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26 February 2021

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Market Announcements Office
ASX Limited
Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam

AUSTRALIAN FINANCE GROUP LTD ANNOUNCES 1H FY21 RESULTS

Please refer to the following information in relation to Australian Finance Group Ltd's (ASX: AFG) half year results for the six months ended 31 December 2020.

Part 1: Appendix 4D and half year 2021 financial report.

Part 2: Appendix 3A.1: notification of dividend.

Part 3: 1H FY21 results investor presentation.

Part 4: 1H FY21 results market release.

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

Authorised for disclosure by:

LISA BEVAN
Company Secretary

CONTACT DETAILS
Alison Clarke, AFG Head of Corporate Communications Mob 0402 781 367
David Bailey, CEO Tel (08) 9420 7888

ABN: 11 066 385 822

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Australian Finance Group Limited

ABN 11 066 385 822

Half-year Report and Appendix 4D

for the half-year ended 31 December 2020

Australian Finance Group Limited
Half-year Report and Appendix 4D
For the half-year ended 31 December 2020

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This half-year financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2020 and any public announcements made by Australian Finance Group Limited during the half-year reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Australian Finance Group Limited
Appendix 4D (ASX Listing Rules 4.2A)

Half-year Report for the Period ending 31 December 2020

Reporting period is the half-year ended 31 December 2020 with the previous corresponding period to 31 December 2019.

Results for announcement to the market

	31 December 2020 $'000	31 December 2019 $'000	Increase / (Decrease) $'000	% change
Revenue from continuing operations	361,928	324,905	37,023	11.4%
Net profit for the period	24,967	18,348	6,619	36.1%
Underlying results from continuing operations	24,880	17,670	7,210	40.8%

Net tangible asset backing per ordinary security ("NTA") (Cents)	(307.9)	(383.5)	75.6	(19.7%)
Net tangible asset backing per ordinary security ("NTA") including Trail book contract asset (Cents)[1]	66.9	47.3	19.6	41.4%

[1] In line with ASIC guidance NTA is shown without the inclusion of the trail book asset (contract asset) and right of use asset but including the associated trail commission payable. However, given the significant value of the trail book and its interrelationship with the trail book liability, NTA including the trail book asset has also been calculated and disclosed for both the current period to 31 December 2020 and the prior period to 31 December 2019.

Dividends	**Amount per security**	**Franked Amount per security**
Interim dividend	5.9 cents	100%
Previous corresponding period interim dividend	5.4 cents	100%
Record date for determining entitlements to the interim dividend	2 March 2021	
Date the interim dividend is payable	18 March 2021	

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

This report is based on the consolidated half-year report which has been subject to a review by an independent auditor, Ernst & Young.

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Australian Finance Group Limited
Directors' report
For the half-year ended 31 December 2020

The Directors submit the consolidated financial report of Australian Finance Group Limited ('the Company'), and its controlled entities ('the Group'), for the half-year ended 31 December 2020 and the auditor's report thereon.

Directors

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

Name

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

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

Financial results

For the half-year ended 31 December 2020 the Group recorded a net profit after tax of $24,967k recording an increase of 36.1% over the same period in 2019.

Review and results of operations

Revenue is up 11.4% to $361,928k (2019: $324,905k) with residential settlements up 24% on prior period, resulting in revenue from the wholesale mortgage broking segment being up 11%. The contribution from the AFGHLs segment also increased 11%, with the AFG Securities book up 18% and white label settlements up 17% on prior period.

Profit after income tax for the half-year ended 31 December 2020 was up 36.1% on the prior comparative period at $24,967k (2019: $18,348k). Underlying results from continuing operations were up 40.8% when compared to the prior comparative period at $24,880k (2019: $17,670k).

The increase in profit was attributable to the following:

- Securitisation programme net interest income being up 52.9% to $26M (2019: $17M) and the loan book increasing 18.3% to $2.96B (2019: $2.51B);
- Increased residential settlements of $4.1B to $20.9B (2019: $16.8B);
- Increased residential trail book of $8.3B to $160B (2019: $151.7B);
- AFGHL loan book increased $0.9B (9.2%) to $10.7B (2019: $9.8B);
- Offset by decreased AFGB settlements $100M (52.1%) to $92M (2019: ($192M) and decreased commercial settlements $223M (18.7%) to $967M (2019: $1,190M).

