Australian Finance Group Limited

ABN 11 066 385 822

Annual Report
30 June 2014

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Australian Finance Group Limited
Directors' Report
For the year ended 30 June 2014

The Directors present their report together with the financial report on the consolidated entity consisting of Australian Finance Group Limited ('the Company'), and its controlled entities ('the Group'), for the financial year ended 30 June 2014 and the auditor's report thereon.

Directors and Company Secretary

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

Tony Gill Chairman Non-Executive Director	Age: 61	Mr Gill is based in Sydney and has relevant experience that spans two decades with expertise in banking, mortgage origination and securitisation. Mr Gill was with Macquarie Bank Ltd for 16 years, most recently serving as the Head of the Banking and Securitisation Group.
Brett McKeon Managing Director	Age: 50	Mr McKeon is responsible for the Group's strategy and is also responsible for the AFG Home Loans and Securitisation lines of business.
Malcolm Watkins Executive Director	Age: 50	Mr Watkins has responsibility for the Group's technology development programmes, electronic delivery systems and marketing operations.
Kevin Matthews Executive Director	Age: 56	Mr Matthews is responsible for negotiating and managing relationships with financial institutions, product development and the Commercial line of business.
James Minto Non-Executive Director	Age: 62	Mr Minto is a Chartered Accountant who joined the board in August 2004. He is currently the Managing Director of TAL Life Ltd having served as the CEO for 10 years. He has also been Managing Director/CEO of other TOWER companies since 1988. Resigned on 28 November 2013.
John Atkins Non-Executive Director	Age: 59	Mr Atkins is the former head of the Perth office of Freehills and a former Chairman Western Australia – ANZ Banking Group Ltd. Mr Atkins was a senior commercial lawyer who has acted for major banks and other financial institutions together with property developers and other commercial enterprises and is an experienced public company director.
Company Secretary Lisa Bevan	Age: 42	Ms Bevan is a Chartered Accountant with over 15 years experience.

Directors Meetings

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

Director	Board Meetings	
	A	**B**
Tony Gill	9	12
Brett McKeon	11	12
Malcolm Watkins	11	12
Kevin Matthews	8	12
James Minto	6	6
John Atkins	10	12

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

Principal Activities

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

- mortgage origination and management of home loans;
- securitisation of mortgages through special purpose entities used to issue residential mortgage backed securities; and
- property development.

Trading Results

The Group's net profit after income tax for the year ended 30 June 2014 was $17,869 thousand (2013: $$15,259 thousand); after an income tax expense of $8,095 thousand (2013: $7,365 thousand).

Operating Results for the Year

The 2014 financial year has seen an unexpected, yet welcomed increase in competition within the Australian mortgage market. This combined with a sustained low interest rate environment has meant that it has never been a better time to be a mortgage customer. As a consequence our settlement volumes for the year jumped by over 25% on the volumes achieved in the prior financial year. We have also experienced a solid growth in the volume of our Commercial business and this saw our trail book exceed $4b for the first time during the year. We have witnessed lenders' appetite for commercial business improving during the year and we have set in place plans to capitalise on this should the appetite continue to expand.

The settlement volumes achieved by our core residential mortgage business were also fuelled by a successful 36 month broker recruitment period. Those brokers recruited to AFG over the past three years have continued to grow their own businesses that in turn have grown our own. Whilst the Directors are pleased with the overall performance of the Group for the 2014 financial year they do note that the unprecedented growth in residential mortgage activity may ultimately impact run off rates with respect to our trail book accounting adjustment. We would expect these run off rates to increase from the below historical average levels as consumers continue to look to take advantage of the competitive landscape.

The inverse of the intense level of competition in the market place, has meant that our own AFG Home Loans business and in turn AFG Securities business have not been able to compete as effectively with some of the products being offered in the market place, particularly by the Majors. Specific reference here is made to our inability to provide a compelling fixed rate offer. In an environment of low interest rates, consumers are looking to lock in a rate for the future and our inability to compete – like a number of our competitors in the market - has shrunk the relative size of our market. Having said this, the AFG Home Loans and AFG Securities businesses remain an important plank in the future growth of the Group and it was with a significant level of satisfaction that during the financial year the Group was able to execute two new term transactions, with pricing and investor participation improving in each transaction. The success of these transactions further validated the business model that was first demonstrated during the 2013 financial year when we completed our inaugural term transaction. We also welcomed ANZ as an additional warehouse provider to our securitisation program during the year thus ensuring the business was no longer reliant on only one source of warehouse funding.

The 2014 financial year also saw further positive steps with our Property Business. We were able to successfully close out our Lillydale development located in the foothills of Perth, and made significant progress on our Richmond Quarter development in East Fremantle. Construction and debt funding via CBA of this development has commenced and as at the date of this report, only 7 out the 119 apartments and 11 of the commercial lots remain unsold. We also commenced a 22 apartment development located in Success which is in the southern corridor of Perth. All 22 apartments were sold in a very short space of time and on the back of this, construction via funding from a St George facility has commenced.

The warehouse facility, which was due to expire on 6 September 2014, has been extended after the balance sheet date to 14 August 2015 in substantially the same form as it currently exists..

The security for advances under these facilities is a combination of fixed and floating charges over all assets of the special purpose entity, AFG 2010-1 Trust. If the warehouse facility is not renewed or should there be a default by the trustee under the existing terms and conditions, the warehouse facility funder will not have a right of recourse against the remainder of the Group.

Should the warehouse facility not be renewed then the maximum exposure to the group would be the loss of future income streams from excess spread, being the difference between the group's mortgage rate and the underlying cost of funds.

The Directors are satisfied that the Group's ability to continue as a going concern will not be affected.

Financial results for the year

The Group's cash and cash equivalents as at 30 June 2014 amounted to $76,022 thousand, which represents an increase of 17% on 2013.

Australian Accounting Standards require us to reflect the fair value of our residential trail book, which is influenced amongst other things by the runoff and discount rates that are applied to this valuation. The change in assumptions for 2014 has increased the earnings beyond the underlying earnings generated by the Group. Excluding the non cash entries to recognise the net present value of the future trailing commission receivable and payable, the underlying profit before tax is $23,619 thousand (2013: $20,046). The assessment of the trail loan book and the associated assumptions was undertaken by independent actuaries.

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

	2014		2013	
	Total Revenue	Profit before tax	Total Revenue	Profit before tax
Underlying result from operations	333,339	23,619	282,770	20,046
Change in the net present value of trailing Commission receivable and payable	61,412	2,345	49,454	2,577
Total result from operations	394,751	25,964	332,224	22,624

Likely Developments and Expected Results

The Group will continue to focus on its core business whilst also looking to further develop its securitisation and mortgage management business lines with a view to maximizing their long term benefits. Additionally, the Group will look to managing its growing property development interests to maximize returns to the shareholders, and to keep a healthy pipeline of projects in place to maintain a stable longer term earnings contribution from this division.

Further information about likely developments in the operations and the expected results of those operations in future financial years have not been included in this report because disclosure of the information would, in the opinion of the Directors, be likely to result in unreasonable prejudice to the Group.

Changes in State Of Affairs

Total equity increased to $85,470 thousand from $79,091 thousand, an increase of 8%. The movement was largely the result of increased profits.

During the year the Group incorporated AFG Property Pty Ltd and AFG Property Investment No.1 Pty Ltd to raise funds through the issue of redeemable preference shares to sophisticated investors. The funds were subsequently used to subscribe for redeemable preference shares in Harold's Developments Pty Ltd, which is undertaking a residential property development project. The investment amount and the accrued interest are secured by a first mortgage over the land of the project.

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

Dividends

Total dividends paid or declared during the financial year ended 30 June 2014 were $11.5 million (2013: $12 million), which included:

- A final fully franked ordinary dividend of $3 million (3.21 cents per fully paid share) was declared out of profits of the Company for the year ended 30 June 2013 and paid in July 2013.
- An interim fully franked ordinary dividend of $4.5 million (4.82 cents per fully paid share) was declared out of profits of the Company for 2014 and paid in November 2013.
- An interim fully franked ordinary dividend of $4 million (4.29 cents per fully paid share) was declared out of profits of the Company for 2014 and paid in May 2014.

Subsequent Events

On 14 August 2014, the Group secured an extension to the term of the residential warehouse facility that was due to expire on 6 September 2014. The funding continues to be provided through the issue of two 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 August 2015 and the cost of funds has been reviewed favourably to the end to term.

On 26 August 2014 the Directors recommended the payment of a dividend of 10.71 cents per fully paid ordinary share, fully franked based on tax paid at 30%, out of profits of the Company for the year ended 30 June 2014. The aggregate amount of the dividends paid out in October out of retained profits at 30 June 2014 is $10 million. The financial effect of these dividends has not been brought to account in the financial statements for the year ended 30 June 2014.

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

Indemnification of Officers and Auditors

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

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

Non–audit services

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

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

In AUD	**2014**	**2013**
Audit services:		
Amounts due and receivable for:		
Audit of the financial report of the Group and other entities of the Group		
Ernst & Young	154,293	106,610
Other auditors	2,125	1,880
	156,418	108,490
Services other than statutory audit:		
Auditors of the Group		
Other assurance services	64,803	35,000
	64,803	35,000

Auditor's Independence declaration

The auditor's independence declaration is included on page 54 of this financial report for the year ended 30 June 2014.

Rounding

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

This report is made with a resolution of the Directors.

