

22 February 2019



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Market Announcements Office
ASX Limited
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Dear Sir/Madam

AUSTRALIAN FINANCE GROUP LTD ANNOUNCES 1H FY19 RESULTS

Please refer to the following information in relation to Australian Finance Group Ltd's (ASX: AFG) half year results for the six months ended 31 December 2018.

- Part 1: Appendix 4D and half year 2019 financial report.
- Part 2: Appendix 3A.1: notification of dividend.
- Part 3: 1H FY19 results investor presentation.
- Part 4: 1H FY19 results market release.

David Bailey, Chief Executive Officer and Ben Jenkins, Chief Financial Officer, will give a presentation to analysts and investors via a conference call at 11:00am (AEDT) today.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'Lisa Bevan', is positioned above the printed name.

LISA BEVAN
Company Secretary



Australian Finance Group Limited

ABN 11 066 385 822

Half-year Report and Appendix 4D

for the half-year ended 31 December 2018

Australian Finance Group Limited

Half-year Report and Appendix 4D for the half-year ended 31 December 2018

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This half-year financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2018 and any public announcements made by Australian Finance Group Limited during the half-year reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Australian Finance Group Limited

Appendix 4D (ASX Listing Rules 4.2A)

Half-year Report for the Period ending 31 December

Reporting period is the half-year ended 31 December 2018 with the previous corresponding period to 31 December 2017.

Results for announcement to the market

	31 December 2018 \$'000	31 December 2017 \$'000	Increase / (Decrease) \$'000	% change
Revenue from continuing operations	314,573	304,701	9,872	3.2%
Profit after tax attributable to equity holders of the Company	16,686	16,735	(49)	-0.3%
Net profit for the period	16,686	16,738	(52)	-0.3%
Underlying results from continuing operations	14,715	14,394	321	2.2%

Net tangible asset backing per ordinary security (Cents)	45.3	52.0	(6.7)	-12.9%
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Dividends	Amount per security	Franked Amount per security
Interim dividend	4.7 cents	100%
Previous corresponding period interim dividend	4.7 cents	100%
Record date for determining entitlements to the interim dividend	5 March 2019	
Date the interim dividend is payable	28 March 2019	

Further results commentary and other significant information needed by an investor to make an informed assessment of our results are included in the accompanying half-year report.

This report is based on the consolidated half-year report which has been subject to a review by an independent auditor, Deloitte Touche Tohmatsu.

Australian Finance Group Limited

Directors' report

For the half-year ended 31 December 2018

The Directors submit the consolidated financial report of Australian Finance Group Limited ('the Company'), and its controlled entities ('the Group'), for the half-year ended 31 December 2018 and the auditor's report thereon.

Directors

The names of the Directors of the Company at any time during or since the end of the half-year are:

Name

Mr Tony Gill	Mr Craig Carter
Mr Brett McKeon	Ms Melanie Kiely
Mr Malcolm Watkins	Ms Jane Muirsmith
Mr Kevin Matthews	

The above-named Directors held office during the half-year.

Financial results

For the half-year ended 31 December 2018 the Group recorded a net profit after tax of \$16,686k recording a decrease of 0.3% over the same period in 2017.

Review and results of operations

Revenue is up 3.2% to \$314,573k (2017: \$304,701k) as a result of the following:

- Revenue from the AFG Home Loans (AFGHLs) segment being up 21.0% on prior period;
- Securitisation programme interest income being up 30% to \$33.4M (2017: \$25.6M) and the loan book increasing 40% to \$1.66B (2017: \$1.18B);
- Increased residential trail book of \$10.3B to \$143.9B (2017: \$133.6B); and
- Offset by decreased residential settlements of \$1.4B to \$17.2B (2017: \$18.6B).

Despite challenging economic conditions profit after income tax for the half-year ended 31 December 2018 was in line with the prior comparative period at \$16,686k (2017: \$16,738k). Underlying results from continuing operations were up 2.2% when compared to the prior comparative period at \$14,715k (2017: \$14,394k). The reduction in residential and commercial settlement volumes compared to prior period were offset by growth in AFGHLs, the profit contribution of Thinktank and longer loan life experience on the trail book. Advocacy costs associated with the Royal Commission were also incurred during the period.

Net cash flows from operating activities decreased 19% to \$12,513k (2017: \$15,485k) driven by decreased sponsorship income received during the period and timing of commissions.