Net cash flows from operating activities increased 52.9% to $25,788k (2019: $16,866k) driven by profit growth due to increased net interest income, offset by higher income tax paid compared to prior period. AFG continues to generate strong cash flows, and this will enable AFG to continue to invest for future growth.

The Group has considered the impact of COVID-19 and other market volatility in preparing the financial statements.

There has been a meaningful reduction in the number of AFG Securities customers requesting hardship arrangements due to the pandemic with overall hardship reducing from 5.33% on 21 August 2020 to 0.59% (39 loans) as at 23 February 2021. Of this, 2 loans or 0.02% remain in COVID-19 hardship and 37 or 0.57% loans interest only payments.

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The 31 December 2020 results include an expected credit loss (ECL) provision of $3,243k. This is a significant increase on 31 December 2019 ($1,085k) due to the expected economic impact of the COVID-19 pandemic, but remains at the level recorded as at 30 June 2020.

Given the dynamic and evolving nature of COVID-19 and the limited experience of the economic and financial impacts of such a pandemic, changes may arise in the future to the estimates and outcomes that have been applied in the measurement of the Group assets and liabilities.

In response to the current COVID-19 pandemic, the Group has provided support to its customers by implementing a range of initiatives, such as granting deferrals of residential mortgage loan repayments to customers affected by the COVID-19 pandemic.

The Directors are satisfied that the Group will continue as a going concern.

Non – IFRS financial information

The carrying value of our residential, commercial and AFGHL white label trail books are influenced amongst other things by the runoff and discount rates that are applied to these valuations. Excluding the non-cash entries to recognise the change in the net present value of the future trailing commission receivable and payable, the underlying profit after tax increased by 40.8% to $24,880k (31 December 2019: $17,670k). The assessment of the trail loan book requires the use of assumptions which are determined by management, using a variety of inputs including external actuarial analysis of historical information, by reference to market observable inputs.

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

	31 December 2020		31 December 2019	
	Operating income $'000	Profit After Tax $'000	Operating income $'000	Profit After Tax $'000
Underlying results from continuing operations	330,703	24,880	296,988	17,670
Change in the carrying value of trailing commissions contract asset (and payables in the calculation of profit after tax)	31,225	87	27,917	678
Total result from operating activities	361,928	24,967	324,905	18,348

The impact of the change in the present value of the contract asset (31 Dec 2020 $1,005,824k and 30 June 2020 $974,599k) and trailing commission payable (31 Dec 2020 $910,197k and 30 June 2020 $879,096k) on the profit after tax have been shown net as this illustrates the results excluding the movement in the trail book.

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Australian Finance Group Limited
Directors' report
For the half-year ended 31 December 2020

Auditor's independence declaration

The auditor's independence declaration is included on page 21 of the half-year report.

Rounding

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

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

On behalf of the Directors



Tony Gill
Chairman

Dated at Sydney this 25 February, 2021

Australian Finance Group Limited
Consolidated Statement of Financial Position
As at 31 December 2020

In thousands of AUD

	Note	31 December 2020	30 June 2020
Assets			
Cash and cash equivalents	4 (iii)	191,125	161,528
Trade and other receivables		4,692	5,446
Contract assets		1,005,824	974,599
Property, plant and equipment		580	506
Intangible assets		5,807	3,318
Loans and advances		2,972,881	2,920,773
Investment in associates	8	23,046	17,034
Right of use assets		5,589	6,323
Total assets		4,209,544	4,089,527
Liabilities			
Trade and other payables		984,090	950,792
Interest-bearing liabilities		2,990,745	2,914,562
Employee benefits		4,575	5,194
Current tax payable		3,879	5,988
Provisions		3,032	2,787
Contract liabilities		6,582	5,619
Lease liabilities		5,911	6,559
Deferred tax liability		19,813	19,813
Total liabilities		4,018,627	3,911,314
Net assets		**190,917**	**178,213**
Equity			
Share capital		102,157	102,157
Share-based payment reserve		2,963	2,604
Other capital reserves		(14)	(14)
Retained earnings		85,811	73,466
Total equity		**190,917**	**178,213**

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

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Australian Finance Group Limited
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the half-year ended 31 December 2020