B M McKeon
Managing Director

Dated at Perth, this 30 October 2014

Australian Finance Group Limited
Statement of Financial Position
As at 30 June 2014

In thousands of AUD

	Note	2014	2013
Assets			
Cash and cash equivalents	13	76,022	65,145
Other financial assets	17	196	51
Trade and other receivables	14	515,741	453,956
Loans and advances	15	1,025,191	804,832
Investments in equity-accounted investees	18	2,674	3,224
Inventories	16	24,442	9,515
Property, plant and equipment	20	3,394	3,954
Intangible assets	21	832	752
Total assets		1,648,492	1,341,429
Liabilities			
Interest-bearing liabilities	23	1,034,685	804,237
Trade and other payables	22	502,301	436,899
Employee benefits	24	2,972	3,137
Current tax payable	19	211	769
Deferred income	27	4,299	3,955
Other financial liabilities	28	4,690	-
Deferred tax liability	19	13,479	12,398
Provisions	26	385	943
Total liabilities		1,563,022	1,262,338
Net assets		85,470	79,091
Equity			
Share capital	29	11,434	11,434
Reserves	29	(61)	(71)
Retained earnings		74,093	67,726
Total equity attributable to equity holders of the Company		85,466	79,089
Non-controlling interest		4	2
Total equity		85,470	79,091

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

Australian Finance Group Limited
Statement of Comprehensive Income
For the year ended 30 June 2014

In thousands of AUD

	Note	2014	2013
Continuing Operations			
Commission and other income	6	394,751	332,224
Securitisation interest income		46,814	27,118
Securitisation interest expense		(37,411)	(23,952)
Other cost of sales		(355,536)	(290,045)
Gross profit		48,618	45,345
Other income	7	10,870	9,878
Administration expenses		(2,958)	(1,863)
Other expenses	8	(34,164)	(32,567)
Results from operating activities		22,366	20,793
Financial income	11	3,669	2,722
Financial expenses	11	(327)	(170)
Net finance income		3,342	2,552
Share of profit / (loss) of equity-accounted investees (net of tax)	18	256	(721)
Profit before tax from continuing operations		25,964	22,624
Income tax expense	12	(8,095)	(7,365)
Profit from continuing operations		17,869	15,259
Profit for the year		17,869	15,259
Other comprehensive income			
Net gain change in fair value of available-for-sale financial assets		15	-
Income tax on other comprehensive income		(5)	-
Other comprehensive income for the year, net of income tax		10	-
Total comprehensive income for the year		17,879	15,259
Profit attributable to:			
Owners of the Company		17,877	15,255
Non-controlling interests		2	4
Profit for the year		17,879	15,259
Total comprehensive income for the year attributable to:			
Owners of the Company		17,877	15,255
Non-controlling interests		2	4
Total comprehensive income for the year		17,879	15,259

The Statement of Comprehensive Income should be read in conjunction with the Notes to the financial statements.

Australian Finance Group Limited
Statement of Changes in Equity
For the year ended 30 June 2014

In thousands of AUD	Share capital	Foreign currency translation reserve	Fair value reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 July 2012	11,434	(15)	(56)	64,467	75,830	(2)	75,828
Total comprehensive income for the year							
Profit	-	-	-	15,259	15,259	4	15,263
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	15,259	15,259	4	15,263
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Dividends to equity holders	-	-	-	(12,000)	(12,000)	-	(12,000)
Total contributions by and distributions to owners	-	-	-	(12,000)	(12,000)	-	(12,000)
Total transactions with owners	-	-	-	(12,000)	(12,000)	-	(12,000)
Balance at 30 June 2013	11,434	(15)	(56)	67,726	79,089	2	79,091
Balance at 1 July 2013	11,434	(15)	(56)	67,726	79,089	2	79,091
Total comprehensive income for the year							
Profit /(loss)	-	-	-	17,867	17,867	2	17,869
Other comprehensive income	-	-	10	-	10	-	10
Total comprehensive income for the year	-	-	10	17,867	17,877	2	17,879
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Dividends to equity holders	-	-	-	(11,500)	(11,500)	-	(11,500)
Share-based payment transactions							
Total contributions by and distributions to owners	-	-	-	(11,500)	(11,500)	-	(11,500)
Total transactions with owners	-	-	-	(11,500)	(11,500)	-	(11,500)
Balance at 30 June 2014	11,434	(15)	(46)	74,093	85,466	4	85,470

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

Australian Finance Group Limited
Statement of Cash Flows
For the year ended 30 June 2014

In thousands of AUD	Note	2014	2013
Cash flows from operating activities			
Cash receipts from customers		345,220	293,774
Cash paid to suppliers and employees		(338,454)	(286,115)
(Advances)/repayments of customer borrowings		(167,662)	(512,280)
(Repayments of)/proceeds from warehouse facility		(278,564)	263,129
(Repayments to)/proceeds from bondholders		464,464	256,199
Income taxes paid		(7,576)	(9,012)
Net cash from operating activities	13(b)	17,428	5,695
Cash flows from investing activities			
Proceeds from/(Purchase of) investments		(128)	5,000
Interest received		2,114	2,863
Interest paid		(123)	(155)
Acquisition of property, plant and equipment		(379)	(3,598)
Investment in intangible assets		(286)	(478)
Dividend received from equity-accounted investees		340	-
Proceeds from / (Acquisition) of equity-accounted investees	18	465	(750)
Increase / (Decrease) in loans from funders		(764)	35
Proceeds/(Acquisition of) other investments		-	303
(Purchase of)/proceeds from preference shares		(4500)	(6,000)
Decrease/(Increase) in other loans and advances		(622)	80
Net cash used in investing activities		(3,883)	(2,700)
Cash flows used in financing activities			
Proceeds from borrowings		4,932	3,273
Proceeds from issuance of preference shares		3,900	-
Dividends paid to equity holders of the parent	29	(11,500)	(12,000)
Net cash used in financing activities		(2,668)	(8,727)
Net increase in cash and cash equivalents		10,877	(5,732)
Cash and cash equivalents at 1 July		65,145	70,877
Cash and cash equivalents at 30 June	13(a)	76,022	65,145

The 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

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1. Reporting entity

The consolidated financial statements for the financial year ended 30 June 2014 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 financial year were mortgage origination and management, and property development. The Company's principal place of business is 100 Havelock Street, West Perth, Western Australia.

2. Basis of preparation

(a) Statement of compliance

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

The consolidated financial statements were authorised for issue by the Board of Directors on 30 October, 2014.

(b) Basis of measurement

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

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

(c) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars ("AUD").

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

(d) Use of estimates and judgements

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

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

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Notes 14 and 22 - Net present value of future trailing commissions: recognition of future trailing commissions receivable and payable.

Information about assumptions and estimation that have a significant risk of resulting in a material adjustment within the next financial years are included in the following:

- Note 4 - Determination of fair values: key assumptions used in forecasting and discounting future trailing commissions.
- Note 25 - Measurement of share-based payments
- Note 26 - Provisions
- Note 30 - Valuation of financial instruments

2. Basis of preparation (continued)

(d) Use of estimates and judgements (continued)

- *Taxation*
  The Group's accounting for taxation require management's judgment in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the Statement of Financial Position. Deferred tax assets, including those arising from un-recouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.
  Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future income, operating costs, capital expenditure, dividends and other capital management transactions. Judgments and assumptions are also required about the application of income tax legislation. These judgments and assumptions are subject to risk uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the Statement of Financial Position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in corresponding credit or charge to charge to the Statement of Comprehensive Income.

- *Long service leave provision*
  The liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at balance date. In determining the present value of the liability, attrition rates and pay increases through inflation have been taken into account.

(e) Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:

(i) New and amended Australian Accounting Standards and AASB Interpretations

The Group has adopted the following new and amended Australian Accounting Standards and AASB interpretations as of 1 July 2014:

- *AASB 10 Consolidated Financial Statements*
- *AASB 11 Joint Arrangements*
- *AASB 13 Fair Value Measurement*
- *AASB 119 Employee Benefits:*
- *AASB 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to AASB 7*

The adoption of the standards or interpretations is described below:

AASB 119 *Employee Benefits* (Revised 2011)

In the current year the Group adopted AASB 119 (Revised 2011), which revised the definition of short-term employee benefits to benefits that are expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service. As a result of the change, the annual leave liability for certain of the Group's employees is now considered other long-term employee benefit, when previously it was a short term benefit. As the Group does not have an unconditional right to defer settlement for at least twelve months after the reporting period, the obligation for employees continues to be presented as a current liability under AASB 101 *Presentation of Financial Statements.* The Group has applied the new policy retrospectively; however the impact from the change in the policy had no material impact on the reported results of 2013, and accordingly the comparative figures have not been restated.

The Group applied, for the first time, other standards and amendments that require restatement of previous financial statements. These include AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 13 *Fair Value Measurement* and amendments to AASB 101 *Presentation of Financial Statements*. The amendments had no impact on the annual financial statements of the Group.

2. Basis of preparation (continued)

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

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2014, but have not been applied in preparing this financial report:

- AASB 9 *Financial Instruments*, which becomes mandatory for the Group's 30 June 2015 financial statements. It includes requirements for the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.
- *AASB 1031* Materiality. The revised AASB 1031 is an interim standard that cross-references to other Standards and the Framework (issued December 2013) that contain guidance on materiality. AASB 1031 will be withdrawn when references to AASB 1031 in all Standards and Interpretations have been removed.
- AASB 2012-3 Amendments to Australian Accounting Standards - *Offsetting Financial Assets and Financial Liabilities,* which becomes mandatory for the Group's 30 June 2015 financial statements. AASB 2012-3 adds application guidance to AASB 132 *Financial Instruments:* Presentation to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. The extent of the impact has not been determined.
- AASB 2013-3 Amendments to AASB 136 – *Recoverable Amount Disclosures for Non-Financial Assets, which* becomes mandatory for the Group's 30 June 2015 financial statements. AASB 2013-3 amends the disclosure requirements in AASB 136 Impairment of Assets. The amendments include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal.
- AASB 2013-5 Amendments to Australian Accounting Standards – Investment Entities (AASB 1, AASB 3, AASB 7, AASB 10, AASB 12, AASB 107, AASB 112, AASB 124, AASB 127, AASB 132, AASB 134 & AASB 139). These amendments become mandatory for the Group's 30 June 2015 financial statements. The amendments define an investment entity and require that, with limited exceptions, an investment entity does not consolidate its subsidiaries or apply AASB 3 Business Combinations when it obtains control of another entity. These amendments require an investment entity to measure unconsolidated subsidiaries at fair value through profit or loss in its consolidated and separate financial statements. These amendments also introduce new disclosure requirements for investment entities to AASB 12 and AASB 127.
- AASB 2013-7 Amendments to AASB 1038 arising from AASB 10 in relation to Consolidation and Interests of Policyholders [AASB 1038], with an application date for the Group of 30 June 2015. AASB 2013-7 removes the specific requirements in relation to consolidation from AASB 1038, which leaves AASB 10 as the sole source for consolidation requirements applicable to life insurer entities.
- AASB 2013-9 Amendments to Australian Accounting Standards – *Conceptual Framework, Materiality and Financial Instruments.* The Standard contains three main parts and makes amendments to a number of Standards and Interpretations. Part A of AASB 2013-9 makes consequential amendments arising from the issuance of AASB CF 2013-1. Part B makes amendments to particular Australian Accounting Standards to delete references to AASB 1031 and also makes minor editorial amendments to various other standards. Part C makes amendments to a number of Australian Accounting Standards, including incorporating Chapter 6 *Hedge Accounting* into AASB 9 *Financial Instruments*. Application dates for the Group are: Part A 30 June 2014, Part B 30 June 15 and Part C 30 June 16.