The Directors are satisfied that the Group's ability to continue as a going concern will continue to be appropriate.

Australian Finance Group Limited

Directors' report

For the half-year ended 31 December 2018

Non – IFRS financial information

The fair value of our residential trail book is influenced amongst other things by the runoff and discount rates that are applied to this valuation. Excluding the non-cash entries to recognise the net present value of the future trailing commission receivable and payable, the underlying profit after tax increased by 2.2% to \$14,715k (31 December 2017: \$14,394k). The assessment of the trail loan book and associated assumptions are determined by management, reviewed by external actuaries, by reference to market observable inputs.

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

	31 December 2018		31 December 2017	
	Operating income \$'000	Profit After Tax \$'000	Operating income \$'000	Profit After Tax \$'000
Underlying results from continuing operations	279,374	14,715	271,071	14,394
Change in the present value of trailing				
Commission receivable and payable	35,199	1,971	33,630	2,344
Total result from continuing operations	314,573	16,686	304,701	16,738

Auditor's independence declaration

The auditor's independence declaration is included on page 20 of the half-year report.

Rounding

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

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

On behalf of the Directors



Tony Gill
Chairman

Dated at Perth, this 21 February 2019

Australian Finance Group Limited

Consolidated Statement of Financial Position

As at 31 December 2018

In thousands of AUD

	Note	31 December 2018	30 June 2018
Assets			
Cash and cash equivalents	4 (iii)	92,167	88,710
Trade and other receivables	2 (c)(ii)	5,307	810,117
Contract Assets	2 (c)(ii)	840,252	-
Loans and advances		1,664,577	1,379,857
Other financial assets		8	15
Investment in associate		13,736	12,815
Property, plant and equipment		1,061	1,379
Intangible assets		699	516
Total assets		2,617,807	2,293,409
Liabilities			
Trade and other payables		819,585	783,676
Interest-bearing liabilities		1,668,431	1,381,761
Employee benefits		4,152	4,543
Current tax payable		567	2,074
Deferred income		1,555	2,855
Provisions		2,961	4,123
Deferred tax liability		22,477	21,053
Total liabilities		2,519,728	2,200,085
Net assets		98,079	93,324
Equity			
Share capital		43,541	43,541
Share-based payment reserve		1,133	814
Other capital reserves		(94)	(87)
Retained earnings		53,499	49,056
Total equity		98,079	93,324

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

Australian Finance Group Limited

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half-year ended 31 December 2018

In thousands of AUD

	Note	31 December 2018	31 December 2017
Continuing Operations			
Commission and other income	4 (i)	281,178	279,106
Securitisation interest income		33,395	25,595
Operating income		314,573	304,701
Commission and other cost of sales		(253,031)	(250,877)
Securitisation interest expense		(24,859)	(17,231)
Gross profit		36,683	36,593
Other income		9,151	6,755
Administration expenses		(2,434)	(1,771)
Other expenses	4 (ii)	(21,616)	(18,765)
Results from operating activities		21,784	22,812
Finance income		1,042	1,321
Finance expenses		-	(3)
Share of profit of an associate		921	-
Net finance income		1,963	1,318
Profit before tax from continuing operations		23,747	24,130
Income tax expense		(7,061)	(7,392)
Profit for the period		16,686	16,738
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Net fair value change on equity investments designated at FVOCI		(7)	-
Total comprehensive income for the period		16,679	16,738
Profit attributable to:			
Equity holders of the Company		16,686	16,735
Non-controlling interests		-	3
Profit for the period		16,686	16,738
Total comprehensive income for the period attributable to:			
Equity holders of the Company		16,686	16,735
Non-controlling interests		-	3
Total comprehensive income for the period		16,686	16,738
Earnings per share			
Basic earnings per share (cents per share)		7.77	7.79
Diluted earnings per share (cents per share)		7.74	7.77