In thousands of AUD

	Note	31 December 2020	31 December 2019
Continuing Operations			
Commission and other income	4 (i)	312,170	280,537
Securitisation interest income		49,758	44,368
Operating income		361,928	324,905
Commission and other cost of sales		(288,581)	(254,939)
Securitisation interest expense		(23,661)	(27,150)
Gross profit		**49,686**	**42,816**
Other income		6,327	8,595
Administration expenses		(3,309)	(2,708)
Other expenses	4 (ii)	(20,650)	(24,348)
Results from operating activities		**32,054**	**24,355**
Finance income		498	775
Finance expense		(111)	(191)
Share of profit of an associate		2,312	1,148
Net finance and investing income		**2,699**	**1,732**
Profit before tax from continuing operations		**34,753**	**26,087**
Income tax expense		(9,786)	(7,739)
Profit for the period		**24,967**	**18,348**
Profit attributable to:			
Equity holders of the Company		24,967	18,348
Profit for the period		24,967	18,348
Total comprehensive income for the period attributable to:			
Equity holders of the Company		24,967	18,348
Total comprehensive income for the period		24,967	18,348

Earnings per share		
Basic earnings per share (cents per share)	9.30	8.52
Diluted earnings per share (cents per share)	9.19	8.42

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

Australian Finance Group Limited
Consolidated Statement of Changes in Equity
For the half-year ended 31 December 2020

In thousands of AUD	Share capital	Foreign currency translation reserve	Fair value reserve	Share-based payment reserve	Retained earnings	Total equity
Balance at 1 July 2020	102,157	(14)	-	2,604	73,466	178,213
Total comprehensive income for the period						
Profit	-	-	-	-	24,967	24,967
Total comprehensive income for the period	-	-	-	-	24,967	24,967
Transactions with owners, recorded directly in equity						
Dividends to equity holders	-	-	-	-	(12,622)	(12,622)
Share-based payment transactions	-	-	-	359	-	359
Total transactions with owners	-	-	-	359	(12,622)	(12,263)
Balance at 31 December 2020	102,157	(14)	-	2,963	85,811	190,917
Balance at 1 July 2019	43,541	(14)	(82)	1,630	59,747	104,822
Total comprehensive income for the period						
Profit	-	-	-	-	18,348	18,348
Transferred to Statement of Profit or Loss	-	-	3	-	-	3
Total comprehensive income for the period	-	-	3	-	18,348	18,351
Transactions with owners, recorded directly in equity						
Dividends to equity holders	-	-	-	-	(12,719)	(12,719)
Share-based payment transactions	-	-	-	563	-	563
Total transactions with owners	-	-	-	563	(12,719)	(12,156)
Balance at 31 December 2019	43,541	(14)	(79)	2,193	65,376	111,017

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

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Australian Finance Group Limited
Consolidated Statement of Cash Flows
For the half-year ended 31 December 2020

In thousands of AUD	Note	31 December 2020	31 December 2019
Cash flows from operating activities			
Cash receipts from customers		288,911	253,629
Cash paid to suppliers and employees		(277,324)	(246,794)
Interest received		49,757	44,368
Interest paid		(23,661)	(27,150)
Income taxes paid		(11,895)	(7,187)
Net cash generated by operating activities		25,788	16,866
Cash flows from investing activities			
Net Interest received		636	776
Acquisition of property, plant and equipment		(199)	(192)
Purchase of intangible assets		(2,630)	(1,445)
Investment in Thinktank		-	(379)
Investment in MAB	8	(3,700)	-
Broker loans and advances		322	1,533
Net loans and advances to borrowers		(52,718)	(441,706)
Net cash used in investing activities		(58,289)	(441,413)
Cash flows used in financing activities			
Repayments of warehouse facility		(803,000)	(479,503)
Proceeds from warehouse facility		210,122	598,853
Repayments to securitised funding facilities		(218,073)	(141,399)
Proceeds from securitised funding facilities		886,545	480,023
Payment of principal proportion of lease liability		(882)	(890)
Dividends paid		(12,614)	(12,719)
Net cash generated by financing activities		62,098	444,365
Net increase in cash and cash equivalents		29,597	19,818
Cash and cash equivalents at the beginning of the period		161,528	96,818
Cash and cash equivalents at the end of the period	4 (iii)	191,125	116,636

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

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1. Reporting entity

The consolidated financial statements for the half-year ended 31 December 2020 comprise of Australian Finance Group Limited (the 'Company'), which is a for profit entity and a company domiciled in Australia and its subsidiaries (together referred to as the 'Group') and the Group's interest in associates and jointly controlled entities. The Group's principal activities in the course of the reporting period were mortgage origination and lending. The Company's principal place of business is 100 Havelock Street, West Perth, Western Australia.