3. Significant accounting policies

Except as expressly described in the notes to the financial statements, the accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by all Group entities.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial results of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

Non-controlling interests are allocated their share of net profit after tax in the Statement of Comprehensive income and are presented within equity in the Statement of Financial Position, separately from the equity of the owners of the Parent.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

(ii) Special purpose entities

Special purpose entities are those entities over which the group has no ownership interest but in effect the substance of the relationship is such that the Group controls the entity so as to obtain the majority of benefits from its operation. The Group has established special purpose entities to support its Securitisation and Residential Mortgage Backed Securities issues (RMBS) programmes.

Securitisation programme

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

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

RMBS programme

The special purpose entities (SPE-RMBS) AFG 2013-1, AFG 2013-2 and AFG 2014-1 trusts were established to hold securitised assets and issue Residential Mortgage Backed Securities (RMBS) to support the specific funding needs of the Group's Securitisation Programme. The SPE-RMBS meet the criteria of being controlled entities under SIC12 and AASB 127 – Consolidated and Separate Financial Statements.

The elements indicating control include, but not limited to, the below:

- the Group has the majority of the residual interest in the SPE-RMBS
- fees received by the Group from the SPE-RMBS vary on the performance, or non performance of the SPE-RMBS assets
- the Group has the ability to direct decision making accompanied by the objective of obtaining benefits from the SPE-RMBS' activities.

The Group continues to retain control over the financial assets, for which some but not substantially all the risks and rewards have been transferred to the bond holders. The securitised assets and the corresponding liabilities are recorded in the Statement of Financial Position and the interest earned and paid recognised in the Statement of Comprehensive Income.

3. Significant accounting policies (continued)

(iii) Investments in associates (equity accounted investee)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

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

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

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

Jointly controlled operations

A jointly controlled operation is a joint venture carried on by each venturer using its own assets in pursuit of the joint operations. The consolidated financial statements include the assets that the Group controls and the liabilities that it incurs in which there is joint control, in the course of pursuing the joint operation, and the expenses that the Group incurs and its share of the income that it earns from the joint operation.

Non-controlling interests

Non-controlling interest is determined as the non-controlling interest's proportion of the fair value of the recognised identifiable assets, liabilities and contingent liabilities at the date of the original acquisition. Post acquisition of non-controlling interest in the identifiable assets and liabilities of a subsidiary comprises the non controlling interest's share of movements in equity since the date of the original controlling acquisition, after eliminating intragroup transactions.

(iv) Transactions eliminated on consolidation

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

(b) Foreign currency

(i) Foreign currency transactions

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

(ii) Foreign operations

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

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

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

3. Significant accounting policies (continued)

(c) Financial instruments

(i) Non-derivative financial assets

Initial recognition and measurement

Financial assets within the scope of AASB 139 are classified as financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available–for-sale financial assets. The Group determines the classification of its financials assets at initial recognition. All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

Financial assets at fair value through profit or loss

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

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less impairment losses.

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. Subsequent to initial recognition, available-for-sale financial assets are measured at fair value and changes therein, other than impairment losses (see note 3(c)(ii)), are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss is transferred to profit or loss. The investments have no quoted prices in an active market and there is insufficient information available to determine fair value. As a result of this cost was deemed to represent the best estimate of fair value.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associate liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

The Group utilises SPE-RMBS to hold securitised assets (financial assets) and issue residential mortgage asset backed securities to investors. After the securitisation transaction, the Group continues to retain control of the financial assets for which some but not substantially all the risks and rewards have been transferred to the investors. Consequently, the securitised assets do not meet the requirements of AASB 139 - Financial Instruments: Recognition and Measurement in respect of the derecognition of financial instruments. The securitised assets have been recorded in the Statement of Financial Position with the related interest recognised through the consolidated Statement of Comprehensive Income.

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

(ii) Impairment of financial assets

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

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

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

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

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

(iii) Non-Derivative financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of AASB 139 are classified as financial liabilities at fair value through profit or loss, or loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value, in the case of loans and borrowings, net of directly attributable transactions

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

The Group's non-derivative financial liabilities include: interest-bearing liabilities and trade and other payables.

Subsequent measurement

Subsequent to initial recognition, interest – bearing liabilities are measured at amortised cost using the effective interest rate method.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in respect of the carrying amounts is recognised in the income statement.

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

(iv) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

Refer to accounting policy 4 for the financial instruments not traded in an active market fair value determination.

(v) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity at the time of issuance, net of any related income tax benefit.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of consideration paid, including directly attributable costs, is recognised as a reduction in equity.

Dividends

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

(d) Cash and short term-deposits

Cash and short-term deposits in the Statement of Financial Position comprise cash at banks and on hand, short term deposits with a maturity of three months or less and collections in the special purpose entities' accounts which are not available to the shareholders.

For the purpose of the Statement of cash flows, cash and cash equivalents consist of the cash and term deposits as defined above, net of outstanding bank overdrafts.

(e) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

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

3. Significant accounting policies (continued)

(f) Intangibles

(i) Software development costs

Software development costs are recognised as an expense when incurred, except to the extent that such costs, together with previous unamortised deferred costs in relation to that project, are expected beyond reasonable doubt, to provide future economic benefits. Any deferred development costs are amortised over the estimated useful lives of the relevant assets. The balance of deferred software development costs is disclosed as such in note 21 to the financial statements.

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

(ii) Other intangible assets

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

(iii) Subsequent expenditure

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

(iv) Amortisation

Amortisation is recognised in profit or loss on a straight line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

(i)	Capitalised software development costs	2.5 - 5 years
(ii)	Software licenses	2.5 - 5 years

(g) Impairment of Non-financial assets

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

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

(h) Inventories

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

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

3. Significant accounting policies (continued)

(i) Employee benefits

i. Long-term employee benefits

The Group's liability in respect of long-term employee benefits is the amount of future benefits that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. Consideration is given to the expected future wage and salary levels, and periods of service. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency as the Group's functional currency.

ii. Short term benefits

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

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

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

iii. Share-based payment transactions

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

(j) Provisions

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

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

(k) Revenue

i. Commission revenues

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

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

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

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

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

3. Significant accounting policies (continued)

(k) Revenue (continued)

ii. Mortgage management revenues

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

iii. Property development services

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

iv. Sale of goods and disposal of assets

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

v. Fees for services

Revenue from contracts to provide marketing, compliance and administration services to the members that is recognised with reference to the stage of completion for the contract of services.

vi. Rendering of other services and sponsorship income

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

vii. Securitisation and residential mortgage backed securities programme

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

Loans and advances are initially recognised at fair value. Subsequent to initial recognition, the loans are measured at amortised cost using the effective interest method over the estimated actual (but not contractual) life of the mortgage loan, taking into account all income and expenditure directly attributable to the loan. Interest income is the key component of this revenue stream and it is recognised as it accrues using the effective interest method. The rate at which revenue is recognised is referred to as the effective interest rate and is equivalent to the rate that effectively discounts estimated future cash flows throughout the estimated life to the net carrying value of the loan. Acquisition costs are also spread across the estimated life of the loan.

(l) Lease payments

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

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

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

(m) Finance income and expenses

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

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

3. Significant accounting policies (continued)

(n) Borrowing costs

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

(o) Income tax expense

Income tax expense comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax in not recognised for: temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted by the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly to equity

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

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

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

(i) Tax consolidation

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

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

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

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

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

3. Significant accounting policies (continued)

(o) Income tax expense (continued)

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

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

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

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

(p) Goods and services tax

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

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

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

(q) Deferred income

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

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

4. Determination of fair values

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

Trailing commissions

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

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

	2014	2013
Average loan life	Between 4.4 and 5.3 years	Between 4.4 and 5.2 years
Discount rate per annum	Between 9.15% and 13.5%	Between 10% and 13.5%
Percentage paid to members	Between 85% and 91%	Between 85% and 91%

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

4. Determination of fair values (continued)

Fixed rate instruments

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

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

Trade and other receivables/payables

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

Investments in equity instruments

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

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

5. Financial risk management

(a) Overview

The Group has exposure to credit, liquidity and markets risks from the use of financial instruments.

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

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

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

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

(b) Credit risk

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

Receivables

Trade and other receivables

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

The Group's trade and other receivables relate mainly to high credit quality financial institutions who are the members of the lender panel. New panel entrants are subject to commercial due diligence by the Group's management prior to joining the panel. The Group bears the risk of non-payment of future trailing commissions by lenders should they not maintain solvency. However, should a lender not meet its obligations as a debtor then the Group is under no obligation to pay out any future trailing commissions to members.

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

5. Financial risk management (continued)

(b) Credit risk (continued)

Loans and advances

To mitigate exposure to credit risk on loans and advances, the Group has adopted the policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or other security where appropriate.

The Group's loans and advances relate mainly to loans advanced through its residential mortgage securitisation programme. Credit risk management is linked to the origination conditions externally imposed on the Group by the warehouse facility provider including geographical limitations. As a consequence, the Group has no significant concentrations of credit risk. The Group has established a credit quality review process to provide early identification of possible changes in credit worthiness of counterparties by the use of external credit agencies, which assigns each counterparty a risk rating. Risk ratings are subject to regular review.

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

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

(c) Liquidity risk

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

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

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

(d) Market risk

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

Currency risk

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

Interest rate risk

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

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

Prepayment risk

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

The Group's key exposure relates to the net present value of future trailing commissions receivable and payable. The Group uses regression models to project the impact of varying levels of prepayment on its net income. The model makes a distinction between the different reasons for repayment and takes into account the effect of any prepayment penalties. The model is back tested against actual outcomes.

