

AFG

2020

HALF YEAR RESULTS PRESENTATION

H1 FY20 results - Highlights



Reported NPAT up 10%
to \$18.3M



Underlying NPAT up 20%
to \$17.7M



Interim dividend up 15%

● Final ● Interim

AFG Securities settlements up 46% to \$690M with loan book up 51% to \$2.5B

H1 FY20 Residential Settlements flat with \$16.9B

Q2 lodgements and settlements are up 19% and 6% on last year

AFG Home Loans now services over 25,000 retail customers

Residential trail book up 5% to \$151.7B

AFG Home Loans trail book up 17% to \$9.8B

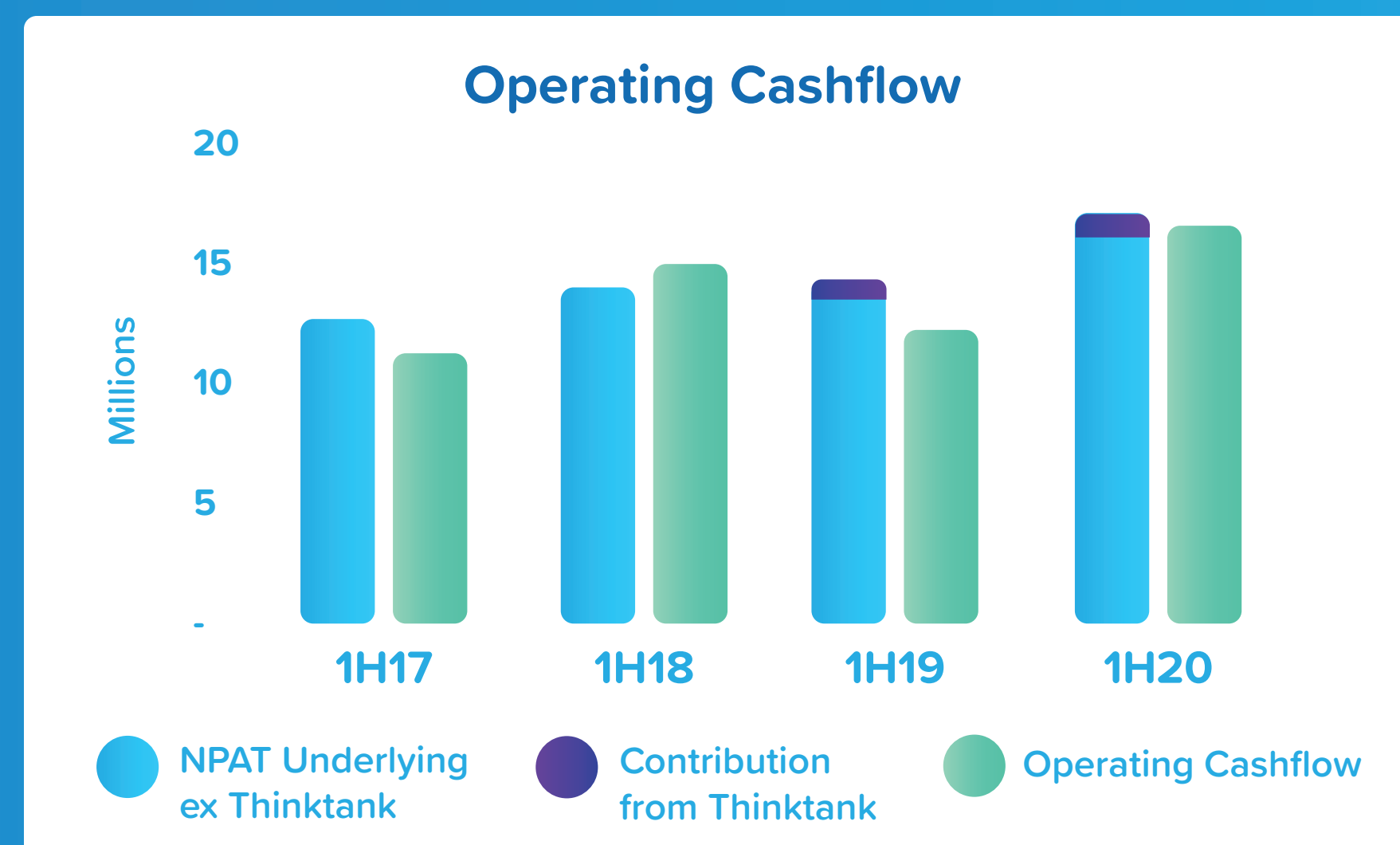
Financial results

	1H20 \$000's	1H19 \$000's	
Total Revenue	334,276	324,766	3%
Gross Profit	42,816	36,683	17%
NPAT reported	18,348	16,686	10%
NPAT underlying	17,670	14,715	20%
Net cash from operating activities	16,866	12,513	35%
Net Interest	17,218	8,536	102%
Net Interest Margin	151 bps	113 bps	35%
Financial metrics			
Reported EPS	8.4 cents	7.7 cents	9%
Number of shares (diluted)	216,658	215,522	1%
Dividends % of underlying profit	66%	69%	(3%)
Reported ROE	34%	35%	(1%)
Reported P/E ratio ¹	16.7 x	8.3 x	101%
Underlying P/E ratio ¹	17.4 x	9.4 x	84%