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

Australian Finance Group Limited

Consolidated Statement of Changes in Equity

For the half-year ended 31 December 2018

In thousands of AUD

	Share capital	Foreign currency translation reserve	Fair value reserve	Share-based payment reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 July 2018	43,541	(14)	(73)	814	49,056	93,324	-	93,324
Total comprehensive income for the period								
Profit	-	-	-	-	16,686	16,686	-	16,686
Other comprehensive income	-	-	(7)	-	-	(7)	-	(7)
Total comprehensive income for the period	-	-	(7)	-	16,686	16,679	-	16,679
Transactions with owners, recorded directly in equity								
Dividends to equity holders	-	-	-	-	(12,243)	(12,243)	-	(12,243)
Share-based payment transactions	-	-	-	319	-	319	-	319
Total transactions with owners	-	-	-	319	(12,243)	(11,924)	-	(11,924)
Balance at 31 December 2018	43,541	(14)	(80)	1,133	53,499	98,079	-	98,079
Balance at 1 July 2017	43,541	(14)	(77)	408	63,410	107,268	27	107,295
Total comprehensive income for the period								
Profit	-	-	-	-	16,735	16,735	3	16,738
Other comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	16,735	16,735	3	16,738
Transactions with owners, recorded directly in equity								
Dividends to equity holders	-	-	-	-	(11,814)	(11,814)	-	(11,814)
Share-based payment transactions	-	-	-	234	-	234	-	234
Total transactions with owners	-	-	-	234	(11,814)	(11,580)	-	(11,580)
Balance at 31 December 2017	43,541	(14)	(77)	642	68,331	112,423	30	112,453

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

Australian Finance Group Limited
Consolidated Statement of Cash Flows
For the half-year ended 31 December 2018

In thousands of AUD

	Note	31 December 2018	31 December 2017
Cash flows from operating activities			
Cash receipts from customers		246,824	251,060
Cash paid to suppliers and employees		(235,703)	(235,800)
Interest received		33,395	25,595
Interest paid		(24,859)	(17,231)
Income taxes paid		(7,144)	(8,139)
Net cash from operating activities		12,513	15,485
Cash flows from investing activities			
Interest received		1,042	1,318
Acquisition of property, plant and equipment		(111)	(115)
Decrease/(increase) in other loans and advances		212	(895)
Loans advanced to borrowers		(284,509)	(33,496)
Net cash used in investing activities		(283,366)	(33,188)
Cash flows used in financing activities			
Proceeds from/(Repayments of) warehouse facility		404,024	(217,922)
(Repayments to)/Proceeds from bondholders		(117,455)	249,100
Decrease in loans from funders		(15)	(59)
Dividends paid		(12,244)	(11,815)
Net cash generated by financing activities		274,310	19,304
Net increase in cash and cash equivalents		3,457	1,601
Cash and cash equivalents at the beginning of the period		88,710	124,801
Cash and cash equivalents at the end of the period	4 (iii)	92,167	126,402

The Consolidated Statement of Cash Flows should be read in conjunction with the Notes to the financial statements.

Australian Finance Group Limited

Notes to the Financial Statements

1. Reporting entity

The consolidated financial statements for the half-year ended 31 December 2018 comprise of Australian Finance Group Limited (the 'Company'), which is a for profit entity and a company domiciled in Australia and its subsidiaries (together referred to as the 'Group') and the Group's interest in associates and jointly controlled entities. The Group's principal activities in the course of the reporting period were mortgage origination and lending. The Company's principal place of business is 100 Havelock Street, West Perth, Western Australia.

2. Basis of preparation and significant accounting policies

(a) Statement of compliance

The half-year report is a general-purpose financial report which has been prepared in accordance with AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The half-year report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report.

(b) Basis of preparation

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

- Payables relating to trailing commission are initially measured at fair value and subsequently at amortised cost;
- Contract assets relating to trailing commission are measured at amortised cost;
- Financial instruments at fair value through profit or loss are measured at fair value; and
- Non-traded equity investments have been designated at fair value through other comprehensive income.

All amounts are presented in Australian dollars ("AUD"), unless otherwise noted.

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

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's 2018 annual financial report for the financial year ended 30 June 2018, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

(c) Significant accounting policies

(i) Adoption of new and revised Accounting Standards

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

- AASB 9 Financial Instruments;
- AASB 15 Revenue from Contracts with Customers;
- AASB 2017-1 Amendments to Australian Accounting Standards - Transfers of Investment Property, Annual Improvements 2014- 2016 Cycle and Other Amendments;
- AASB 2016-5 Amendments to Australian Accounting Standards - Classification and Measurement of Share-based Payment Transactions;
- AASB 2015-10 Amendments to Australian Accounting Standards - Effective Date of Amendments to AASB 10 and AASB 128;
- AASB 2017-7 Amendments to Australian Accounting Standards - Long-term Interests in Associates and Joint Ventures.