5. Financial risk management (continued)

For the loans and advances within the SPE and SPE-RMBS, the Group minimises the prepayment risk by passing back all principal repayments to the warehouse facility providers and bondholders. Deferred establishment fees are charged to the customer on early repayment of loans to minimise losses on the costs of acquisition.

Other market risk

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

(e) Capital management

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

The Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants would see the Group repaying the shortfall sufficient to the lenders satisfaction, or alternatively provide additional security or cash equity. There have been no breaches in the financial covenants of any interest-bearing loans and borrowings in the current period.

The SPEs are subject to the external requirements imposed by the warehouse facility providers. The terms of the warehouse facilities provide a mechanism for managing the lending activities of the SPE, and ensure that all outstanding principal and interest is paid at the end of each reporting period. Similarly, the SPE-RMBS are subject to external requirements imposed by the bondholders and the rating agencies. The terms of the RMBS transactions provide a mechanism for ensuring that all outstanding principal and interest is paid at the end of each reporting period. There were no breaches in the current period.

AFG Securities Pty Ltd and AFG Property Pty Ltd are subject to externally imposed minimum capital requirements by the Australian Securities and Investments Commission (ASIC) in accordance with the conditions of their Australian Financial Services Licence. There was no breach of the requirements for the year ended 30 June 2014.

6. Revenue

In thousands of AUD	**2014**	**2013**
Commissions	341,635	280,181
Interest on commission income receivable	49,185	47,177
Mortgage management services	1,584	2,802
Property development services	1,561	1,645
Securitisation transaction fees	786	419
	394,751	332,224

7. Other income

In thousands of AUD	**2014**	**2013**
Sponsorship and performance bonus income	4,425	3,541
Software licence fees	1,540	1,459
Professional indemnity insurance	1,556	1,405
Fees for services	2,775	2,463
Other	574	1,010
	10,870	9,878

8. Other expenses

In thousands of AUD	Note	2014	2013
Advertising and promotion		2,965	2,744
Consultancy and professional fees		1,813	1,374
Information technology		2,788	2,391
Occupancy costs		377	507
Employee costs	9	23,141	22,553
Depreciation and amortisation		1,141	872
Operating lease costs		1,978	2,095
(Reversal of) /impairment loss on receivables		(42)	29
Net loss on disposal of property, plant and equipment		3	2
		34,164	32,567

9. Employee costs

In thousands of AUD	2014	2013
Wages and salaries	15,700	15,503
Other associated personnel expenses	5,529	4,882
Change in liability for long service leave	(80)	46
Change in liabilities for annual and sick leave	(8)	91
Termination benefits	364	454
Superannuation	1,636	1,577
	23,141	22,553

10. Auditors' remuneration

In AUD	2014	2013
Audit services		
Amounts due and receivable for:		
Audit of the financial report of the Group and other entities of the Group		
Ernst & Young	154,293	106,610
Other auditors	2,125	1,880
	156,418	108,490
Other services		
Other assurance services - Ernst & Young	64,803	35,000
	64,803	35,000

11. Finance income and expenses

Recognised in profit or loss

In thousands of AUD	2014	2013
Interest income on loans and receivables	1,621	98
Interest income on bank deposits	2,089	2,634
Net foreign exchange gain	(41)	(10)
Finance income	3,669	2,722
Net change in fair value of financial assets designated at fair value through profit or loss	3	(16)
Interest expense on loans and borrowings	(198)	-
Interest on loans from funders	(123)	(154)
Unwind of discount on leave provisions	(9)	-
Finance expense	(327)	(170)
Net finance income and expense	3,342	2,552
The above financial income and expense include the following in respect of assets (liabilities) (not at fair value through profit or loss):		
Total interest income on financial assets	3,710	2,732
Total interest expense on financial liabilities	(123)	(154)

11. Finance income and expenses (continued)

Recognised in other comprehensive income

In thousands of AUD	2014	2013
Net change in fair value of available-for-sale financial assets	15	-
Tax on net change in fair value of available-for-sale financial assets	(5)	-
Finance income recognised in other comprehensive income, net of tax	10	-

Other finance income and expenses

Revenue includes the interest income of $49,185 thousand (2013: $47,177 thousand) from the unwinding of the discount in relation to the net present value of future trailing commission receivable. Refer to note 6 and 14. Cost of sales includes the interest expense from the unwinding of the discount in relation to the net present value of future trailing commission payable of $43,534 thousand (2013: $41,314 thousand).

12. Income tax expense

Current tax expense

In thousands of AUD	2014	2013
Income tax recognised in profit or loss		
Current tax expense		
Current period	7,324	6,411
Adjustments for prior periods	(310)	374
	7,014	6,785
Deferred tax expense		
Origination and reversal of temporary differences	1,081	580
	1,081	580
Income tax from continuing operations	8,095	7,365
Total income tax expense	8,095	7,365

	2014	2013
Income tax recognised in other comprehensive income		
Unrealised gain/(loss) on available-for-sale financial assets	5	-
Income tax charged directly to other comprehensive income	5	-

Numerical reconciliation between tax expense and pre-tax accounting profit

In thousands of AUD	2014	2013
Profit for the period	17,869	15,259
Total income tax expense	8,095	7,365
Profit excluding income tax	25,964	22,624
Income tax using the Company's domestic tax rate of 30% (2013: 30%)	7,789	6,787
Non-deductible expenses	616	550
Prior year temporary differences		-
Under provision in prior periods	(310)	28
	8,095	7,365

13. Cash and cash equivalents

(a) Cash and cash equivalents

In thousands of AUD	2014	2013
Cash at bank	36,884	45,490
Short term deposits	4,678	1,148
Cash collections accounts[1]	26,602	10,637
Restricted cash[2]	7,858	7,870
Cash and cash equivalents	76,022	65,145
Cash and cash equivalents in the Statement of Cash Flows	76,022	65,145

(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 and cash provided in trust by the warehouse providers to fund pending settlements.

The effective interest rate on at short term deposits in 2014 was 3% (2013: 4.57%). The deposits had an average maturity of 414 days (2013: 90 days).

Cash and cash equivalents include cash in Collections Account held in the SPE-RMBS on behalf of the bondholders and is not available for use by the shareholders.

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

(b) Reconciliation of cash flows from operating activities

In thousands of AUD	Note	2014	2013
Cash flows from operating activities			
Profit for the period		17,869	15,259
Adjustments for:			
Depreciation	20	935	677
Amortisation of intangible assets	21	206	195
Loss on sale of property, plant and equipment	8	3	2
Non cash movement in impairment losses on receivables	8	(42)	29
Net change in the fair value of financial assets designated at fair value through profit or loss	11	(3)	16
Net interest income from investing activities		(3,586)	(1,504)
Net interest expense on financing activities		198	-
Share of (profit) / loss of equity accounted investees	18	(256)	721
Unwind of discount on leave provisions		9	-
Net present value of future trailing commission income		(61,411)	(49,454)
Net present value of future trailing commission expense		59,067	46,878
		12,989	12,819
Changes in assets and liabilities			
Increase/(Decrease) in trade and other receivables		831	(344)
Increase in prepayments		(406)	(214)
Increase/(Decrease) in trade and other payables		5,210	(1,540)
Increase/(Decrease) in inventories		(10,240)	(6,783)
Increase/(Decrease) in deferred income		345	1,509
Increase/(Decrease) for employee entitlements		(98)	(552)
Increase/(Decrease) in provisions		(558)	(359)
Increase/(Decrease) in tax provision		519	(1,648)
Increase in securitisation lending		(214,476)	(539,397)
Increase in warehouse facility		(259,427)	283,636
Increase/(Decrease) in bondholders loan		482,739	258,568
Net cash from operating activities		17,428	5,695

14. Trade and other receivables

In thousands of AUD	2014	2013
Current		
Trade receivables	582	208
Other trade receivables	221	68
Accrued income	849	1,381
	1,652	1,657
Net present value of future trailing commissions receivable[1]	95,281	85,473
Prepayments	3,173	2,795
	100,106	89,925
Non-current		
Net present value of future trailing commissions receivable[1]	415,635	364,031
	415,635	364,031
	515,741	453,956

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

Trade and other receivables are shown net of a provision for impairment of $2 thousand (2013: $17 thousand).

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

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

15. Loans and advances

Current

In thousands of AUD	2014	2013
Securitised assets[1]	168,972	130,566
Other secured loans[2]	1,140	47
Redeemable preference shares (RPS)[3]	7,290	-
	177,402	130,613

Non-current

In thousands of AUD	2014	2013
Securitised assets[1]	836,813	660,743
Capitalised origination cost	4,877	5,706
Other secured loans[2]	1,329	1,750
Redeemable preference shares (RPS)[3]	4,808	6,075
Less: Provision for impairment[4]	(38)	(55)
	847,789	674,219
	1,025,191	804,832

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

(2) Other secured loans include:

i. Loans and advances to Members secured over future trailing commissions' payable to the member and in some cases personal guarantees. Interest is charged on average at 9.42% p.a (2013:10.77% p.a).

ii. Loan and advances to McCabe St Limited are secured over its land and assets. Interest is charged on average at 5.01% p.a (2013: 5.38% p.a).

(3)

i. During the year the Group acquired $4.5 million RPS in Harold Developments Pty Ltd for the amount of $4.5 million. The RPS are mandatorily redeemable at their face amount and at a determinable date, no later than 9 years from issue, and provide an annual fixed rate of return of 20%. During 2014 the accrued interest recognised in the profit or loss amounted to $1,598 thousand (2013: $75 thousand). Accrued interest is payable on redemption of the RPS.

ii. During 2013 the Group acquired 6 million RPS for the amount of $6 million. The RPS are redeemable on completion of the projects at the face amount and at determinable date, and provide an annual fixed rate of return of 20% calculated daily and compounded annually. During 2014 the accrued interest recognised in the profit or loss amounted to $1,215 thousand (2013: $75 thousand). Accrued interest is payable on redemption of the RPS.

(4) Refer to note 30(a)(ii) for the split between collective and individual provision.

