who are unable to attend in person, the Company provides a facility for shareholders to ask questions of management prior to the meeting. The Company will provide a full transcript of the Chair and the Chief Executive Officer's speeches and an audio recording, if any are given, on the Investor Centre section of its website. Shareholders are encouraged to lodge proxies electronically, subject to the adoption of satisfactory authentication procedures. The Company's external auditor will attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report. The external auditor will also be allowed a reasonable opportunity to answer written questions submitted by shareholders to the auditor as permitted under the Corporations Act 2001.

### Electronic communications

The Company provides a telephone helpline facility and an online email inquiry service to assist shareholders with any queries.

Information is also communicated to shareholders as required by mailouts or by email to shareholders who have provided their email address.

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

## PRINCIPLE 7

# Recognise and manage risk

### Risk & Compliance Committee

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

Details of each member's qualifications and experience and details of the number of Risk and Compliance Committee meetings held and attended by members are set out in the 2021 Directors' Report and Annual Financial Statements.

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

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

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

### Risk management framework

The Company has a comprehensive risk management framework, which is designed to embed a risk-aware culture within the business and to assist AFG to realise the benefits which accrue from a conscious, structured and dynamic approach to the management of threats. In addition, the framework also recognises similar benefits associated with recognition of upside risk and opportunities, thereby contributing to (and increasing) shareholder value.

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

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

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

The Risk and Compliance Committee Charter provides that on an annual basis the Risk and Compliance Committee will review the Company's risk management framework to satisfy itself that the framework continues to be sound and effectively identifies all areas of potential risk, and that the Company is operating with due regard to the risk appetite set by the Board.

This review has been carried out by the Risk and Compliance Committee within the reporting period.

## Internal audit function

While the Company does not have a formal internal audit function it has a Risk and Compliance team which maintains an extensive internal key controls assurance program focusing on key risks, including:

- Non-compliance with legislation, with a particular focus on ensuring that the Company and its contracted brokers consistently meet the standards required by the National Consumer Credit Protection Act 2009, Corporations Act 2001, Australian Securities and Investments Commission Act 2001, Anti-Money Laundering and Counter-Terrorism Financing Act 2006 and the Privacy Act 1988;
- market and liquidity Risk;
- credit risk; and,
- fraud or misconduct by its contracted brokers or customers.

Compliance and other risks are identified, documented and analysed by the Company's Risk and Compliance team through the implementation of the 'Three Lines of Defence' risk management framework. Risks are assessed using a matrix of probability and potential impact. Action plans are then implemented to reduce any residual risk. The Risk and Compliance team has its own dedicated analytical resources.

The Risk and Compliance team is responsible for implementing the Company's compliance procedures, an audit and training program for the Company's credit representatives and brokers who are own licence holders, as well as certain other audit programs. The Risk and Compliance team is managed by the Head of Risk and Compliance who reports to the Chief Executive Officer.

The Risk and Compliance team currently uses a number of measures aimed at detecting and preventing broker or customer fraud, including:

- Executing audit programs;
- using analytics in monitoring suspicious loan transactions;
- quality assurance sampling; and,
- facilitating an ongoing dialogue with lenders and industry regulators.

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

The Risk and Compliance team reports to the Management Risk and Compliance Committee, which meets quarterly to discuss the management of both risk and compliance.

The Management Risk and Compliance Committee serves as an executive level risk committee focused on the management and measurement of risk and reports to the Board Risk and Compliance Committee.

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

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

## Environmental and social risks

Details of AFG's material environmental and social risks, as well as details of how AFG manages those risks, are referred to in the Sustainability section of AFG's 2021 Annual Report, which is available on the Company's website.

## PRINCIPLE 8

# Remunerate fairly and responsibly

## Remuneration and Nomination Committee

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

Details of each member's qualifications and experience and details of the number of committee meetings held and attended by members are set out in the 2021 Directors' Report and Annual Financial Statements.

The Remuneration and Nomination Committee's policy objectives are to monitor that the Company's remuneration structures are equitable and aligned with the long-term interests of the Company and its shareholders without rewarding conduct that is contrary to the Company's values or risk appetite.

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

- Reviewing and recommending arrangements for the executive directors, the CEO and the senior executives reporting to the CEO including contract terms, annual remuneration and participation in AFG's short and long-term incentive plans.
- Reviewing major changes and developments in AFG's remuneration, recruitment, retention and termination policies and procedures for senior executives.
- Reviewing the executive's performance assessment processes and results as they reflect the capability of Management to realise the business strategy.
- Reviewing and approving short-term and long-term incentive strategy, performance targets and bonus payments for senior executives.
- Reviewing and recommending to the Board the remuneration arrangements for the Board Chair and non-executive directors, including fees, travel and other benefits including any policies or directives on non-executive directors' minimum shareholdings.

A copy of the Remuneration and Nomination Committee Charter is available on the Company's website.

## Remuneration of directors and executives

The Remuneration Report, which forms part of the 2021 Directors' Report and Financial Statements, sets out the Company's remuneration philosophy, framework and outcomes for all non-executive directors, the executive director and other Key Management Personnel (collectively KMP).

The Board bases its remuneration framework on the following principles:

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

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

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

The Remuneration Report sets out details of the different components of executive remuneration comprising fixed remuneration, short-term incentives and long-term incentives. Details of contractual arrangements with KMP and a summary of the non-executive director minimum shareholding policy is also set out in the Remuneration Report.



**Mick**

**Information Technology**

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

The Company's Dealing in Securities Policy, available on the Company's website, includes the following provisions in relation to hedging of the Company's securities (for example entering into transactions in financial products that operate to limit the economic risk associated with holding Company securities), including those acquired as part of an equity-based remuneration plan.

Hedging of Company securities by directors, senior executives, or other employees and their connected persons ("Relevant Persons") is subject to the following overriding prohibitions:

- The hedge transaction must not be entered into, renewed, altered or closed out when the Relevant Person is in possession of inside information.
- Company securities must never be hedged prior to the vesting of those Company securities. In particular, Relevant Persons are prohibited from entering into any hedge transaction involving unvested equity held pursuant to any incentive plan operated by the Company (for example performance rights or options).
- Company securities must never be hedged while they are subject to a holding lock or restriction on dealing under the terms of any equity incentive plan operated by the Company.

During the financial year ending 30 June 2021 there were no hedging arrangements in relation to the Company's securities entered into by Relevant Persons.



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