¹ Based on share price at 31/01/2020 and 31/01/2019

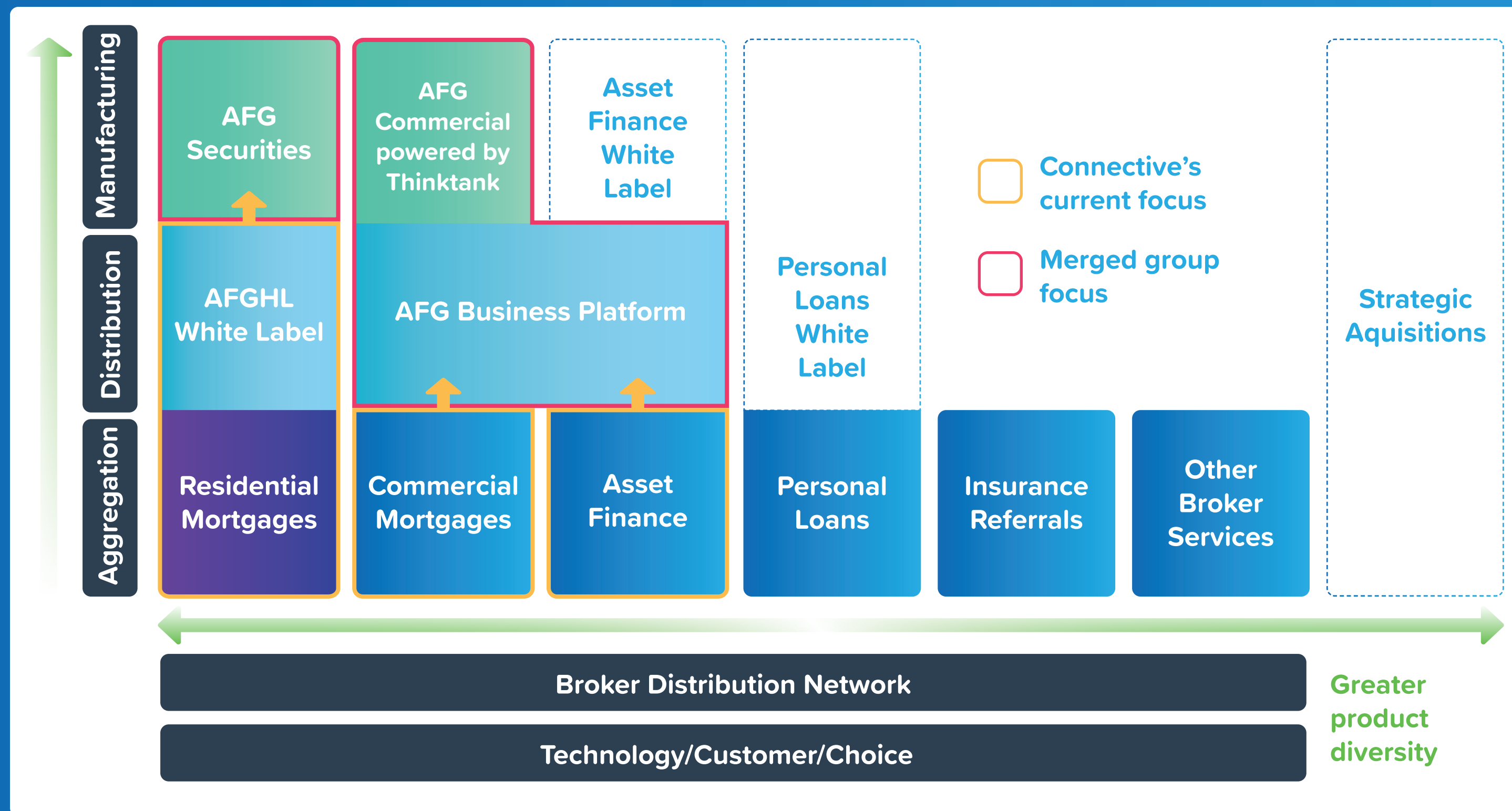
Key take outs for the half:

- ▶ Total Revenue increased 3% to \$334M driven by growth in the AFG Securities book
- ▶ Underlying profit increased by 20% with full impact of historical AFG Home Loans settlements now translating into cash
- ▶ Our investment since FY19 in growing the AFG Securities book is now providing a strong platform for earnings growth
- ▶ Strong cash flow generation supports continued dividend payout ratio of 60-80%



Earnings diversification strategy underpinning AFG's continued growth

Over half of overall profit now generated outside traditional aggregation. Providing a stable platform for future growth



Highlights and upcoming focus of AFG's earnings diversification strategy:

- ▶ AFG Home Loans trail book now \$9.8 billion translating to strong cash flow generation
- ▶ AFG Securities net interest up 102% in H1 FY20
- ▶ Thinktank equity investment contribution to earnings of \$1.1 million in H1 FY20
- ▶ AFG Business platform now expanded to include all 4 majors. Focus now on expanding the asset finance panel and increasing the number of Residential brokers writing Commercial products
- ▶ Technology refresh to provide additional tools for brokers to use, deliver efficiency gains for AFG and our brokers, and provide better customer outcomes
- ▶ Connective merger in progress. Continue to work with the ACCC to resolve their concerns
- ▶ Continue to explore organic and inorganic opportunities to further diversify earnings

Strategic & market outlook



Well positioned for future growth opportunities

- ▶ Capital light, strong balance sheet with no debt
- ▶ Established distribution network
- ▶ Strong cashflow generation
- ▶ Ongoing investment in technology to grow scale efficiently
- ▶ Delivering on AFG's earnings diversification strategy
- ▶ Continuing to drive competition and choice
- ▶ Merger with Connective progressing with court case and ACCC release of Statement of Issues (SOI). The SOI seeks industry views and further information on certain competition issues that have arisen from the ACCC's market inquiries to date

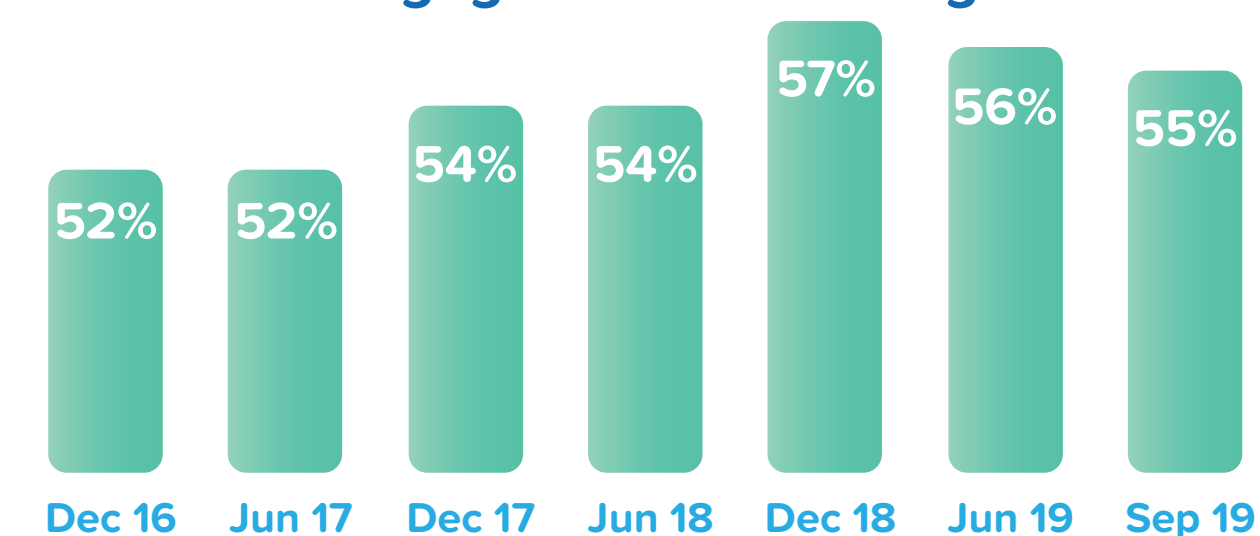


Market outlook

Changing market dynamics driving positive outlook for the broker proposition

- ▶ RBA implemented 3 interest rate decreases in 2019
- ▶ APRA approved the lowering of the serviceability floor
- ▶ Lodgement activity increasing, particularly refinancers and first home buyers
- ▶ Banks continue to reduce branch numbers
- ▶ Product complexity remains

% of Aus Mortgages written through a broker¹



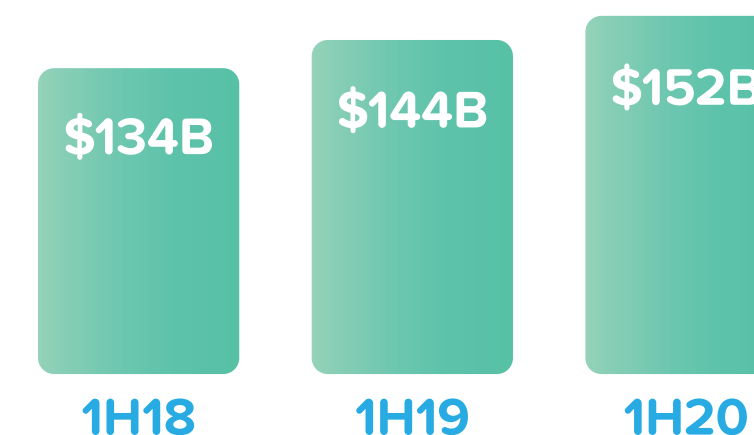
Settlements & Loan Book

Settlements	1H20 \$000's	1H19 \$000's	
Residential	16,853,147	17,234,550	(2%)
AFGHL	1,566,962	1,725,192	(9%)
White Label	876,527	1,252,481	(30%)
AFG Securities ¹	690,435	472,711	46%
Commercial	1,189,741	1,266,786	(6%)
AFG Business	192,124	56,156	242%
Thinktank	86,709	38,746	124%
Loan Book			
Residential	151,730,127	143,926,829	5%
AFGHL	9,834,640	8,433,647	17%
White Label	7,328,349	6,775,363	8%
AFG Securities ¹	2,506,291	1,658,284	51%
Commercial	8,330,533	7,826,986	6%

