



Australian Finance Group Limited

ABN 11 066 385 822

Preliminary Final Report and Appendix 4E

for the year ended 30 June 2017

Australian Finance Group Limited

Preliminary financial report and Appendix 4E for the year ended 30 June 2017

Contents

Appendix 4E

| | |
|--|---|
| Results for announcement to the market | 3 |
|--|---|

Year-end report

| | |
|---|---|
| Consolidated Statement of Financial Position | 5 |
| Consolidated Statement of Profit or Loss and Other Comprehensive Income | 6 |
| Consolidated Statement of Changes in Equity | 7 |
| Consolidated Statement of Cash Flows | 8 |
| Notes to the Financial Statements | 9 |

This report is based on accounts which are in the process of being audited.

Australian Finance Group Limited

Appendix 4E (ASX Listing Rules 4.3A)

Report for the year-ended 30 June 2017

Reporting period is the year-ended 30 June 2017 with the previous corresponding period the year-ended 30 June 2016.

Results for announcement to the market

| | 30 June 2017 \$'000 | 30 June 2016 \$'000 | Increase / (Decrease) \$'000 | % change |
|---|---------------------------|---------------------------|------------------------------------|--------------|
| Revenue from continuing operations | 605,078 | 546,981 | 58,097 | 10.6% |
| Profit after tax attributable to equity holders of the Company | 39,053 | 22,667 | 16,386 | 72.3% |
| Net profit for the period | 39,104 | 22,644 | 16,460 | 72.7% |
| Underlying results from continuing operations | 26,160 | 22,466 | 3,694 | 16.4% |

| | | | | |
|---|-------------|-------------|------------|--------------|
| Net tangible asset backing per ordinary security (cents) | 49.6 | 40.9 | 8.7 | 21.3% |
|---|-------------|-------------|------------|--------------|

On 24 August 2017 the Company declared a fully franked final dividend of 5.5 cents per share with respect to the year ending 30 June 2017.

| | |
|--|--------------------------------|
| Record date for determining entitlements to the dividend | 5:00 pm (WST) 4 September 2017 |
| Date the final dividend is payable | 28 September 2017 |

The Company paid an interim dividend during the year of 4.2 cents per share:

| Record date | Payment date | Type | Cents per share | Total amount (\$'000) | Franked amount per security |
|--------------|---------------|---------|-----------------|--------------------------|--------------------------------|
| 7 March 2017 | 31 March 2017 | Interim | 4.2 | \$9,022 | 100% |

Previous Corresponding Dividends

The following dividends were paid:

| Record date | Payment date | Type | Cents per share | Total amount (\$'000) | Franked amount per security |
|------------------|-------------------|---------|-----------------|--------------------------|--------------------------------|
| 14 March 2016 | 29 March 2016 | Interim | 3.0 | \$6,444 | 100% |
| 5 September 2016 | 30 September 2016 | Final | 5.4 | \$11,600 | 100% |

Financial results

For the year ended 30 June 2017 the Group recorded a net profit after tax of \$39,053k recording an increase of 72.3% over the same period in 2016.

Australian Finance Group Limited

Review and results of continuing operations

Revenue is up 10.6% to \$605,078k (2016: \$546,982k). The increase in revenue was attributable primarily to strong growth in the AFG Home Loans ('AFGHL') business with revenue up 35% to \$92,472k (2016: \$68,327k). AFGHL settlements were up 38% on prior year and in addition, as disclosed to the market on 19 June 2017 the AFGHL trail book was actuarially assessed and recognised as an asset during the year for the first time.

Profit after income tax for the year ended 30 June 2017 was up 73% on the prior comparative period at \$39,104k (2016: \$22,644k). Underlying profit was also up 16% to \$26,160k, the increase in profit was attributable to the following:

- Additional income derived from settlements in AFGHL products. Settlements in these products for FY17 were up 38% to \$2.68b (2016: \$1.94b);
- Increased settlement volumes in the securitisation programme while maintaining the strong net interest margin from FY16;
- Strong expansion of the asset finance broking business with settlements up 20% to \$445M (2016: \$372M); and
- The initial actuarial assessment and asset recognition of AFGHL trail book contributed \$8,940k relating to prior period settlements and \$3,610k relating to FY17 settlements. After removing the initial impact of settlements made prior to FY17 from the result, the FY17 operating result is equal to \$30,164k up 33% (2016: \$22,644k):

| | 30 June 2017 \$'000 | 30 June 2016 \$'000 |
|--|------------------------------------|------------------------------------|
| Net profit for the period | 39,104 | 22,644 |
| Initial recognition of value of AFGHL white label trail book relating to prior years settlements | (8,940) | - |
| Normalised net profit for the period | 30,164 | 22,644 |