2. Basis of preparation and significant accounting policies

(a) Statement of compliance

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

(b) Basis of preparation

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

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

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

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

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's 2020 annual financial report for the financial year ended 30 June 2020, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

(c) Significant accounting policies

(i) Adoption of new and revised Accounting Standards

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

- Conceptual Framework for Financial Reporting
- AASB 2019-1 Amendments to Australian Accounting Standards – Reference to the Conceptual Framework
- AASB 2018-6 Amendments to Australian Accounting Standards – Definition of a Business
- AASB 2019-3 Amendments to Australian Accounting Standards – Interest rate Benchmark reform
- AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material
- AASB 2019-5 Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia
- AASB 2020-4 Amendments to Australian Accounting Standards – COVID 19 Related Rent Concessions

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2. Basis of preparation and significant accounting policies (continued)

(c) Significant accounting policies (continued)

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

(iii) Affected Standards and Interpretations	Application date	Application date for Group
AASB 17 – Insurance Contracts	1 January 2021	30 June 2022
AASB 2020-2 Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities	1 July 2021	30 June 2022
AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments	1 January 2022	30 June 2023
AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an investor and its Associate or Joint Venture	1 January 2022	30 June 2023
Amendments to IFRS 17 – Insurance Contracts	1 January 2023	30 June 2024
AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-Current	1 January 2023	30 June 2024

3. Segment information

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

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

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

AFG Wholesale Mortgage Broking

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

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

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

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

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3. Segment information (continued)

AFG Home Loans (AFGHL)

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

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

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

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

Half-year ended 31 December 2020

	AFG Wholesale Mortgage Broking	AFG Home Loans	Other / Unallocated / Eliminations	Total
In thousands of AUD				
Continuing operations				
Revenue				
Operating Income	291,997	69,146	785	361,928
Inter-segment[1]	16,793	-	(16,793)	-
Other income	482	-	5,845	6,327
Finance income	-	50	448	498
Share of profit of an associate	-	-	2,312	2,312
Total segment revenue	**309,272**	**69,196**	**(7,403)**	**371,065**
Timing of revenue recognition				
At a point in time	309,272	18,909	(15,560)	312,621
Over time	-	50,287	8,157	58,444
Results				
Segment profit/(loss) before income tax	16,827	19,923	(1,997)	34,753
Income tax expense				(9,786)
Net profit after tax				**24,967**
Assets and Liabilities				
Total segment assets	**991,927**	**3,137,664**	**79,953**	**4,209,544**
Total segment liabilities	**981,310**	**3,029,447**	**7,870**	**4,018,627**
Other segment information				
Depreciation and amortisation	(35)	(15)	(942)	(992)

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3. Segment information (continued)

Half-year ended 31 December 2019

In thousands of AUD	AFG Wholesale Mortgage Broking	AFG Home Loans	Other / Unallocated / Eliminations	Total
Continuing operations				
Revenue				
Operating income	261,929	62,233	743	324,905
Inter-segment[1]	18,719	-	(18,719)	-
Other income	3,303	-	5,292	8,595
Finance income	-	60	716	776
Share of profit of an associate	-	-	1,147	1,147
Total segment revenue	**283,951**	**62,293**	**(10,821)**	**335,423**
Timing of revenue recognition				
At a point in time	283,951	17,380	(17,261)	284,070
Overtime	-	44,913	6,439	51,352
Results				
Segment profit/(loss) before income tax	16,095	13,622	(3,630)	26,087
Income tax expense				(7,739)
Net profit after tax				**18,348**
Assets and Liabilities				
Total segment assets	**917,370**	**2,640,360**	**33,315**	**3,591,045**
Total segment liabilities	**895,982**	**2,576,242**	**7,804**	**3,480,028**
Other segment information				
Depreciation and amortisation	(49)	(10)	(1,261)	(1,320)

[1] Relate to intercompany transactions

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4. Results for the period

(i) Revenue

In thousands of AUD	31 December 2020	31 December 2019
Commission and other income		
At a point in time		
Commissions	281,585	250,971
Customer transaction fees	898	865
Over time		
Interest on commission income receivable	29,157	28,156
Mortgage management services	90	140
Customer transaction fees	440	405
	312,170	280,537

(ii) Expenses

In thousands of AUD	31 December 2020	31 December 2019
Other expenses		
Advertising and promotion	(565)	(3,142)
Consultancy and professional fees	(1,459)	(1,982)
Information technology	(2,440)	(2,267)
Occupancy costs	(214)	(84)
Employee costs	(14,980)	(15,128)
Depreciation and amortisation	(992)	(1,320)
Impairment loss on loans and advances	-	(425)
	(20,650)	(24,348)