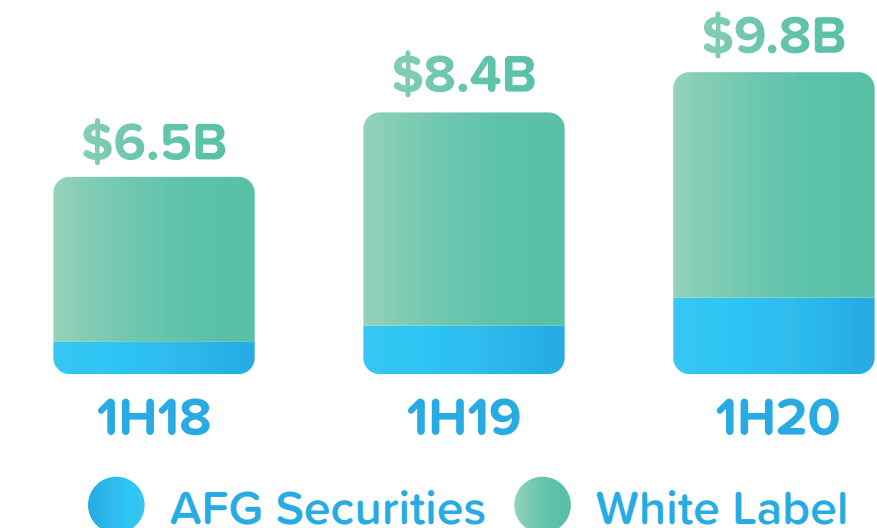
¹ Is a subset of AFGHL

- ▶ Residential settlements are **2%** lower than H1 FY19, although Q2 lodgements and settlements have increased **19%** and **6%** respectively compared to last year
- ▶ Continued shift in mix towards AFG Securities as a result of considered product improvements and consistent credit turnaround times, with settlements up **46%**
- ▶ AFG Securities loan book up **51%**, now exceeding **\$2.5 billion**
- ▶ The AFG Home Loans trail book continues its strong growth, up **17%** to over **\$9.8 billion**
- ▶ Commercial loan book has risen **6%** to **\$8.3 billion**
- ▶ Strong growth in AFG Business settlements to **\$192 million**
- ▶ Thinktank settlements up **124%** to **\$87 million**