The Company has adopted an actuarial model to estimate future trail revenue relating to AFGHL white label products in FY17. This has impacted NPAT for FY17 and resulted in the Company recognising a trail revenue receivable for the AFGHL white label programme on the balance sheet. The recognition of the value of future trail receivable on the AFGHL white label program is consistent with the Company's existing accounting treatment of the trail book from the AFG residential business which has been assessed by actuaries for many years.

Net cash flows from operating activities decreased 26% to \$26,517k (2016: \$36,206k) with underlying operating cash flow comparable to prior year. This is largely attributable to the following:

- The receipt of sponsorship income relating to the 2016 annual conference in FY16 with expenses being paid in FY17; and
- Increased tax payments during the year by \$3,756k.

Non – IFRS financial information

The carrying value of our residential and AFGHL white label trail books are 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 is \$26,160k (30 June 2016: \$22,466k). The assessment of the trail loan book requires the use of assumptions which are determined by management, with the assistance of 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:

| <i>In thousands of AUD</i> | 30 June 2017 | | 30 June 2016 | |
|---|---------------------|---------------------|---------------------|---------------------|
| | Operating income | Profit after tax | Operating income | Profit after tax |
| Underlying results from continuing operations | 499,020 | 26,160 | 472,602 | 22,466 |
| Change in the carrying value of trailing commissions receivable and payable | 88,531 | 13,959 | 56,326 | 178 |
| Provision for Clawbacks | (1,450) | (1,015) | - | - |
| Total result from continuing operations | 586,101 | 39,104 | 528,928 | 22,644 |

Australian Finance Group Limited
Consolidated Statement of Financial Position
For the year end 30 June 2017

| <i>In thousands of AUD</i> | Note | 30 June 2017 | 30 June 2016 |
|---|-------------|---------------------|---------------------|
| Assets | | | |
| Cash and cash equivalents | 2 (iii) | 124,801 | 130,665 |
| Trade and other receivables | | 737,580 | 650,059 |
| Loans and advances | | 1,152,171 | 1,046,412 |
| Other financial assets | 4 | 31 | 49 |
| Property, plant and equipment | | 1,898 | 2,379 |
| Intangible assets | | 745 | 757 |
| Total assets | | 2,017,226 | 1,830,321 |
| Liabilities | | | |
| Interest-bearing liabilities | | 1,164,478 | 1,072,215 |
| Trade and other payables | | 715,803 | 646,113 |
| Employee benefits | | 4,559 | 3,818 |
| Current tax payable | | 1,249 | 1,060 |
| Deferred income | | 2,693 | 4,876 |
| Provisions | | 1,667 | 322 |
| Deferred tax liability | | 19,482 | 13,397 |
| Total liabilities | | 1,909,931 | 1,741,801 |
| Net assets | | 107,295 | 88,520 |
| Equity | | | |
| Share capital | | 43,541 | 43,541 |
| Share-based payment reserve | | 408 | 97 |
| Other capital reserves | | (91) | (74) |
| Retained earnings | | 63,410 | 44,980 |
| Total equity attributable to equity holders of the Company | | 107,268 | 88,544 |
| Non-controlling interest | | 27 | (24) |
| Total equity | | 107,295 | 88,520 |