(iii) Cash and cash equivalents

In thousands of AUD	31 December 2020	30 June 2020
Cash at bank	114,376	106,895
Short term deposits	2,280	1,252
Unrestricted cash	**116,656**	**108,147**
Cash collections accounts[1]	65,201	41,348
Restricted cash[2]	9,268	12,033
Restricted cash	**74,469**	**53,381**
Cash and cash equivalents	**191,125**	**161,528**
Cash and cash equivalents in the Statement of Cash Flows	**191,125**	**161,528**

1) Discloses amounts held in the special purpose securitised trusts and series on behalf of the warehouse funder and the bondholders.

2) Discloses cash collateralised standby letter of credit, liquidity reserve account and cash provided in trust by the warehouse providers to fund pending settlements.

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5. Dividends

	Note	Half-year ended 31 December 2020		Half-year ended 31 December 2019	
		Cents per share	Total $'000	Cents per share	Total $'000
Unrecognised amounts					
Interim dividend - fully franked	10	5.9	15,858	5.4	11,640

6. Key management personnel

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

7. Financial instruments

Accounting classifications and fair values

Fair value hierarchy

The different levels have been defined as follows:

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

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

The table below reflects the fair value of the trail commission payable, non-current loans and advances and non-current securitised funding facilities. The carrying amount of all the other financial assets and liabilities recognised in the Statement of Financial Position approximate their fair value due to their short-term nature.

	31 December 2020		30 June 2020	
In thousands of AUD	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Non-current loans and advances	2,400,583	2,419,415	2,464,989	2,457,168
Financial liabilities				
Future Trailing commission payable[1]	910,197	945,882	879,096	917,984
Non-current securitised funding facilities	1,784,052	1,778,429	1,095,547	1,086,130

[1] Note discount rate between 4% and 13.5% has been applied to the Fair value calculations. Run off rate and pay out percentage remain consistent with the carrying value calculation assumptions.

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7. Financial instruments (continued)

Loans and advances

The fair values of loans and advances are estimated using a discounted cash flow analysis, based on current lending rates for similar types of lending arrangements ranging from 2.3% to 6.8%.

For the purpose of fair value disclosure under AASB 13 Fair Value Measurement, the loans and advances would be categorised as a level 3 asset where the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

The COVID-19 pandemic economic impacts have increased the likelihood of losses due to such things as increased unemployment and potentially decreasing property prices. These factors have been included in the ECL model. The 31 December 2020 results include an ECL provision of $3,243k. This is a significant increase on 31 December 2019 ($1,085k) due to the expected economic impact of the COVID-19 pandemic, but remains at the level recorded as at 30 June 2020.

Given the dynamic and evolving nature of COVID-19 and the limited experience of the economic and financial impacts of such a pandemic, changes may arise in the future to the estimates and outcomes that have been applied in the measurement of the Group assets and liabilities.

In response to the current COVID-19 pandemic, the Group has provided support to its customers by implementing a range of initiatives, such as granting deferrals of residential mortgage loan repayments to customers affected by the COVID-19 pandemic.

Future Trailing commission payable

Trailing commissions are received from lenders on settled loans over the life of the loan based on the loan book balance outstanding if the respective loans are in good order and not in default. The Group is entitled to the trailing commissions without having to perform further services. The Group also makes trailing commission payments to Members when trailing commission is received from lenders. Trail commissions are actuarially assessed on future cashflow based on a number of assumptions including estimated loan life, discount rate, payout ratio and income rate.

The trail commission assets and liabilities at 31 December 2020 relate to the Residential, Commercial and the AFGHL white label loan books.

The movement in the future trail commission balances for the period are mostly attributable to the growth of the respective trail books over the financial year as opposed to any significant changes in the assumptions applied.

The fair value of trailing commission contract asset from lenders and the corresponding payable to members is determined by using a discounted cash flow valuation. These calculations require the use of assumptions which are determined by management, reviewed by external actuaries, by reference to market observable inputs. The valuation is classified as level 3 in the fair value measurement hierarchy.

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

	31 December 2020	30 June 2020
Average loan life	Between 3.1 and 5 years	Between 3.1 and 5.1 years
Discount rate per annum	Between 4% and 13.5%	Between 4% and 13.5%
Percentage paid to brokers	Between 85% and 94%	Between 85% and 94%

Securitised funding facilities

The fair values of securitised funding facilities are estimated using discounted cash flow analysis, based on current borrowing rates for similar types of borrowing arrangements ranging from 1.3% to 1.7%.