15. Loans and advances (continued)

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

At the end of the reporting period, the balance of the Group's non-current loans and advances includes a provision for impairment of $38 thousand (2013: $55 thousand).

During the financial year, new loans issued in the Group's securitisation programme were $412,398 thousand (2013: $636,326).

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

16. Inventories

In thousands of AUD	2014	2013
Current		
Finished development stock held for sale	-	1,360
Inventories carried at lower of cost and net realisable value	-	1,360
Non-current		
Development work in progress	24,442	8,155
Inventories carried at lower of cost and net realisable value	24,442	8,155
	24,442	9,515

17. Other financial assets

In thousands of AUD	2014	2013
Current		
Financial assets designated at fair value through profit or loss	22	20
	22	20
Non-current		
Available-for-sale financial assets	46	31
Long term deposits	128	-
	174	31
	196	51

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

Net change in the fair value of available-for-sale financial assets of $15 thousand has been recognised in 2014 (2013: nil).

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

18. Investments in equity-accounted investees

The Group has a 35.8% (2013: 40%) interest in Qube Havelock Street Development Pty Ltd (Qube), an associate involved in the property development and management of real estate. The Group's interest in Qube is accounted for using the equity method in the consolidated financial statements.

During the year ended 30 June 2014 the Group received dividends of $340 thousand from its investments in equity-accounted investees (2013: nil).

During the year ZincFinance Pty Ltd disposed of all its assets and liabilities and ceased trading. The carrying amount of the Group's investment in this joint venture was subsequently written off to the Statement of Comprehensive Income.

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

The Group's share of profit in its equity-accounted investees for the year was $256 thousand (2013: loss of $721 thousand), and the carrying amount was $2,674 thousand (2013: $3,224 thousand).

18. Investments in equity-accounted investees (continued)

Summary of financial information for equity-accounted investees, based on their Australian Accounting Standards financial statements, are set out below:

2014

In thousands of AUD	Reporting date	Ownership	Total assets	Total liabilities	Income	Expenses	Profit / (Loss)	Group share of net assets	Group share of Profit/(loss
ZincFinance Pty Ltd[1]	30 June	0%	-	-	-	1	(1)	-	-
Qube [2]	30 June	35.8%*	27,849	20,230	2,534	1,747	787	2,727	256
			27,849	20,230	2,534	1,748	786	2,727	256

* The Group's interest in Qube decreased to 35.8% on 1 August 2013.

2013

In thousands of AUD	Reporting date	Ownership	Total assets	Total liabilities	Income	Expenses	Loss	Group share of net assets	Group share of loss
ZincFinance Pty Ltd[1]	30 June	50%	931	-	64	634	(570)	465	(285)
Qube Havelock Street Development Pty Ltd [2]	30 June	40%	25,655	18,808	340	1,431	(1,091)	2,739	(436)
			26,586	18,808	404	2,065	(1,661)	3,204	(721)

(1) Joint Venture
(2) Associate

19. Tax assets and liabilities

(a) Current tax assets and liabilities

The current tax liability for the Group of $211 thousand (2013: $769 thousand) represents the amount of income taxes payable in respect of current and prior financial periods.

(b) Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
In thousands of AUD	2014	2013	2014	2013	2014	2013
Property, plant and equipment and intangibles	-	(35)	189	-	189	(35)
Trade and other receivables	(1,045)	(1,045)	153,328	134,862	152,283	133,817
Revaluation of available-for-sale-investments to fair value	-	-	5	-	5	-
Employee benefits	(2,983)	(3,395)	-	-	(2,983)	(3,395)
Trade and other payables	(136,094)	(117,959)	-	-	(136,094)	(117,959)
Other items	(13)	(87)	92	57	79	(30)
Tax (assets) / liabilities	(140,135)	(122,521)	153,614	134,919	13,479	12,398
Set off of tax	140,135	122,521	(140,135)	(122,521)	-	-
Net tax (assets) / liabilities	-	-	13,479	12,398	13,479	12,398

20. Property, plant and equipment

In thousands of AUD	Plant and equipment	Fixtures and fittings	Total
Cost			
Balance at 1 July 2012	4,500	1,655	6,155
Additions	488	3,111	3,599
Disposals	(174)	(1,048)	(1,222)
Balance at 30 June 2013	4,814	3,718	8,532
Balance at 1 July 2013	4,814	3,718	8,532
Additions	274	105	379
Disposals	(101)	(118)	(219)
Balance at 30 June 2014	4,987	3,705	8,692
Depreciation			
Balance at 1 July 2012	4,130	991	5,121
Depreciation charge for the year	603	74	677
Disposals	(1,220)	-	(1,220)
Balance at 30 June 2013	3,513	1,065	4,578
Balance at 1 July 2013	3,513	1,065	4,578
Depreciation charge for the year	923	12	935
Disposals	(98)	(117)	(215)
Balance at 30 June 2014	4,338	960	5,298
Carrying amounts			
At 30 June 2013	1,301	2,653	3,954
At 30 June 2014	649	2,745	3,394

21. Intangible assets

In thousands of AUD	Software development
Cost	
Balance at 1 July 2012	9,623
Acquisitions – internally developed	478
Balance at 30 June 2013	10,101
Balance at 1 July 2013	10,101
Acquisitions	286
Retirements	(73)
Balance at 30 June 2014	10,314
Amortisation	
Balance at 1 July 2012	9,154
Amortisation for the year	195
Balance at 30 June 2013	9,349
Balance at 1 July 2013	9,349
Amortisation for the year	206
Retirements	(73)
Balance at 30 June 2014	9,482
Carrying amounts	
At 30 June 2013	752
At 30 June 2014	832

22. Trade and other payables

In thousands of AUD

	Note	2014	2013
Current			
Net present value of future trailing commissions payable	4	84,550	75,097
Other trade payables		44,193	37,450
Non-trade payables and accrued expenses		2,861	3,270
		131,604	115,817
Non-current			
Net present value of future trailing commissions payable		370,697	321,082
		370,697	321,082
		502,301	436,899

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

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

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

23. Interest-bearing liabilities

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

Current

In thousands of AUD	2014	2013
Securitisation warehouse facilities	281,316	540,852
Loans from funders	601	758
Secured bond issues	125,894	42,664
Secured bank loans	-	3,273
	407,811	587,547

Non-current

In thousands of AUD	2014	2013
Secured bond issues	613,561	215,072
Secured bank loans	8,205	-
Loans from funders	1,010	1,618
Redeemable preference shares (RPS)	4,098	
	626,874	216,690
	1,034,685	804,237

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

	2014				2013			
In thousands of AUD	Nominal interest rate	Year of maturity	Face value	Carrying amount	Nominal interest rate	Year of maturity	Face value	Carrying amount
Warehouse facilities	4.12%	2015	281,469	281,316	4.32%	2014	540,897	540,852
Loans from funders	6.25%	2015-2018	1,611	1,611	6.31%	2014-2018	2,376	2,376
Secured bond issues	3.60%	2015-2019	741,308	739,455	4.22%	2014-2018	258,569	257,736
Secured bank loans	3.94%	2015-2017	8,205	8,205	3.20%	2014	3,273	3,273
Redeemable preference shares	15.00%	2017	4,098	4,098			-	-
			1,036,691	1,034,685			805,115	804,237

23. Interest-bearing liabilities (continued)

(a) Secured bank loans

During the year additional debt facilities (secured bank loans) were obtained to fund the development of the land owned by AFG Developments Pty Ltd and AFG Developments 2 Pty Ltd (Land). As at balance sheet date total debt facilities was $56,190 thousand (2013: $3,273 thousand) with an unused amount of $48,113 (2013: nil).The pledged security includes: first registered mortgage over the Land and first registered general security over the assets and undertakings of the two subsidiaries. Furthermore, the Parent entity provided a project performance guarantee limited to $5 million.

The secured bank loans contain covenants in respect of the value of secured property and the loan advance against the development costs (Loan to Value Ratio and Loan to Cost Ratio). Breaches in meeting the financial covenants would see the Group repaying the shortfall sufficient to the lenders satisfaction, or alternatively provide additional security or cash equity. There have been no breaches in the financial covenants of any interest-bearing loans and borrowings in the current period.

The carrying amount of the inventories relating to the development of the Land, including the Land, is $24,443 thousand (2013: 8,155 thousand).

(b) Redeemable preference shares

During the year AFG Property Investment No.1 Pty Ltd issued 4,500 thousand fully paid $1 redeemable preference shares (RPS) to sophisticated investors (2013: nil), with 600 thousand RPS acquired by the Parent entity. The funds raised were used to subscribe for redeemable preference shares in Harold Developments Pty Ltd (Developer) to enable it to acquire land and develop it (see Note 15). The RPS are mandatorily redeemable at their face amount and at determinable date upon the redemption of the preference shares subscribed to by the Group in the Developer, however no later than 9 years from issue. The RPS provide an annual fixed rate of return of 15%.

The rights attached to the RPS include: the right to receive a fixed cumulative preferential dividend at the specified rate, priority over all other classes of shares on a reduction of capital or winding up of the issuer, and no right to share in the remaining assets of the Developer on winding up.

During 2014 the accrued interest recognised in the profit or loss amounted to $198 thousand (2013: Nil). Accrued interest is payable on redemption of the RPS.

(c) Warehouse and secured bond issues

The carrying amount of the collaterals pledged as security for the warehouse facility and the secured bond issues is $1,779,647 thousand (2013: $1,335,226 thousand).

i. Warehouse facilities

The warehouse facilities provide funding for the financing of loans and advances to customers within the SPE and its Series.

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

Borrowings are secured against residential properties only, and each mortgage is covered by a lender's mortgage insurance contract which covers 100% of the principal of the loan. The carrying amount of the collaterals pledged as security is $487,331 thousand (2013: $895,452 thousand).

During the financial year there were no breaches to the agreement that permitted the warehouse facility provider to demand payment of the outstanding value.

As at the reporting date the unutilised securitisation warehouse facility for all Series is $214,031 thousand (2013: $152,603 thousand).

After the balance sheet date the Group secured an extension to the term of the residential warehouse facility that was due to expire in 9 September 2014 to 14 August 2015.

Liquidity facility

The Liquidity facility is established by the warehouse facility providers to temporarily fund any excess amount of interest, fees and any other charges which may accrue from the date of cash flows calculation to the date of cash flows payment. As at the reporting date the unutilised facility is $4,960 thousand (2013: $16,000 thousand).