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 year ended 30 June 2017

| <i>In thousands of AUD</i> | Note | 30 June 2017 | 30 June 2016 |
|---|-------------|---------------------|---------------------|
| Continuing Operations | | | |
| Commission and other income | 2 (i) | 539,759 | 482,331 |
| Securitisation interest income | | 46,342 | 46,597 |
| Operating income | | 586,101 | 528,928 |
| Other cost of sales | | (474,557) | (440,790) |
| Securitisation interest expense | | (31,711) | (33,036) |
| Gross profit | | 79,833 | 55,102 |
| Other income | | 16,700 | 15,345 |
| Administration expenses | | (2,885) | (3,314) |
| Other expenses | 2 (ii) | (38,955) | (36,881) |
| Results from operating activities | | 54,693 | 30,252 |
| Finance income | | 2,277 | 2,708 |
| Finance expenses | 2 (ii) | (14) | (34) |
| Net finance income | | 2,263 | 2,674 |
| Profit before tax from continuing operations | | 56,956 | 32,926 |
| Income tax expense | | (17,852) | (10,282) |
| Profit from continuing operations | | 39,104 | 22,644 |
| Profit attributable to: | | | |
| Equity holders of the Company | | 39,053 | 22,667 |
| Non-controlling interests | | 51 | (23) |
| Profit for the period | | 39,104 | 22,644 |
| Other comprehensive income | | | |
| Items that may be reclassified subsequently to profit or loss | | | |
| Net change in fair value of available-for-sale financial assets and other | | 2 | 2 |
| Income tax on other comprehensive income | | - | - |
| Total comprehensive income for the period, net of income tax | | 39,106 | 22,646 |
| Total comprehensive income for the period attributable to: | | | |
| Equity holders of the Company | | 39,055 | 22,669 |
| Non-controlling interests | | 51 | (23) |
| Total comprehensive income for the period | | 39,106 | 22,646 |
| Earnings per share | | | |
| Basic earnings per share (cents per share) | | 18.20 | 10.54 |
| Diluted earnings per share (cents per share) | | 18.15 | 10.54 |

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 year ended 30 June 2017

In thousands of AUD

| | Note | 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 2015 | | 43,541 | (15) | (61) | 9 | 28,757 | 72,231 | (1) | 72,230 |
| Total comprehensive income for the period | | | | | | | | | |
| Profit | | - | - | - | - | 22,667 | 22,667 | (23) | 22,644 |
| Other comprehensive income | | - | 1 | 1 | - | - | 2 | - | 2 |
| Total comprehensive income for the period | | - | 1 | 1 | - | 22,667 | 22,669 | (23) | 22,646 |
| Transactions with owners, recorded directly in equity | | | | | | | | | |
| Dividends to equity holders | 3 | - | - | - | - | (6,444) | (6,444) | - | (6,444) |
| Issue of share capital | | - | - | - | 88 | - | 88 | - | 88 |
| Total transactions with owners | | - | - | - | 88 | (6,444) | (6,356) | - | (6,356) |
| Balance at 30 June 2016 | | 43,541 | (14) | (60) | 97 | 44,980 | 88,544 | (24) | 88,520 |
| Balance at 1 July 2016 | | 43,541 | (14) | (60) | 97 | 44,980 | 88,544 | (24) | 88,520 |
| Total comprehensive income for the period | | | | | | | | | |
| Profit | | - | - | - | - | 39,053 | 39,053 | 51 | 39,104 |
| Other comprehensive income | | - | - | (17) | - | - | (17) | - | (17) |
| Total comprehensive income for the period | | - | - | (17) | - | 39,053 | 39,036 | 51 | 39,087 |
| Transactions with owners, recorded directly in equity | | | | | | | | | |
| Dividends to equity holders | 3 | - | - | - | - | (20,623) | (20,623) | - | (20,623) |
| Share-based payment transactions | | - | - | - | 311 | - | 311 | - | 311 |
| Total transactions with owners | | - | - | - | 311 | (20,623) | (20,312) | - | (20,312) |
| Balance at 30 June 2017 | | 43,541 | (14) | (77) | 408 | 63,410 | 107,268 | 27 | 107,295 |

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

Australian Finance Group Limited

Consolidated Statement of Cash Flows

For the year ended 30 June 2017

In thousands of AUD

| | Note | 30 June 2017 | 30 June 2016 <i>Restated</i> |
|--|---------|------------------|---------------------------------|
| Cash flows from operating activities | | | |
| Cash receipts from customers | | 462,454 | 440,572 |
| Cash paid to suppliers and employees | | (439,031) | (410,148) |
| Interest received | | 46,341 | 46,598 |
| Interest paid | | (31,711) | (33,036) |
| Income taxes paid | | (11,536) | (7,780) |
| Net cash generated by operating activities | 6 | 26,517 | 36,206 |
| Cash flows from investing activities | | | |
| Net interest received | | 2,303 | 2,617 |
| Acquisition of property, plant and equipment | | (280) | (136) |
| Investment in intangible assets | | (150) | (205) |
| (Decrease)/ Increase in other loans and advances | | (539) | 718 |
| Loans and advances to customer borrowings | | (105,608) | (23,185) |
| Net cash used in investing activities | | (104,274) | (20,191) |
| Cash flows used in financing activities | | | |
| (Repayments of)/proceeds from warehouse facilities | | (48,905) | 190,685 |
| Proceeds from/(repayments to) bondholders | | 141,677 | (159,839) |
| Decrease in loans from funders | | (257) | (528) |
| Dividends paid to equity holders of the parent | | (20,622) | (6,444) |
| Net cash generated by financing activities | | 71,893 | 23,874 |
| Net (Decrease) / Increase in cash and cash equivalents | | (5,864) | 39,889 |
| Cash and cash equivalents at 1 July | | 130,665 | 90,776 |
| Cash and cash equivalents at 30 June | 2 (iii) | 124,801 | 130,665 |