For the purposes of fair value disclosure under AASB 13 Fair Value Measurement, the subordinated notes would be categorised as a level 3 liability where the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

8. Investment in associates

In thousands of AUD

Non-current	**31 December 2020**	**30 June 2020**
Thinktank		
Cost of investment[1]	11,141	11,141
Contingent consideration liability	1,488	1,488
Share of post-acquisition profit	6,401	4,026
Purchase additional shares	379	379
	19,409	17,034
MAB		
Cost of investment	3,700	-
Share of post-acquisition loss	(63)	-
	3,637	-
	23,046	17,034

[1]Includes transaction costs

AFG holds a 32.81% investment in Thinktank Group Pty Ltd ("Thinktank") with additional contingent consideration payable of $1,488k. In connection with the investment AFG distributes a white label Commercial Property product through its network of brokers. The strategic investment in Thinktank represents the next evolutionary step for AFG to diversify its earnings base. The investment allows AFG to participate further in commercial property lending - both directly through the white label opportunity and indirectly through AFG's shareholding to generate further earnings for AFG.

In November 2020, AFG entered into a JV with Mortgage Advice Bureau Australia (Holdings) Pty Ltd ("MAB"). AFG holds a 48.05% investment in MAB. MAB's UK based parent is Mortgage Advice Bureau Limited (MAB UK) a mortgage broking group listed on the London Stock Exchange. AFG's investment in MAB provides exposure to an alternate broking model which has proven very successful in the United Kingdom.

Associates are all entities over which the Group has significant influence but not control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. These investments have been classified as investments in an associate due to the Group's significant involvement in the financial and operating policy decisions including Board representation.

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9. Earnings per share (EPS)

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

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

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

In thousands of AUD	31 December 2020	31 December 2019
Profit attributable to ordinary equity holders of the Company	24,967	18,348
	Thousands	Thousands
Weighted average number of ordinary shares for basic EPS (thousands)	268,382	215,358
Effect of dilution:		
Performance rights	3,196	2,639
Weighted average number of ordinary shares adjusted for the effect of dilution	271,578	217,997

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

10. Subsequent events

On 11 January 2021, the Group successfully extended the availability period for the NAB 2010-1 Series 5 warehouse to December 2021.

On 12 February 2021, the Group successfully extended the availability period on the Class A Notes in the ANZ 2010-1 Series 4 warehouse for 14 months to April 2022.

As at 23 February 2021, there has been a meaningful reduction in the number of AFG Securities customers requesting hardship arrangements due to the pandemic with overall hardship reducing from 5.33% at 21 August 2020 to 0.59% (39 loans). Of this, 2 loans or 0.02% remain in COVID-19 hardship and 37 or 0.57% loans interest only payments.

On 25 February 2021, the Directors recommended the payment of an interim dividend of 5.9 cents fully franked based on tax paid at 30%. The interim dividends have a record date of 2 March 2021 and a payment date of 18 March 2021. The aggregate amount of the proposed dividend expected to be paid out of retained earnings at 31 December 2020 is $15,858k. The financial effect of this dividend has not been brought to account in the financial statements for the half-year ended 31 December 2020.

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

Australian Finance Group Limited
Directors' Declaration
For the half-year ended 31 December 2020

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

In the opinion of the Directors:

(a) the interim financial statements and notes of the Company and its subsidiaries (collectively the Group) are in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the half-year ended on that date; and

  (ii) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and

(b) 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



Tony Gill
Chairman

25 February 2021

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Auditor's independence declaration to the directors of Australian Finance Group Limited

As lead auditor for the review of the half-year financial report of Australian Finance Group Limited for the half-year ended 31 December 2020, I declare to the best of my knowledge and belief, there have been:

a. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b. no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Australian Finance Group Limited and the entities it controlled during the financial year.

Ernst & Young

Fiona Drummond
Partner

25 February 2021

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

Report on the half-year financial report

Conclusion

We have reviewed the accompanying half-year financial report of Australian Finance Group Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

a. giving a true and fair view of the consolidated financial position of the Group as at 31 December 2020 and of its consolidated financial performance for the half-year ended on that date; and

b. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2020 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Ernst & Young

F Drummond
Partner
Perth

25 February 2021

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