Australian Finance Group Limited

Notes to the Financial Statements

(c) Significant accounting policies (continued)

(ii) Adoption of new and revised Accounting Standards

AASB 15 'Revenue from Contracts with Customers' a full assessment of AASB 15 on all revenue streams has been performed. As a result of the adoption of AASB 9 and AASB 15, trail commission assets no longer meet the definition of a financial asset, as the Group's right to receive the trail consideration is not unconditional. Trail commission assets are now recognised and disclosed as contract assets in the statement of financial position. The amendments do not have a material impact on the measurement of the trail commission assets or associated revenues at initial recognition nor subsequently and there were no material impacts at transition.

AASB 9 'Financial Instruments' and the relevant amending standards introduce new requirements for the classification and measurement of financial assets and impairment of financial assets.

The classification and measurement of financial assets is determined on the basis of the contractual cashflow characteristics. On 1 July 2018 (the date of initial application of AASB 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate AASB 9 categories. Key changes include:

- the Held to Maturity (HTM) and Available for Sale (AFS) asset categories will be removed;
- a new asset category for non-traded equity investments measured at Fair Value through Other Comprehensive Income (FVOCI) is introduced; and
- all other financial assets and financial liabilities will continue to be measured on the same bases as is currently adopted under AASB 139.

The classification and measurement of financial liabilities has remained largely unchanged. The Group's securitised assets remain measured at amortised cost due to the contractual cashflows being solely payments of principal and interest (SPPI) and are held for collect principal and interest.

The following table and the accompanying notes below explain the original measurement categories under AASB 139 and the new measurement categories under AASB 9 for each class of the Group's financial assets as at 1 July 2018.

As at 1 July 2018

Financial Assets	Original Classification under AASB 139	New Classification under AASB 9	Original Carrying amount under AASB 139	New Carrying amount under AASB 9
<i>In thousands of AUD</i>				
Cash and cash equivalents	Loans and receivables	Amortised cost	49,640	49,640
Restricted cash	Loans and receivables	Amortised cost	39,070	39,070
Trade receivables	Loans and receivables	Amortised cost	5,064	5,064
Future trade commissions receivable	Loans and receivables	Contract assets	805,053	805,053
Loan and advances	Loans and receivables	Amortised cost	1,379,857	1,379,857
Total Financial Assets			2,278,684	2,278,684

The AASB 9 impairment requirements are based on an expected credit loss model (ECL) that replaces the incurred loss model under the current accounting standard. The Group is generally required to recognise either a 12-months' or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition. The ECL model applies to debt instruments accounted for at amortised cost or at FVOCI and AASB 15 contract assets. AASB 9 has changed the Group's current methodology for calculating the provision for doubtful debts, in particular for collective provisioning. Utilising an ECL model does not have a material impact on the Group's results. This model has been adopted by the Group upon implementation and is expected to result in additional disclosures in the 30 June 2019 Annual Report.

Additionally, as disclosed above, trail commission receivables have been reclassified from financial assets held at amortised cost to contract assets. Trail commission payables are still recognised as financial liabilities.

Australian Finance Group Limited

Notes to the Financial Statements

(c) Significant accounting policies (continued)

(iii) Accounting Standards and Interpretations issued but not yet effective

Affected Standards and Interpretations	Application date*	Application date for Group
AASB 16 'Leases'	1 January 2019	30 June 2020

*Reporting period commences on or after the application date

Management have performed an assessment of the impact of applying the new standards:

AASB 16 'Leases' the Group has a limited number of operating leases which will result in the recognition of right of use assets and corresponding liabilities. A full assessment has been performed and no significant net impact has been identified. Additional disclosures will be prepared under the new standard.

(iv) Financial Instruments

The following accounting policy applies to the recognition and subsequent measurement of financial assets:

Financial assets at amortised cost

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

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

The amortised cost of a financial asset is:

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

Interest income, foreign exchange gains and losses and impairment are recognised in profit and loss. Any gains or losses on recognition are also recognised in profit and loss.

Equity investments at FVOCI

A financial asset is measured at FVOCI if the Group has made an irrevocable election to classify and measure financial assets as FVOCI at initial recognition on the basis that they are held for strategic purposes. Gains and losses relating to these financial assets will be recognised in other comprehensive income. Dividends from such investments are recognised as income in profit or loss when the Group has the right to receive payments unless the dividend clearly represents a recovery of part of the cost of the investment. The accumulated fair value reserve related to these investments will never be reclassified to profit or loss.