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. 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:

- Upfront commissions on settled loans

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

- Trail commissions on the loan book

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

AFG Home Loans

AFGHL offers the Group's branded mortgage products, funded by third party wholesale funding providers (white label products) or AFG Securities mortgages (securitised loans issued by AFG Securities Pty Ltd) that are distributed through the Group's broker network. AFGHL sits on the Group's panel of lenders alongside around 45 other residential Lenders and competes with them for home loan customers. The segment earns fees for services, largely in the form of upfront and trail commissions, and net interest margin on loans funded by its securitisation programme.

Segment results that are reported to the Board of Directors include items directly attributable to the relevant segment as well as those that can be allocated on a reasonable basis. Other/unallocated 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 as they do not meet the quantitative thresholds prescribed by AASB 8 or are not managed separately and include corporate and taxation overheads, assets and liabilities.

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

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

Australian Finance Group Limited

Notes to the Financial Statements

1. Segment information (continued)

| Year ended 30 June 2017 | AFG Wholesale Mortgage Broking | AFG Home Loans | Other / Unallocated | Total |
|---|-----------------------------------|------------------|---------------------|------------------|
| <i>In thousands of AUD</i> | | | | |
| Continuing operations | | | | |
| Revenue | | | | |
| External customers | 492,506 | 92,224 | 1,371 | 586,101 |
| Inter-segment | 22,558 | - | (22,558) | - |
| Other operating income | 3,857 | - | 12,843 | 16,700 |
| Interest income | - | 248 | 2,029 | 2,277 |
| Total segment revenue | 518,921 | 92,472 | (6,315) | 605,078 |
| Results | | | | |
| Segment profit / (loss) before income tax | 35,999 | 28,672 | (7,715) | 56,956 |
| Income tax expense | | | | (17,852) |
| Net profit after tax | | | | 39,104 |
| Other segment information | | | | |
| Total segment assets | 720,439 | 1,228,925 | 67,862 | 2,017,226 |
| Total segment liabilities | 713,264 | 1,179,458 | 17,209 | 1,909,931 |
| Depreciation and amortisation | (182) | (15) | (747) | (944) |
| Interest expense | - | - | (12) | (12) |

| Year ended 30 June 2016 | AFG Wholesale Mortgage Broking | AFG Home Loans | Other / Unallocated | Total |
|--|-----------------------------------|------------------|---------------------|------------------|
| <i>In thousands of AUD</i> | | | | |
| Continuing operations | | | | |
| Revenue | | | | |
| External customers | 460,212 | 67,423 | 1,293 | 528,928 |
| Inter-segment | 16,719 | - | (16,719) | - |
| Other operating income | 5,011 | - | 10,334 | 15,345 |
| Interest income | - | 904 | 1,804 | 2,708 |
| Total segment revenue | 481,942 | 68,327 | (3,288) | 546,981 |
| Results | | | | |
| Segment profit before income tax | 33,950 | 6,564 | (7,588) | 32,926 |
| Income tax expense | | | | (10,282) |
| Net profit after tax | | | | 22,644 |
| Discontinued operations | | | | |
| Net profit after tax | | | | - |
| Total net profit after tax | | | | 22,644 |
| Other segment information | | | | |
| Total segment assets as at 30 June 16 | 651,331 | 1,128,774 | 50,216 | 1,830,321 |
| Total segment liabilities 30 June 16 | 646,430 | 1,084,750 | 10,621 | 1,741,801 |
| Depreciation and amortisation | (134) | (15) | (951) | (1,100) |
| Interest expense | - | (33) | - | (33) |