23. Interest-bearing liabilities (continued)

ii. Secured bond issues

SPE-RMBS were established to provide funding for loans and advances (securitised assets) originated by AFG Securities Pty Ltd. The 2013 and 2014 bond issues have a legal final maturity of 31.5 years from issue, and a weighted average life of up to 5 years. The security for loans and advances under this facility is a combination of fixed and floating charges over all assets of the SPE-RMBS. Importantly, all residential mortgages are covered by a lender's mortgage insurance contract which covers 100% of the principal of the loan. The carrying amount of the collaterals pledged as security is $1,292,316 thousand (2013: 439,773 thousand).

Under the current trust terms, a default by the borrowers will not result in the bondholders having a right of recourse against the Group (as Originator, Trust Manager or Servicer). The interest is recognised at an effective rate 3.6% (2013: 4.22%).

Liquidity facility

Various mechanisms have been put in place to support liquidity within the transaction to support timely payment of interest, including

- principal draws which are covered by Redraw Notes for redraws that cannot be covered by normal collections (available principal),
- a liquidity facility between 1% and 1.3% of the initial invested amount of all notes,
- $150 thousand Reserve Account which is an Extraordinary Expense Ledger account, and
- Available income.

Additional credit support includes subordinated credit enhancement held by the Group (unrated Class C Notes) which had an aggregate initial invested amount of $2,750 thousand (2013: $1,500 thousand).

During the financial year there were no breaches to the terms of the SPE-RMBS that gave right to the bondholder to demand payment of the outstanding value.

(d) Loans from funders

Some of the upfront commissions received from specific funders at the point of loan origination are refunded by the Group via reduced ongoing management fees over a period of 5 years. The Group recognises the upfront commission from these funders as a loan, and interest is charged on this facility by the funders. The principal and interest will be paid back over the 5 year period. Interest is recognised at an effective rate of 6.25% (2013: 6.31%).

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

(e) Other finance facilities

In thousands of AUD	**2014**	**2013**
Standby facility	600	200
Bank guarantee facility	1,380	500
	1,980	700
Facilities utilised at reporting date		
Standby facility	122	-
Bank guarantee facility	693	492
	815	492
Facilities not utilised at reporting date		
Standby facility	478	200
Bank guarantee facility	687	8
	1,165	208

The facilities are subject to annual review.

23. Interest-bearing liabilities (continued)

(f) Performance guarantee

During the year the Group has provided a performance guarantee to AFG Developments Pty Ltd debt facility provider of $5 million in relation to the due performance of Richmond Quarter development project (Project). In the event that the Project's costs exceed the facility obtained from the funder of $51,510 thousand and the equity contributed to the project, the Group is obligated to pay for the cost overrun that the Bank will not meet from the loan. In the event of the Group failing to meet its obligations in respect of the cost overrun, or should there be any default on the loan repayment, the funder on demand will request the payment of the guarantee up to a limit of $5 million. In view of the timely progress of the project, the fixed price nature of the construction contract and the presales secured at balance sheet date, the Group expects to meet all of its obligations under the terms of facility. Accordingly, no provision for any liability has been made in these financial statements.

24. Employee benefits

In thousands of AUD	2014	2013
Current		
Salaries and wages accrued	739	816
Liability for sick leave	30	20
Liability for long service leave	944	889
Liability for annual leave	909	927
	2,622	2,652
Non Current		
Liability for long-service leave	350	485
	350	485
	2,972	3,137

25. Share based payments

(a) Options

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

No options were issued to key management personnel or employees during 2014 (2013: Nil).

(b) Employee share scheme

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

With respect to the share scheme:

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

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

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

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

25. Share based payments (continued)

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

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

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

No amount was expensed to employee expenses for the fair value of shares issued under the terms of the Employee Share Scheme in 2014 (2013: Nil).

No shares were bought back during the financial year from ex-employees, as allowed under the terms of the Scheme (2013: NIL).

26. Provisions

In thousands of AUD	Terminated members	Make good	Legal	Total
Balance at 1 July 2013	613	80	250	943
Provision made during the period	9	20	-	29
Provision reversed during the period	(553)	(34)	-	(587)
Balance at 30 June 2014	69	66	250	385
Current	69	-	250	319
Non-current	-	66	-	66
	69	66	250	385

Provision for terminated members

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

Provision for make good

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

Legal

A provision for the Group's liability in respect of the excess and the related legal costs on a litigation claim that is expected to be fully indemnified by the insurer.

27. Deferred income

Current

In thousands of AUD	**2014**	**2013**
Sponsorship income	2,182	1,736
Lease incentives	1,083	1,311
Unearned professional indemnity insurance	1,034	908
	4,299	3,955

28. Other financial liabilities

Non-current

In thousands of AUD	**2014**	**2013**
Secured non-interest bearing loans	4,690	-
	4,690	-

The Group has an obligation of $4,690 thousand payable to a terminated joint operator of Richmond Quarter project (Project). The loan, which is repayable on completion of the Project, was obtained to facilitate the acquisition of 30% of the land and interest in the Project that was previously held by the joint operator. This has effectively resulted in the Group securing 100% ownership of the land and all the undertakings of the Project. The loan is non-interest bearing loan and is expected to be repaid in full, in accordance with the terms of Deed of Termination of Joint Venture Agreement, on the earlier of 30 June 2016, 30 months after 30 September 2014, and 6 months after the registration of the strata plan and the issuing of the titles of the project.

29. Capital and reserves

(a) Share capital

The Company

	Ordinary shares ('000)	
In thousands of shares	**2014**	**2013**
On issue at 1 July	93,340	93,340
Issued for cash or nil consideration	-	-
On issue at 30 June – fully paid	93,340	93,340

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid and rank equally with regard to the Company's residual assets.

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

(b) Translation reserve

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

(c) Fair value reserve

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

29. Capital and reserves (continued)

(d) Dividends

Dividends paid in the current year by the Group are:

	Cents per share	Total amount ($'000)	Franked / unfranked	Date of payment
2014				
Final 2013 ordinary	3.21	3,000	Franked	05/07/13
1st interim 2014 ordinary	4.82	4,500	Franked	29/11/13
2nd interim 2014 ordinary	4.29	4,000	Franked	30/05/14
		11,500		
2013				
Final 2012 ordinary	6.43	6,000	Franked	04/07/2012
1st interim 2013 ordinary	3.21	3,000	Franked	07/12/2012
2nd interim 2013 ordinary	3.21	3,000	Franked	26/02/2013
		12,000		

After 30 June 2014 the following dividends were declared and paid. The dividends have not been provided for in the financial statements and there are no income tax consequences.

	Cents per share	Total amount ($'000)	Franked / unfranked	Date of payment
Final 2014 ordinary		10,000	Franked	06/10/2014
		10,000		

Dividends declared or paid during the year or after 30 June 2014 were franked at the rate of 30%.

In thousands of AUD	**2014**	**2013**
Dividend franking account	21,223	19,867
30 per cent franking credits available to shareholders of Australian Finance Group Limited for subsequent financial years	70,744	66,223

The ability to utilise the franking credits is dependent upon the ability to declare dividends. In accordance with the tax consolidation legislation, the Company as the head entity in the tax-consolidated group has also assumed the benefit of $70,744 thousand (2013: $66,223 thousand) franking credits.

30. Financial instruments

(a) Credit risk

Exposure to credit risk

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

30. Financial instruments (continued)

(a) Credit risk (continued)

(i) Trade and other receivables

Exposure to credit risk

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

In thousands of AUD	Carrying amount 2014	2013
Type of customer		
Financial institutions	511,744	450,469
Members	147	81
Other	676	612

All outstanding trade and other receivables are with customers located within Australia. The amounts owing from financial institutions include the net present value of trailing commissions' receivable of $510,916 thousand (2013: $449,504 thousand).

The majority of the Group's net present value of future trailing commission receivable is from counterparties that are rated between AA+ and A-. The following table provides information on the credit ratings at the reporting date according to the Standard & Poor's counterparty credit with AAA and BBB being respectively the highest and the lowest possible ratings.

In thousands of AUD	Current 2014	Non Current 2014
Standard & Poor's Credit rating		
AA+	19	85
AA-	65,430	285,418
A+	1,213	5,292
A	13,120	57,234
A-	429	1,871
BBB+	35	151
BBB	316	1,380
BB+	259	1,130
Not rated	14,460	63,074
	95,281	415,635

In thousands of AUD	Current 2013	Non Current 2013
Standard & Poor's Credit rating		
AA+	30	128
AA-	59,685	254,200
A+	1,042	4,440
A	11,087	47,220
A-	7	30
BBB+	40	170
BBB	185	787
BBB-	111	470
BB+	220	936
Not rated	13,066	55,650
	85,473	364,031

30. Financial instruments (continued)

(a) Credit risk (continued)

(i) Trade and other receivables (continued)

Impairment losses

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

In thousands of AUD	Gross 2014	Impairment allowance 2014	Gross 2013	Impairment allowance 2013
Not past due	1,070	-	1,507	-
Past due 0-30 days	75	-	64	-
Past due 30-60 days	1	(1)	14	(7)
Past due more than 61 days	508	(1)	89	(10)
	1,654	(2)	1,674	(17)

During the year ended 30 June 2014 the Group has not renegotiated or entered into any agreement to renegotiate a trade receivable that would otherwise be past due or impaired.

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

During 2014 and 2013 there were no individual impairment allowances raised. The movement in the allowance for collective impairments in respect of trade and other receivables during the year was as follows:

In thousands of AUD	2014	2013
Balance at 1 July	17	14
Impairment loss recognised	-	3
Amounts written off or	(15)	-
Balance at 30 June	2	17

(ii) Loans and advances

Exposure to credit risk

The Group's maximum exposure to credit risk for loans and advances at the reporting date by customer type are summarised as follows:

	Carrying amount	
In thousands of AUD	2014	2013
Customer type		
Residential mortgage borrowers	1,010,624	796,960
Members	2,330	1,797
Other	12,236	6,075
	1,025,190	804,832

Residential mortgage borrowers

The Group minimises credit risk by obtaining security over residential mortgage property for each loan. The estimated value of collaterals held at balance date was $1,779,647 thousands (2013: 1,335,226 thousands). During the year ended 30 June 2014 the Group has taken possession of 4 residential properties that were held as security for loans issued by the Group. The carrying amount of the repossessed residential property was $1,796 thousand (2013: $200 thousand). One property has been sold before the end of the financial year, and the outstanding loan has been repaid by our lender's mortgage insurance, except for an expected shortfall of $17k which was provided for during the year.