Financial assets at FVPL

All financial assets that are not measured at amortised cost or FVOCI will be measured at FVPL. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Australian Finance Group Limited

Notes to the Financial Statements

(c) Significant accounting policies (continued)

(v) Financial Instruments

Impairment

AASB 9 replaces the 'incurred loss' model in AASB 139 with an ECL model. This applies to financial assets and contract assets measured at amortised cost and debt investments at FVOCI, but not to investments in equity instruments.

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

- (a) probability of default (PD): represents the possibility of a default over the next 12 months and remaining lifetime of the financial asset;
- (b) a loss given default (LGD): expected loss if a default occurs, taking into consideration the mitigating effect of collateral assets and time value of money;
- (c) exposure at default (EAD): the expected loss when a default takes place.

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

(vi) Revenue

The Group's significant income streams include:

- Commissions – origination and trail commissions
- Interest income
- Mortgage management services
- Securitisation interest income
- Finance income
- Other income

Commissions – origination and trail commissions

The Group provides loan origination services and receives origination commission on the settlement of loans.

Additionally, the lender normally pays a trailing commission over the life of the loan. The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as other liabilities in the statement of financial position. Similarly, if the Group satisfies a performance obligation before it receives the consideration, the Group recognises either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

Commission revenue is recognised as follows:

- Origination commissions: Origination commissions are recognised upon the loans being settled and receipt of commission net of clawbacks.
- Trailing commissions: The Group receives trailing commissions from lenders on loans they have settled that were originated by the Group. The Fair Value of which is recognised as a contract asset upfront given the performance obligation has been met. The trailing commissions are received over the life of the loans based on the individual loan balance outstanding. The Group also makes monthly trailing commission payments to authorised mortgage originators (brokers) based on the individual loan balance outstanding.

Australian Finance Group Limited

Notes to the Financial Statements

(c) Significant accounting policies (continued)

(vi) Revenue (continued)

In applying AASB 15 the Group has applied judgement in determining the recognition of trail commission income. Given AASB 15 has been adopted at the same time as AASB 9, trail commission receivables are determined to be contract assets under AASB 15. Consequently, the Group applies the AASB 15 variable consideration guidance to the measurement of the contract asset. The variable consideration guidance does not have a material impact to the measurement of trail commission receivables as the valuation model currently used is an expected value method and complies with AASB 15. The trail commission receivable will no longer be presented within "trade and other receivables" under AASB 139 and will now be disclosed as a contract asset.

All other revenue streams are recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

3. Segment information

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

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

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

AFG Wholesale Mortgage Broking

The mortgage broking segment refers to the operating activities in which the Group acts as a wholesale mortgage broker that provides its contracted brokers with administrative and infrastructure support as well as access to a panel of lenders.

The Group receives two types of commission payments on loans originated through its network, as described below:

Upfront commissions on settled loans - Upfront commissions are received by the Group from lenders as a percentage of the total amount borrowed. Once a loan settles, the Group receives a one-off payment linked to the total amount borrowed as an upfront commission, a large portion of which is then paid by the Group to the originating broker.

Trail commissions on the loan book - Trail commissions are received by the Group from lenders over the life of the loan (if it is in good order and not in default), as a percentage of the particular loan's outstanding balance. The trail book represents the aggregate of mortgages outstanding that have been originated by the Group's brokers and are generating trail income.

AFG Home Loans

AFGHLs offers the Group's branded mortgage products, funded by third party wholesale funding providers (white label products) and AFG Securities mortgages (Securitised loans issued by AFG Securities Pty Ltd) that are distributed through the Group's broker network. AFGHLs sits on the Group's panel of lenders alongside the other Lenders and competes with them for home loan customers. The segment earns fees for services, largely in the form of upfront and trail commissions, and net interest margin on its securitisation programme.

Segment results that are reported to the Board of Directors include items directly attributable to the relevant segment as well as those that can be allocated on a reasonable basis. Other/unallocated items are comprised mainly of other operating activities from which the Group earns revenues and incurs expenses that are not required to be reported separately since they don't meet the quantitative thresholds prescribed by AASB 8 or are not managed separately and include corporate and taxation overheads, assets and liabilities.