Australian Finance Group Limited

Notes to the Financial Statements

2. Results for the period

(i) Revenue

In thousands of AUD

Commission and other income

| | 30 June 2017 | 30 June 2016 |
|--|----------------|----------------|
| Commissions | 491,358 | 430,465 |
| Interest on commission income receivable | 47,277 | 50,473 |
| Mortgage management services | 305 | 566 |
| Securitisation transaction fees | 819 | 827 |
| | <u>539,759</u> | <u>482,331</u> |

(ii) Expenses

In thousands of AUD

Other expenses

| | 30 June 2017 | 30 June 2016 |
|---|-----------------|-----------------|
| Advertising and promotion | (5,014) | (4,046) |
| Consultancy and professional fees | (1,972) | (1,481) |
| Information technology | (3,285) | (3,238) |
| Occupancy costs | (400) | (414) |
| Employee costs | (25,285) | (24,491) |
| Depreciation and amortisation | (944) | (1,100) |
| Operating lease costs | (1,975) | (1,940) |
| (Reversal of)/impairment loss on receivables | (80) | (169) |
| Net loss on disposal of property, plant and equipment | - | (2) |
| | <u>(38,955)</u> | <u>(36,881)</u> |

Finance expenses

| | | |
|---|-------------|-------------|
| Interest on loans from funders | (12) | (33) |
| Net change in fair value of financial instruments at fair value through profit and loss | (2) | (1) |
| | <u>(14)</u> | <u>(34)</u> |

(iii) Cash and cash equivalents

In thousands of AUD

| | 30 June 2017 | 30 June 2016 |
|---|----------------|----------------|
| Cash at bank | 89,559 | 83,906 |
| Short term deposits | 1,276 | 2,039 |
| Unrestricted cash | <u>90,835</u> | <u>85,945</u> |
| Cash collections accounts ¹ | 27,599 | 36,423 |
| Restricted cash ² | 6,367 | 8,297 |
| Restricted cash | <u>33,966</u> | <u>44,720</u> |
| Cash and cash equivalents | <u>124,801</u> | <u>130,665</u> |
| Cash and cash equivalents in the Statement of Cash Flows | <u>124,801</u> | <u>130,665</u> |

- 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

3. Dividends

| | Year ended 30 June 2017 | | Year ended 30 June 2016 | |
|--|----------------------------|--------------|----------------------------|--------------|
| | Cents per share | Total \$'000 | Cents per share | Total \$'000 |
| Declared and paid during the year | | | | |
| FY16 interim dividend - fully franked | - | - | 3.0 | 6,444 |
| FY16 final dividend - fully franked | 5.4 | 11,600 | - | - |
| FY17 interim dividend - fully franked | 4.2 | 9,022 | - | - |

4. 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).

a. Fair value of financial assets and liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and liabilities are measured at fair value at the end of each reporting period.

| Financial assets | Fair value as at | | Fair value hierarchy | Valuation technique(s) and key input(s) |
|--|------------------|--------------|----------------------|---|
| | 30 June 2017 | 30 June 2016 | | |
| <i>In thousands of AUD</i> | | | | |
| Financial assets designated at fair value through profit or loss and available-for-sale financial assets | \$31 | \$49 | Level 1 | Quoted bid prices in an active market |

During the year there were no transfers in either direction.

b. 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 receivables 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 if the respective loans are in good order and not in default. The Group is entitled to the trailing commissions and the Group also makes trailing commission payments to Members when trailing commission is received from lenders.

| <i>In thousands of AUD</i> | 30 June 2017 | | 30 June 2016 | |
|---------------------------------------|-----------------|------------|-----------------|------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Financial assets | | | | |
| Future trailing commission receivable | 734,710 | 768,604 | 646,179 | 688,898 |
| Financial liabilities | | | | |
| Future trailing commission payable | 655,683 | 685,316 | 587,093 | 624,857 |

Australian Finance Group Limited

Notes to the Financial Statements

4. Financial instruments (continued)

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, by reference to market observable inputs. The valuation is classified as level 2 in the fair value measurement hierarchy.

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

| | 30 June 2017 | 30 June 2016 |
|--------------------------------------|---------------------------|---------------------------|
| Average loan life | Between 3.1 and 5.0 years | Between 4.3 and 5.2 years |
| Discount rate per annum ¹ | Between 5% and 13.5% | Between 5% and 13.5% |

¹ Discount rates once set are not adjusted during the life of the loan. The spread in discount rate captures loans settled in previous financial years as well as the current financial year.