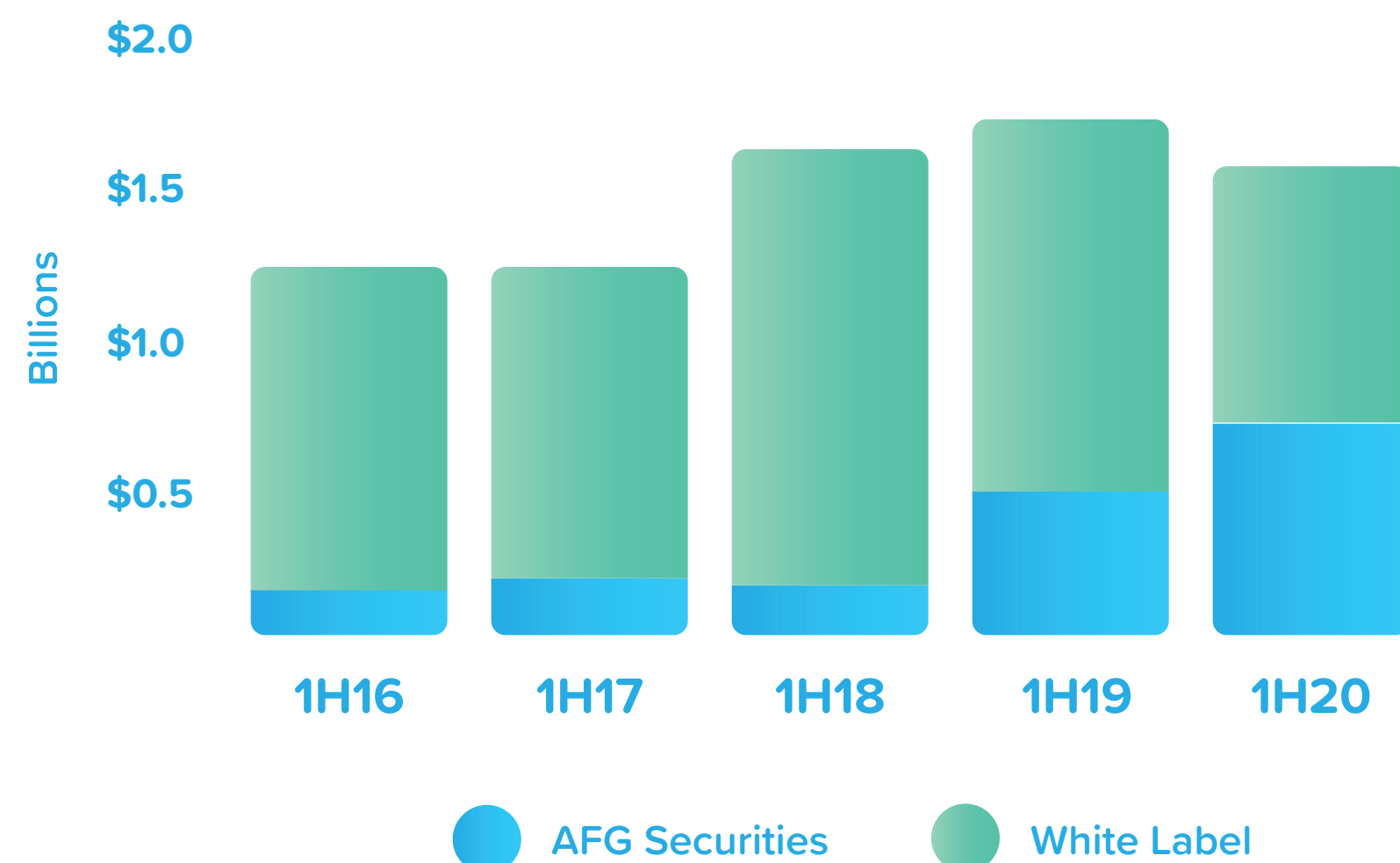
Residential Portfolio



AFGHL Portfolio



AFGHL Settlements



AFG Home Loans

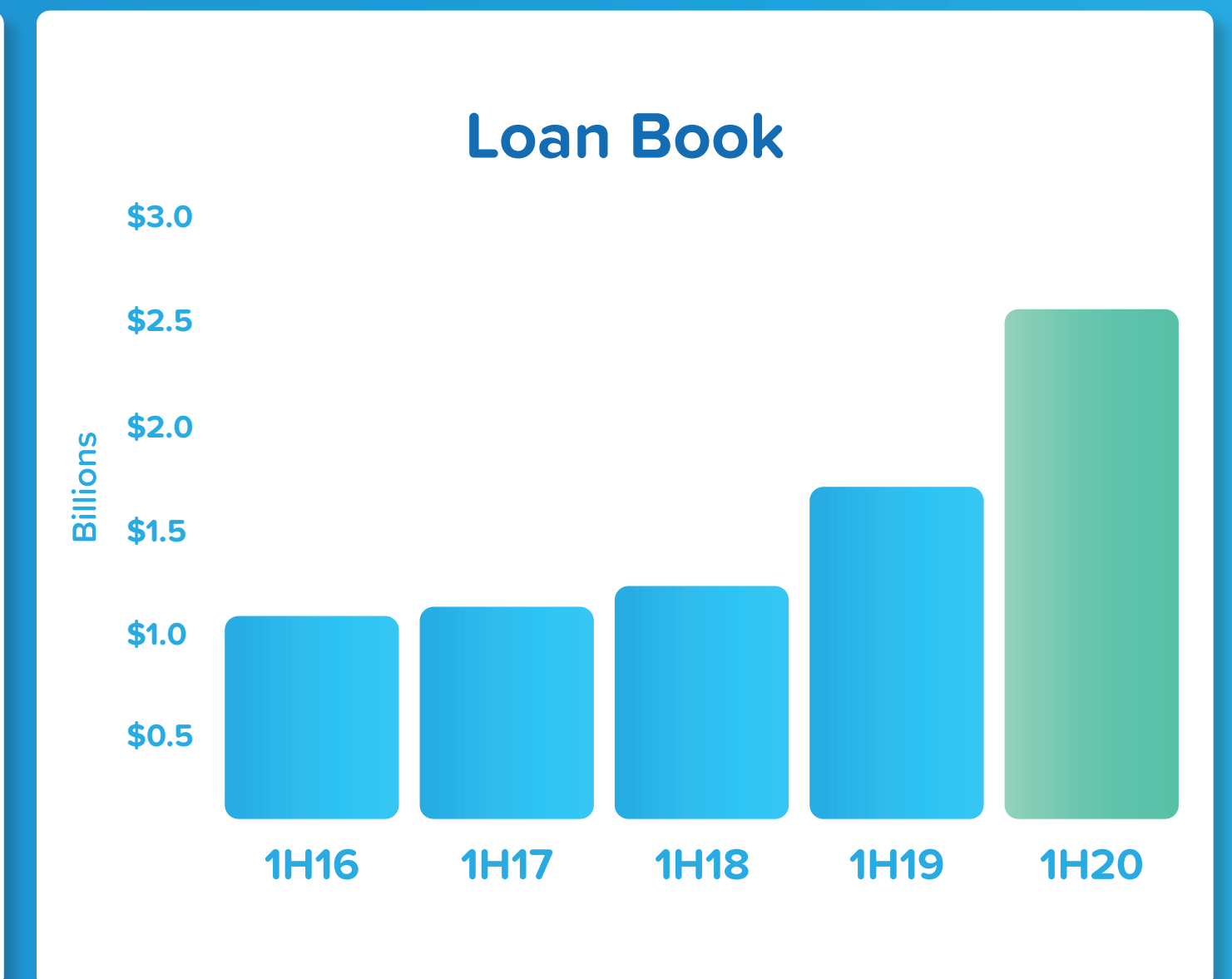
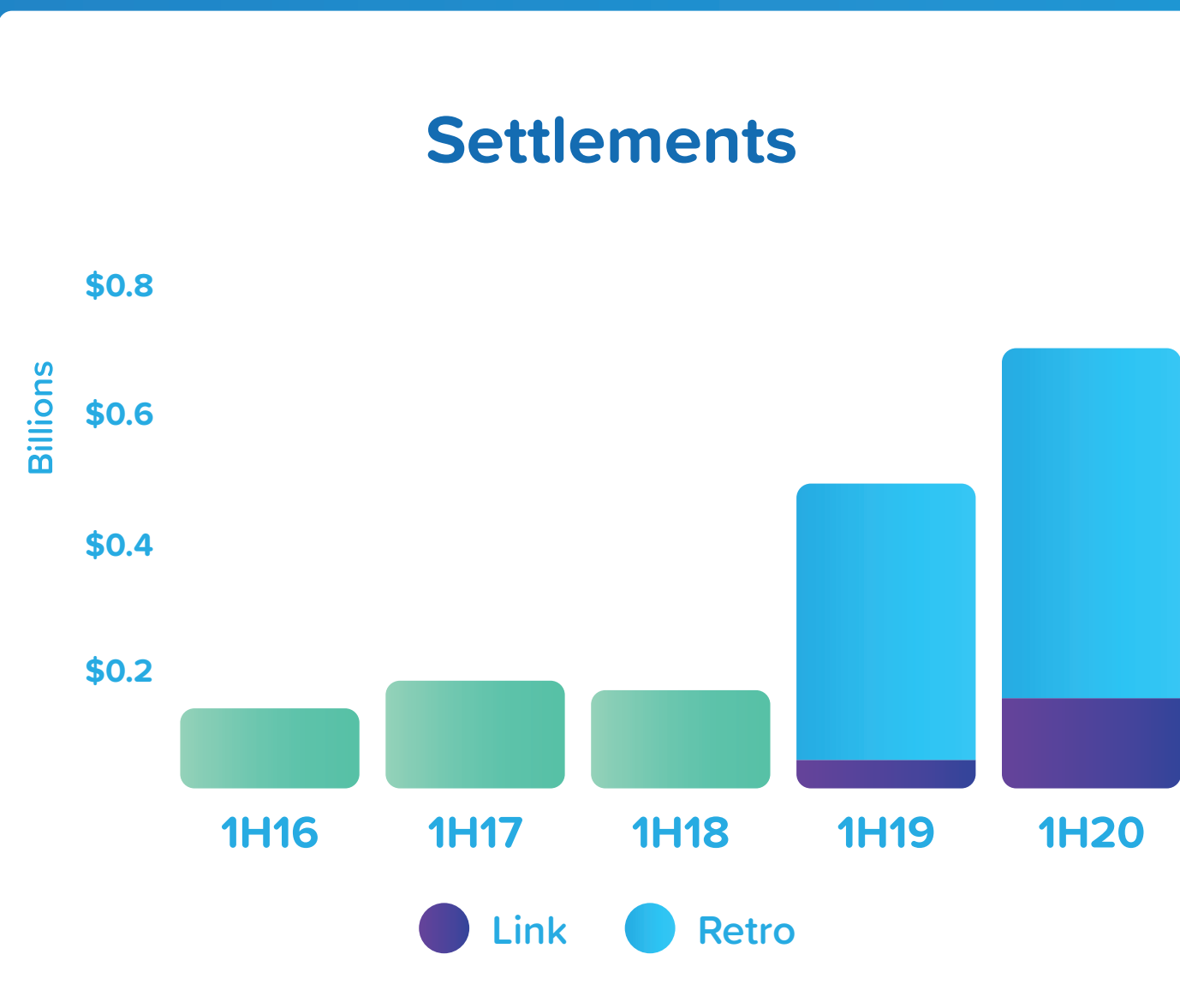
- ▶ AFG Home Loans trail book up **17%** to **\$9.8 billion**
- ▶ Mix continues to shift towards AFG funded Retro and Link products
- ▶ Changing mix impacts earning profile. White label income is recognised at settlement, while RMBS funded loans generate income over the life of the loan via the net interest margin. This will drive a stronger earnings profile in future years