Information regarding the results of each reportable segment is included below.

Australian Finance Group Limited

Notes to the Financial Statements

3. Segment information (continued)

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

Half-year ended 31 December 2018

In thousands of AUD

Continuing operations

Revenue

External customers	261,810	52,172	591	314,573
Inter-segment	16,305	-	(16,305)	-
Other operating income	3,588	-	5,563	9,151
Interest income	-	7	1,035	1,042

Total segment revenue

281,703 52,179 (9,116) 324,766

Results

Segment profit/(loss) before income tax 16,513 8,272 (1,038) 23,747

Income tax expense (7,061)

Net profit after tax

16,686

Assets and Liabilities

Total segment assets 823,409 1,767,595 26,803 2,617,807

Total segment liabilities 810,767 1,705,366 3,595 2,519,728

Other segment information

Depreciation and amortisation (76) (11) (439) (526)

Interest expense - - - -

Half-year ended 31 December 2017

In thousands of AUD

Continuing operations

Revenue

External customers	260,921	43,114	666	304,701
Inter-segment	14,417	-	(14,417)	-
Other operating income	1,780	-	4,975	6,755
Interest income	-	18	1,303	1,321

Total segment revenue

277,118 43,132 (7,473) 312,777

Results

Segment profit/(loss) before income tax 16,949 9,425 (2,244) 24,130

Income tax expense (7,392)

Net profit after tax

16,738

Assets and Liabilities

Total segment assets 754,321 1,269,178 64,765 2,088,264

Total segment liabilities 746,344 1,220,475 8,992 1,975,811

Other segment information

Depreciation and amortisation (90) (7) (397) (494)

Interest expense - - (18) (18)

Australian Finance Group Limited

Notes to the Financial Statements

4. Results for the period

(i) Revenue

In thousands of AUD

Commission and other income

Commissions	253,647	254,073
Interest on commission income receivable	26,741	24,557
Mortgage management services	103	65
Securitisation transaction fees	687	411
	281,178	279,106

	31 December 2018	31 December 2017
	253,647	254,073
	26,741	24,557
	103	65
	687	411
	281,178	279,106

(ii) Expenses

In thousands of AUD

Other expenses

Advertising and promotion	(3,099)	(917)
Consultancy and professional fees	(1,007)	(801)
Information technology	(1,581)	(1,762)
Occupancy costs	(216)	(217)
Employee costs	(14,254)	(13,507)
Depreciation and amortisation	(526)	(494)
Operating lease costs	(826)	(1,002)
(Reversal of) /impairment loss on receivables	(107)	(65)
	(21,616)	(18,765)

	31 December 2018	31 December 2017
	(3,099)	(917)
	(1,007)	(801)
	(1,581)	(1,762)
	(216)	(217)
	(14,254)	(13,507)
	(526)	(494)
	(826)	(1,002)
	(107)	(65)
	(21,616)	(18,765)

(iii) Cash and cash equivalents

In thousands of AUD

	31 December 2018	30 June 2018
Cash at bank	46,828	48,364
Short term deposits	2,188	1,276
Unrestricted cash	49,016	49,640
Cash collections accounts ¹	35,768	22,055
Restricted cash ²	7,383	17,015
Restricted cash	43,151	39,070
Cash and cash equivalents	92,167	88,710
Cash and cash equivalents in the Statement of Cash Flows	92,167	88,710

- 1) Discloses amounts held in the special purpose securitised trusts and series on behalf of the warehouse funder and the bondholders.
- 2) Discloses cash collateralised standby letter of credit, liquidity reserve account and cash provided in trust by the warehouse providers to fund pending settlements.

Australian Finance Group Limited

Notes to the Financial Statements

5. Dividends

	Half-year ended 31 December 2018		Half-year ended 31 December 2017	
	Cents per share	Total \$'000	Cents per share	Total \$'000
Unrecognised amounts				
Interim dividend - fully franked	4.7	10,096	4.7	10,096
Special dividend – fully franked	-	-	12.0	25,778

6. Key management personnel

Remuneration arrangements of key management personnel are disclosed in the annual financial report. During the half-year there were no changes in the key management personnel remuneration structure.