The percentage paid to brokers range from 85% to 93% and is fixed by the respective terms of their agreement with the Group as at the time the individual loans settled. As a consequence, Management does not expect changes to the percentage paid to members to be reasonably possible.

5. Earnings per share (EPS)

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

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

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

| <i>In thousands of AUD</i> | 30 June 2017 | 30 June 2016 |
|---|----------------|----------------|
| Profit attributable to ordinary equity holders of the Company: | | |
| Continuing operations | 39,053 | 22,667 |
| Profit attributable to ordinary equity holders of the Company | 39,053 | 22,667 |
| Weighted average number of ordinary shares for basic EPS (thousands) | 214,813 | 214,813 |
| Effect of dilution: | | |
| Performance rights | 593 | - |
| Weighted average number of ordinary shares adjusted for the effect of dilution | 215,406 | 214,813 |

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.

Australian Finance Group Limited

Notes to the Financial Statements

6. Reconciliation of profit after income tax to net cash inflow from operating activities

| <i>In thousands of AUD</i> | 30 June 2017 | 30 June 2016 |
|--|---------------------|---------------------|
| <i>Cash flows from operating activities</i> | | <i>Restated</i> |
| Profit for the period from continuing operations | 39,104 | 22,644 |
| <i>Adjustments to reconcile the profit to net cash flows:</i> | | |
| Income tax expense from continuing operations | 17,852 | 10,282 |
| Depreciation and amortisation | 944 | 1,100 |
| Net interest income from investing activities | (2,314) | (2,664) |
| Expense recognised in respect of equity-settled share-based payments | 298 | 88 |
| Present value of future trailing commission income | (88,531) | (56,326) |
| Present value of future trailing commission expense | 68,590 | 56,148 |
| Other non-cash movements | 115 | 64 |
| | 36,058 | 31,336 |
| <i>Working capital adjustments:</i> | | |
| Changes in assets and liabilities | | |
| Increase in receivables and prepayments | 1,315 | 1,553 |
| Increase in trade and other payables | 819 | 10,454 |
| (Decrease) in deferred income | (2,177) | (45) |
| Increase for employee entitlements | 733 | 658 |
| Increase in provisions | 1,346 | 30 |
| Cash generated from operations | 38,094 | 43,986 |
| Income tax paid | (11,577) | (7,780) |
| Net cash generated by operating activities | 26,517 | 36,206 |

During the current year, there has been a change in accounting policy in relation to the presentation of the following cash flows related to the securitisation business:

- (Repayments of)/proceeds from warehouse facilities
- (Repayments to)/proceeds from bondholders
- Loans advanced to (repayments of borrowings) from borrowers

These cashflows, which have previously been presented within operating activities, are now presented within financing and investing activities in the cash flow statement. This change in accounting policy has been made to align the Group's presentation more closely to industry practice and provide more relevant information.

Australian Finance Group Limited

Notes to the Financial Statements

7. Subsequent events

On 27 July 2017, the Group secured an extension to the term of the NAB residential warehouse facility that was due to expire on 10 August 2017. The funding continues to be provided through the issue of three classes of secured, limited and floating rate notes, with the senior notes being issued to the lender and the subordination notes to Australian Finance Group Limited. The maturity date has been reset to 11 December 2017.

On 4 August 2017, the Group secured an extension to the term of the ANZ residential warehouse facility that was due to expire on 14 August 2017. The funding continues to be provided through the issue of three classes of secured, limited and floating rate notes, with the senior notes being issued to the lender and the subordination notes to Australian Finance Group Limited. The maturity date has been reset to 14 December 2017.

The warehouse term is for a shorter period due to new warehousing arrangements during the first half of FY2018. This is in preparation for APS 120 which comes into effect on 1 January 2018.

On 24 August 2017, the Directors recommended the payment of a dividend of 5.5 cents per fully paid ordinary share, fully franked based on tax paid at 30%. The dividend has a record date of 4 September 2017 and a payment date of 28 September 2017. The aggregate amount of the proposed dividend expected to be paid out of retained earnings at 30 June 2017 is \$11,814k. The financial effect of these dividends has not been brought to account in the financial statements for the year ended 30 June 2017.

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.