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

30. Financial instruments (continued)
(a) Credit risk (continued)
(ii) Loans and advances (continued)

The table below summarises the Group exposure to residential mortgage borrowers by LVR, with the valuation used determined as at the time of settlement of the individual loan.

In thousands of AUD	Carrying amount 2014	2013
Loan to value ratio		
Greater than 95%	-	367
Between 90%-95%	52,550	57,668
Between 80%-90%	166,199	127,579
Less than 80%	787,036	605,695
	1,005,785	791,309

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

Impairment Losses

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

In thousands of AUD	Gross 2014	Impairment allowance 2014	Gross 2013	Impairment allowance 2013
Not past due	1,020,944	-	802,002	(1)
Past due 31-120 days	2,910	-	2,259	(14)
Past due 121 days to one year	1,211	(20)	617	(31)
Past due more than one year	163	(18)	9	(9)
	1,025,228	(38)	804,887	(55)

The impairment loss provision as at 30 June 2014 of $38 thousand (2013: $55 thousand) is a specific provision for loans that are past due.

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

In thousands of AUD	Individual	Collective
Balance at 1 July 2012	8	8
Charge for the year	46	-
Utilised	-	-
Unused amounts reversed	-	(7)
Balance as at 30 June 13	54	1
Balance as at 1 July 2013	54	1
Charge for the year	1	-
Utilised	-	-
Unused amounts reversed	(17)	(1)
Balance at 30 June 14	38	-

Securitisation loans

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

The SPE-RMBS loans and advances: Under the current trust terms, a default by the borrowers will not result in the bond holders having a right of recourse against the Group (as Originator, Trust Manager or Servicer). Importantly, all residential mortgages are covered by a lender's mortgage insurance contract which covers 100% of the principal.
The Group's maximum exposure is the loss of future interest income on its Class C Notes investment.

No impairment loss was recognised during 2014 (2013: NIL).

30. Financial instruments (continued)

(a) Credit risk (continued)

(ii) Loans and advances (continued)

Redeemable preference shares

All the RPS were acquired to enable a reputable property developer to fund property projects. The Group limits its exposure to credit risk by only investing in counterparties that are creditworthy with an extensive past experience in property development, and by obtaining sufficient collateral or other security where appropriate and a higher ranking than ordinary shareholders in any proceeds' distribution. All RPS are mandatorily redeemable and a failure to redeem the RPS within the agreed term will see the counterparties liable to indemnify the Group for the shortfall through either sale of their assets, or any other means in accordance with the agreed terms.

As at the balance sheet date all the property projects are on track to agreed key targets in terms of sales, budget and completion date. The Group does not expect any counterparty to fail to meet its obligations in full when due.

The likelihood of an exposure by the Group to credit risk for the RPS is assessed to be minimal.

No impairment loss was recognised during 2014 (2013: NIL).

Other secured loans

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

No impairment loss was recognised during 2014 (2013: NIL).

(b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Board of Directors reviews the cash flows' rolling forecast on a monthly basis to ensure that the level of its cash and cash equivalents is at an amount in excess of expected cash outflows over the succeeding months. Excess funds are generally invested in at call bank accounts with maturities of less than 90 days. Within the special purpose entities the Group also maintains sufficient cash reserves to fund redraws and additional advances on existing loans. As stated in note 23, the Group has unused warehouse facilities at the reporting date.

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

2014

In thousands of AUD	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Redeemable preference shares	4,098	5,075	-	-	5,075	-	-
Securitisation warehouse facilities	281,316	287,273	111,522	175,751	-	-	-
Secured bond issues	739,455	765,744	63,626	63,626	107,745	530,747	-
Secured bank loans	8,205	8,773	161	160	8,452	-	-
Loans from funders	1,611	1,725	320	300	540	565	-
Net present value of future trailing commissions payable	455,247	615,784	64,378	61,656	110,313	227,851	151,587
Trade and other payables	47,054	47,054	47,054	-	-	-	-
	1,536,986	1,731,428	287,061	301,493	232,125	759,163	151,587

2013

	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Securitisation warehouse facilities	540,852	552,589	552,589	-	-	-	-
Secured bond issues	257,736	260,975	21,783	21,783	37,129	180,280	-
Secured bank loans	3,273	3,307	3,307	-	-	-	-
Loans from funders	2,376	2,562	418	364	698	1,082	-
Net present value of future trailing commissions payable	396,179	544,907	58,203	55,088	97,613	199,334	134,668
Trade and other payables	40,720	40,720	40,570	150	-	-	-
	1,241,136	1,405,060	676,870	77,385	135,440	380,696	134,668

30. Financial instruments (continued)
(b) Liquidity risk (continued)

The obligation in respect of the net present value of future trailing commission only arises if and when the Group receives the corresponding trailing commission revenue from the lenders.

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

Securitisation warehouse facilities

The warehouse facilities are short term funding facilities that are generally renewable annually. Post balance sheet date the Group has extended the term of the warehouse facility that was due to expire on 6 September 2014 to 14 August 2015. If the warehouse facility is not renewed or should there be a default by the trustee under the existing terms and conditions, the warehouse facility funder will not have a right of recourse against the remainder of the Group. Should the warehouse facility not be renewed then the maximum exposure to the group would be the loss of future income streams from excess spread, being the difference between the group's mortgage rate and the underlying cost of funds.

Secured bond issues

The securities are issued by the SPE-RMBS with an expected weighted average life of 5 years. They are a pass through type of securities that may be repaid early (at the call date) by the issuer (the Group) in certain circumstances. The above maturity assumes that the securities will be paid at their respective maturity dates and that the Group will not opt to repay the securities at the call date.

The Directors are satisfied that the Group’s ability to continue as a going concern will not be affected.

For terms and conditions relating to trade payables and net present value of future trailing commissions payable refer to notes 4 and 22.

(c) Market risk
(i) Currency risk

Exposure to currency risk

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

Fluctuations in the foreign currencies are not expected to have material impact on the Statement of Comprehensive Income and equity of the Group and have therefore not formed part of the disclosures.

(ii) Interest rate risk

Profile

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

	Carrying amount	
In thousands of AUD	**2014**	**2013**
Fixed rate instruments		
Financial assets	525,482	457,377
Financial liabilities	459,345	396,179
	66,137	61,198
Variable rate instruments		
Financial assets	1,086,646	862,105
Financial liabilities	1,030,587	804,237
	56,059	57,868

The Group’s main interest rate risk arises from the securitised assets, cash deposits and interest bearing liabilities. All the Group’s borrowings are issued at variable rates, however the vast majority pertains to the warehouse facility which is arranged as a ‘pass through’ facility, and therefore the exposure to the interest rate risk is mitigated by passing any rate increases onto the borrowers.

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

Due to the market conditions existing at 30 June 2014, the Group does not expect that interest rates will move in excess of 100 basis points (bps) from current conditions in the next reporting period. This has therefore formed the basis for the sensitivity analysis.

30. Financial instruments (continued)

(c) Market risk

(ii) interest rate risk

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2013.

Effect in thousands of AUD	After tax profit 100bp increase	After tax profit 100bp decrease	Equity 100bp increase	Equity 100bp decrease
30 June 2014				
Variable rate financial assets	7,209	(7,209)	7,209	(7,209)
Variable rate financial liabilities	3,233	(3,243)	3,233	(3,243)
Cash flow sensitivity (net)	3,976	(3,966)	3,976	(3,966)
30 June 2013				
Variable rate financial assets	4,226	(4,226)	4,226	(4,226)
Variable rate financial liabilities	2,620	(3,924)	2,620	(3,924)
Cash flow sensitivity (net)	1,606	(302)	1,606	(302)

(iii) Prepayment risk

Net present value of future trailing commissions receivable and payable

Exposure to prepayment risk

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

Sensitivity analysis

Management have engaged the use of actuaries for the purposes of reviewing the run-off rate of the loans under management. Management does not expect the run-off rate to change in excess of 4% positive or 4% negative of the rates revealed from the actuarial analysis. The change estimate is calculated based on historical movements of the prepayment rate.

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

In thousands of AUD	2014 +4%	2014 -4%	2013 +6%	2013 -6%
After tax profit	(1,138)	1,182	(1,625)	1,717
Equity	(1,138)	1,182	(1,625)	1,717

Securitised assets

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

(iv) Equity price risk

Exposure to equity price risk

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

At 30 June 2014 an increase in the fair value of financial assets designated at fair value through profit or loss of $2 thousand (2013: $16 thousand decrease) was recognised.

30. Financial instruments (continued)
(c) Market risk (continued)

(v) Other market risks

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

(d) Accounting classifications and fair values

Fair values versus carrying amounts

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

In thousands of AUD	*Note*	2014 Carrying amount	2014 Fair value	2013 Carrying amount	2013 Fair value
Assets carried at fair value					
Financial assets designated at fair value through profit or loss	17	22	22	20	20
Available-for-sale financial assets	17	46	46	31	31
Assets carried at amortised cost					
Cash and cash equivalents	13(a)	76,022	76,022	65,145	65,145
Trade and other receivables	14	512,568	512,568	451,161	451,161
Loans and advances	15	1,025,191	1,025,191	804,832	804,832
Other financial assets	17	128	128	-	-
Liabilities carried at amortised cost					
Trade and other payables	22	(502,301)	(502,301)	(436,899)	(436,899)
Interest-bearing liabilities	23	(1,034,685)	(1,034,685)	(804,237)	(804,237)
Other financial liabilities	28	(4,690)	(4,690)	-	-
		72,301	72,301	80,053	80,053

Fair value hierarchy

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

The different levels have been defined as follows:

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

Effect in thousands of AUD	Fair value measurement at end of the reporting period using : Level 1	Level 2	Level 3	Total
30 June 2014				
Available-for-sale financial assets	-	-	46	46
Financial assets designated at fair value through profit or loss	22		-	22
	22	-	46	68
30 June 2013				
Available-for-sale financial assets	-	-	31	31
Financial assets designated at fair value through profit or loss	20	-	-	20
	20	-	31	51

There have been no transfers between levels during the year ended 30 June 2014 (2013: no transfers in either direction).