7. Financial instruments

Accounting classifications and fair values

Fair value hierarchy

The different levels have been defined as follows:

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

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

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

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

<i>In thousands of AUD</i>	31 December 2018		30 June 2018	
	Carrying amount	Fair value ¹	Carrying amount	Fair value
Financial assets				
Future Trailing commission contract asset	840,252	864,744	805,053	832,315
Financial liabilities				
Future Trailing commission payable	750,898	772,340	718,515	742,368

The fair value of trailing commission contract asset from lenders and the corresponding payable to members is determined by using a discounted cash flow valuation. These calculations require the use of assumptions which are determined by management, reviewed by external actuaries, by reference to market observable inputs. The valuation is classified as level 2 in the fair value measurement hierarchy.

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

	31 December 2018	30 June 2018
Average loan life	Between 3.2 and 5.0 years	Between 3.2 and 5.0 years
Discount rate per annum	Between 5% and 13.5%	Between 5% and 13.5%
Percentage paid to members	Between 85% and 93.6%	Between 85% and 93.4%

¹5% discount rate applied to the Fair value calculations. Run off rate and pay out percentage remain consistent with the carrying value calculation assumptions.

Australian Finance Group Limited

Notes to the Financial Statements

8. Earnings per share (EPS)

Basic EPS amounts are calculated by dividing the profit for the period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the period.

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

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

In thousands of AUD

	31 December 2018	31 December 2017
Profit attributable to ordinary equity holders of the Company	16,686	16,735
	Thousands	Thousands
Weighted average number of ordinary shares for basic EPS (thousands)	214,813	214,813
Effect of dilution:		
Performance rights	709	629
Weighted average number of ordinary shares adjusted for the effect of dilution	215,522	215,442

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these financial statements.

9. Subsequent events

Subsequent to half year end on 21 February 2018, the Directors recommended the payment of an interim dividend of 4.7 cents, fully franked based on tax paid at 30%. The interim dividend has a record date of 5 March 2019 and a payment date of 28 March 2019. The aggregate amount of the proposed dividends expected to be paid out of retained earnings at 31 December 2018 is \$10,096k. The financial effect of these dividends has not been brought to account in the financial statements for the half-year ended 31 December 2018.

On 4 February 2019 the Final Report from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry was released. The report recommended changes to the way in which mortgage brokers are remunerated. Recommending that brokers amongst other things, are paid directly by borrowers and trail commission ceases to be paid on loans written after a cut-off date in 12 – 18 months. Trail commission on loans written prior to this date would be grandfathered. Those changes if adopted by the Government are likely to impact negatively on the operations of the Group. The current recommendation of the Government is not to implement the changes in the form suggested, instead payment of broker commissions would remain payable by lenders in the form of an upfront only payment.

Under the Governments recommendation the payment by lenders would be all upfront from 1 July 2020, trail commission will continue to be received on active loans written prior to 1 July 2020. The upfront commission and user pays models will be reviewed and a final recommendation made in 3 years. At the date of this report there is not sufficient information available about the proposed changes or their timing to determine the exact impact on the Group or sufficient certainty that they will be implemented. In addition, the Federal Election may have an impact on the final outcome. Depending on the nature of the final changes and any new broker channel models that may emerge, changes to industry business models may be adopted prior to 1 July 2020.

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

Australian Finance Group Limited Directors' Declaration

The Directors declare that:

- (a) in the Directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- (b) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the Directors made pursuant to s.303(5) of the *Corporations Act 2001*.

On behalf of the Board

A handwritten signature in blue ink, appearing to read 'Tony Gill', is positioned above the printed name and title.

Tony Gill
Chairman

Dated at Perth, Western Australia on 21 February 2019.

Independent Auditor's Review Report to the Members of Australian Finance Group Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Australian Finance Group Limited which comprises the condensed statement of financial position as at 31 December 2018, and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 6 to 19.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Australian Finance Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



Auditor's Independence Declaration

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Australian Finance Group Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

A handwritten signature in black ink, consisting of a stylized 'L' followed by a horizontal line.

Leanne Karamfiles

Partner

Chartered Accountants

Perth, 21 February 2019

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

21 February 2019

Dear Directors,

Australian Finance Group Limited

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

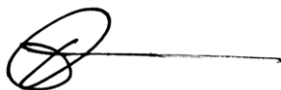
As lead audit partner for the review of the financial statements of Australian Finance Group Limited for the financial half-year ended 31 December 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU



Leanne Karamfiles
Partner
Chartered Accountants