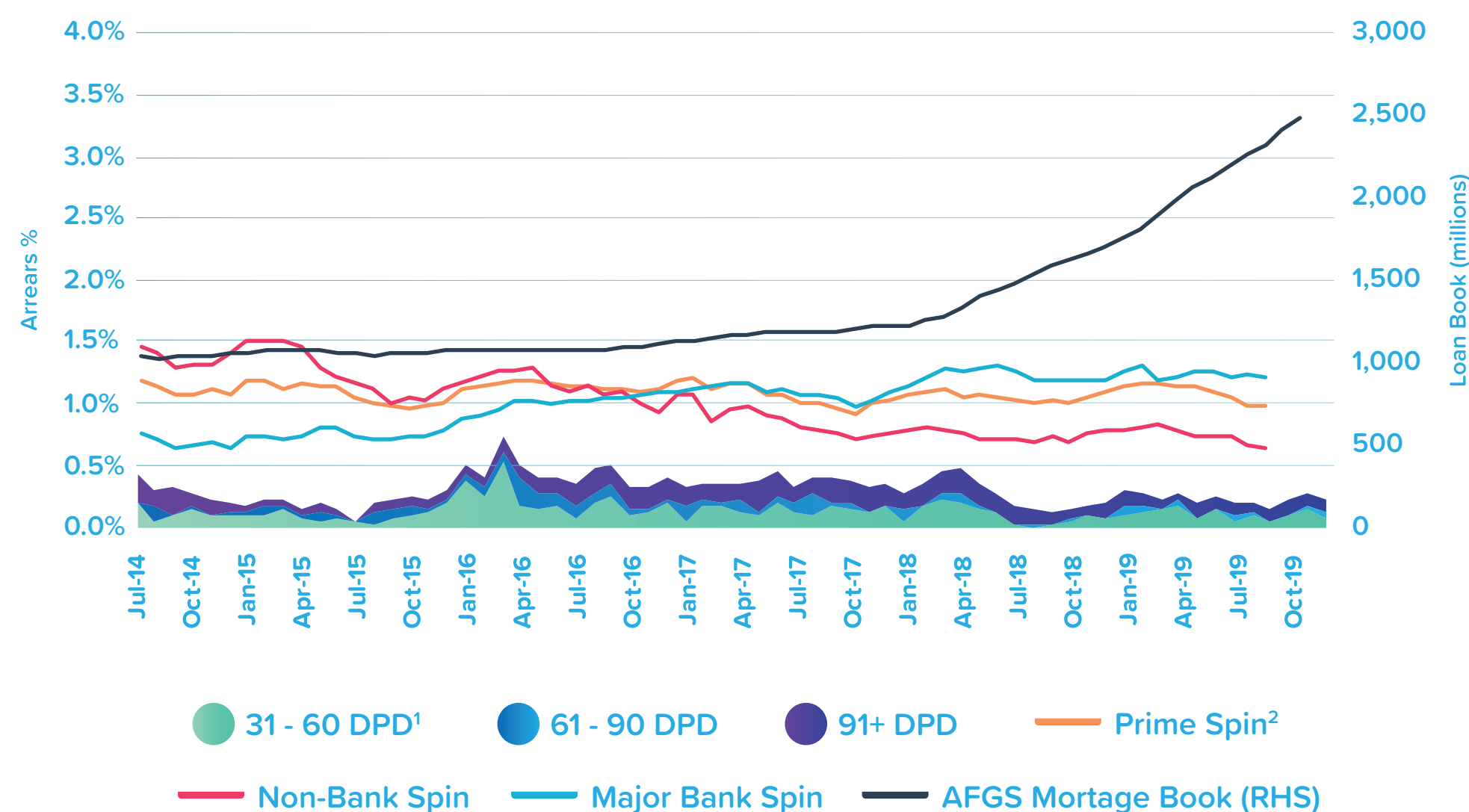
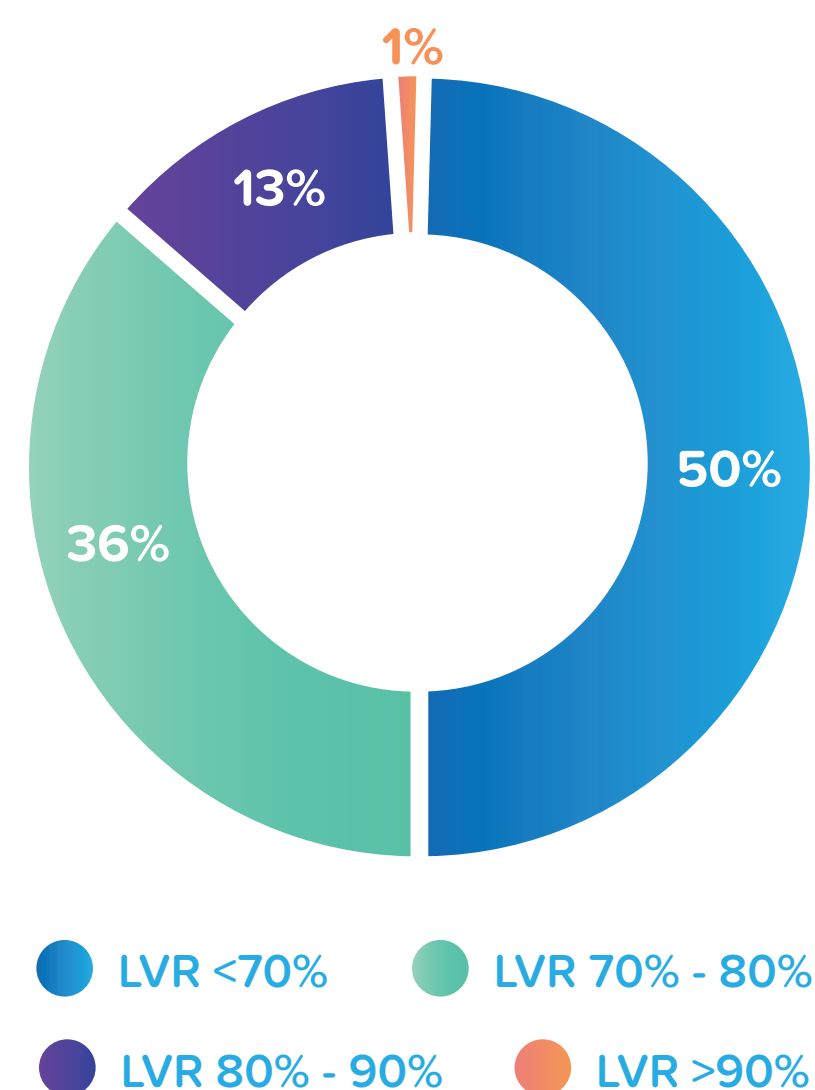
Funded directly by AFG