30. Financial instruments (continued)

(d) Accounting classifications and fair values (continued)

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

In thousands of AUD	Available-for-sale financial assets	Financial assets designated at fair value through profit or loss
Balance at 1 July 2013	31	20
Total gains and losses recognised in comprehensive income	15	2
Purchases and disposals	-	-
Balance at 30 June 2014	46	22

31. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

In thousands of AUD	2014	2013
Less than one year	2,033	2,048
Between one and five years	5,800	5,956
	7,833	8,004

The Group leases a number of office facilities under operating leases. The leases run for a period of up to 6 years, with an option to renew the lease after that date. Lease payments are generally increased every year to at least reflect Consumer Price Index (CPI) movements, with regular adjustments to reflect market rentals.

During the financial year ended 30 June 2014, $1,978 thousand was recognised as an expense in the Statement of Comprehensive Income in respect of operating leases (2013: $2,095 thousand).

32. Group entities

	Country of incorporation	Ownership interest 2014	2013
Parent entity			
Australian Finance Group Limited	Australia	100	100
Significant subsidiaries			
Australian Finance Group (Commercial) Pty Ltd	Australia	100	100
Australian Finance Group Insurance Brokers Pty Ltd	Australia	100	100
Australian Finance Group Securities Pty Ltd	Australia	100	100
AFG Securities Pty Ltd	Australia	100	100
AFG 2010-1 Trust	Australia	100	100
AFG 2013-1 Trust	Australia	100	100
AFG 2013-2 Trust	Australia	100	-
AFG 2014-1 Trust	Australia	100	-
New Zealand Finance Group Ltd	New Zealand	100	100
Lilydale Pastures Estate Pty Ltd	Australia	100	100
Longford Road Pty Ltd	Australia	100	100
AFG Home Loans Pty Ltd	Australia	100	100
Venture Lending Pty Ltd	Australia	51	51
Cambridge WA Pty Ltd	Australia	100	100
AFG Developments Pty Ltd	Australia	100	100
AFG Developments 2 Pty Ltd	Australia	100	100
AFG Property Investment No.1 Pty Ltd	Australia	100	-
AFG Property Pty Ltd	Australia	100	-

The Group holds a 51% interest in Venture Lending Pty Ltd, has majority representation on the entity's board of directors, and has control over its operating and financial decisions. Consequently, the Group has consolidated this entity into its financial statements.

33. Parent entity

Throughout the financial year ending 30 June 2014, the parent Company of the Group was Australian Finance Group Limited.

In thousands of AUD	2014	2013
Results of the parent entity		
Profit for the period	18,855	18,879
Other comprehensive income	10	-
Total comprehensive income for the period	18,865	18,879

In thousands of AUD	2014	2013
Financial position of parent entity at year end		
Current assets	164,975	147,261
Total assets	609,748	535,953
Current liabilities	136,177	120,840
Total liabilities	521,522	455,092
Total equity of the parent entity comprising of:		
Share capital	11,435	11,435
Reserves	(75)	(85)
Retained earnings	76,866	69,511
Total equity	88,226	80,861

See notes 34 and 35 for the parent entity capital and other commitments, and contingencies.
Refer to note 23 (d) for the parent entity's guarantees.

As at reporting date the credit support facility provided by the parent entity to AFG 2010-1 Trust was $9.5 million (2013: $6.5 million).

34. Capital and other commitments

During the year ended 30 June 2014 the Group entered into two construction contracts to develop AFG Developments 2 Pty Ltd and AFG Developments Pty Ltd lands. As at the reporting date the Group is committed to incur additional capital expenditure in respect of these contracts of $2,860 thousand (2013: nil) and $37,803 thousand (2013: nil), respectively.

These commitments are expected to be settled in 2016.

35. Contingencies

Performance guarantee

During the year the Group has provided a performance guarantee to AFG Developments Pty Ltd debt facility provider of $5 million in relation to the due performance of Richmond Quarter development project (Project). In the event that the Project's costs exceed the facility obtained from the funder of $51,510 thousand and the equity contributed to the project, the Group is obligated to pay for the cost overrun that the Bank will not meet from the loan. In the event of the Group failing to meet its obligations in respect of the cost overrun, or should there be any default on the loan repayment, the funder on demand will request the payment of the guarantee up to a limit of $5 million. Given the timely progress of the project and the presales secured at balance sheet date, the Group expects to meet all of its obligations under the terms of facility. Accordingly, no provision for any liability has been made in these financial statements.

Third Party Guarantees

Bank guarantees have been issued by third parties financial institutions on behalf of the Group and its subsidiaries for items in the normal course of business such as operating lease contracts. The amounts involved are not considered to be material to the Group.

Other than above, no material claims against these warranties have been received by the Group at the date of this report, and the Directors are of the opinion that no material loss will be incurred.

36. Related parties

(a) Key management personnel compensation

The key management personnel compensation paid and payable as at the reporting date comprised:

In AUD	2014	2013
Short-term employee benefits[1]	2,522,209	2,727,595
Other long term benefits – long service and annual leave	295,936	326,290
Termination benefits	185,144	-
Post-employment benefits-superannuation	165,686	166,046
	3,168,975	3,219,931

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

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

Executive officers may also participate in the Group's employee share scheme (see note 25).

The balance of short- term employee benefits outstanding to key management personnel and other related parties at reporting date is a payable amount of $212,112 (2013: $104,330).

(b) Other related parties

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

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

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

	Transactions value year ended 30 June	
In AUD	2014	2013
Gill Family Pty Ltd - Provision of chairman services	97,000	95,000

(i) McCabe Street Limited is a special purpose company incorporated for development of a specific property. Mr B McKeon, Ms L Bevan, and the Chief Financial Officer, Mr Bailey, are directors of McCabe Street Limited. AFG Property division is responsible for the project management of the development. During 2013 the Board of Directors agreed to provide McCabe Street Limited with a loan facility of a maximum amount of $1.2m for a term of 24 months or until alternative financing is sourced whichever is earlier, on commercial arms length terms. The outstanding balance as at reporting date is $138,002 (2013: $49,331) and comprises of administrative costs that the financing facility will not meet. The interest charged during the year is $13,529 (2013: $5,626)

(ii) During the year the Group received payments from TAL Life Ltd. Jim Minto is a director of TAL Life Ltd and also a non-executive director of the Company. These dealings were in the ordinary course of business and were on normal terms and conditions. These payments were received as commission for life and risk insurance products provided by TAL Life Ltd. Total commissions received during the financial year was $779 thousand (2013 : $706 thousand).

(iii) During the year the Group made payments to Genworth Financial, one of our providers of Lenders Mortgage Insurance (LMI). Tony Gill is a non-executive director of Genworth Australia. These dealings were in the ordinary course of business and were on normal terms and conditions. The payments made for the provision of LMI products were $2,633 thousand (2013:$ 3,874 thousand).

36. Related parties (continued)

(b) Other related parties (continued)

(iv) Tony Gill is an Independent Director of First Mortgage Services (FMS), one of our providers of loan settlement services. During the year the Group made payments to FMS. These dealings were in the ordinary course of business and were on normal terms and conditions. The payments made for the provision of the settlement services were $404,417 (2013: $277,300).

(e) Subsidiaries

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

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

	Parent entity	
In AUD	**2014**	**2013**
Australian Finance Group Securities Pty Ltd	8,162,348	5,842,261
AFG Securities Pty Ltd	4,123,195	7,740,461
New Zealand Finance Group Ltd ('NZFG')	329,596	329,596
Lilydale Pastures Estate Pty Ltd	(654,093)	833,634
Longford Road Pty Ltd	(122)	(122)
AFG Home Loans Pty Ltd	6,936,604	3,282,925
Cambridge Pty Ltd	(21,853)	(36)
AFG Developments Pty Ltd	9,671,990	5,167,218
Venture Lending Pty Ltd	760	19,534
AFG Developments 2 Pty Ltd	2,133,330	(100)
AFG Property Pty Ltd	52,732	-
AFG Property Investment No.1 Pty Ltd	383	-
Less provision for impairment	(4,220,898)	(4,220,898)
	26,513,972	18,994,473

37. Subsequent events

On 14 August 2014, the Group secured an extension to the term of the residential warehouse facility that was due to expire in 6 September 2014. The funding continues to be provided through the issue of two 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 August 2015 and the cost of funds has been reviewed favourably to the end to term.

On 26 August 2014 the Directors recommended the payment of a dividend of 10.71 cents per fully paid ordinary share, fully franked based on tax paid at 30%, out of profits of the Company for the year ended 30 June 2014. The aggregate amount of the dividends paid out in October out of retained profits at 30 June 2014 is $10 million. The financial effect of these dividends has not been brought to account in the financial statements for the year ended 30 June 2014.

On 1 July 2014, the Group amalgamated the construction warehouse AFG 2010-1 Trust Warehouse Series No.2 into AFG 2010-1 Trust Warehouse Series No.1.

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

Australian Finance Group Limited
Directors' Declaration

In accordance with a resolution of the Directors of Australian Finance Group Limited, I state that:

In the opinion of the Directors:

(a) The financial statements and notes of Australian Finance Group Limited are in accordance with the *Corporations Act 2001*, including:

  (i) Giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date

  (ii) Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*

(b) The financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2(a)

(c) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the board

B M McKeon
Director

Dated at Perth, Western Australia on 30 day of October 2014.

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working world

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

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

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

Report on the Financial Report

We have audited the accompanying financial report of Australian Finance Group Limited, which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, 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 year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Opinion

In our opinion:

a. the financial report of Australian Finance Group Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

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

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Ernst & Young

Ernst & Young

F Drummond
Partner
Perth
30 October 2014

Building a better
working world

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

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

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

In relation to our audit of the financial report of Australian Finance Group Limited for the financial year ended 30 June 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

F Drummond
Partner
30 October 2014

FD:JH:AFG:085