AFG Securities

- ▶ AFG Securities continues to deliver greater choice to customers in a complex market
- ▶ AFG Securities settlements were **\$690 million**, with lodgements of **\$1.19 billion** which were up **46%** and **50%** on H1 FY19
- ▶ The quality of the book has been maintained. Arrears remain well below industry averages
- ▶ In H1 FY20 the net interest margin also increased with the benefit of a significantly lower cash to BBSW spread



AFGS Loan Book LVR



¹ Days passed due

² Standard & Poor's Mortgage Performance Index

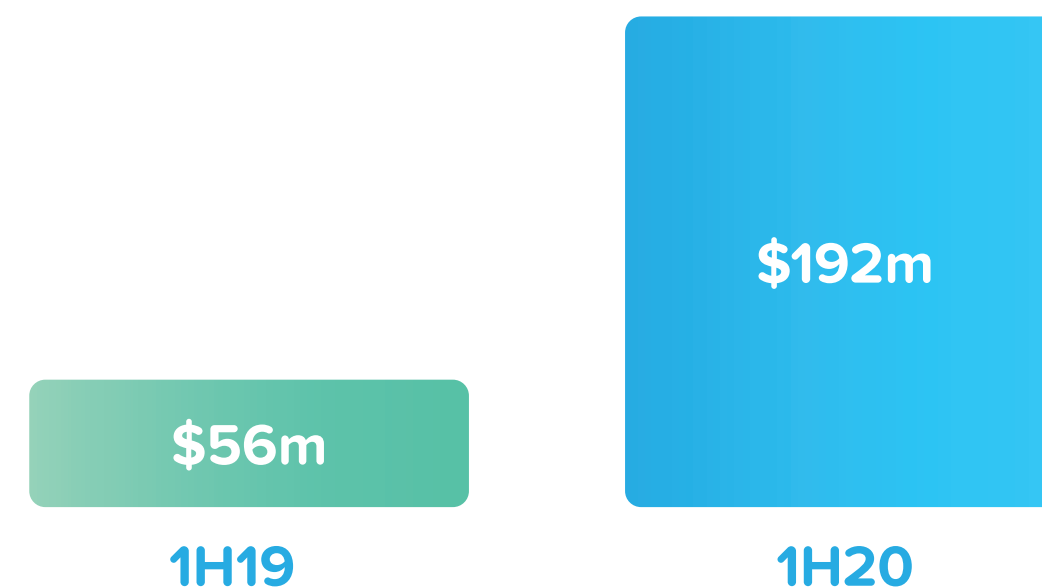
AFG Securities - Operational

- ▶ Continued growth achieved whilst maintaining the quality of the book
- ▶ 50% of the book has an LVR <70%, with loans greater than 80% LVR covered by LMI
- ▶ At December 2019 there were only 14 loans in arrears greater than 30 days out of 6,698 loans in the book. This demonstrates the measured approach to expanding the product range
- ▶ No losses incurred on non-LMI insured loans



24 lenders on the panel
Mortgages, Short term, Debtor
and Asset Finance products

Settlements



AFG Business

- ▶ Settlements across the platform increased from **\$56 million** in H1 FY19 to **\$192 million** in H1 FY20
- ▶ AFG Business lender panel now **includes all 4 Majors** – with CBA and Westpac recently joining the panel.
- ▶ Extensive Commercial product range and choice of lender
- ▶ The number of brokers using the platform increased from **138** in H2 FY19 to **225** in H1 FY20
- ▶ Asset finance products have grown to **7 lenders**

AFG
BUSINESS

Thinktank

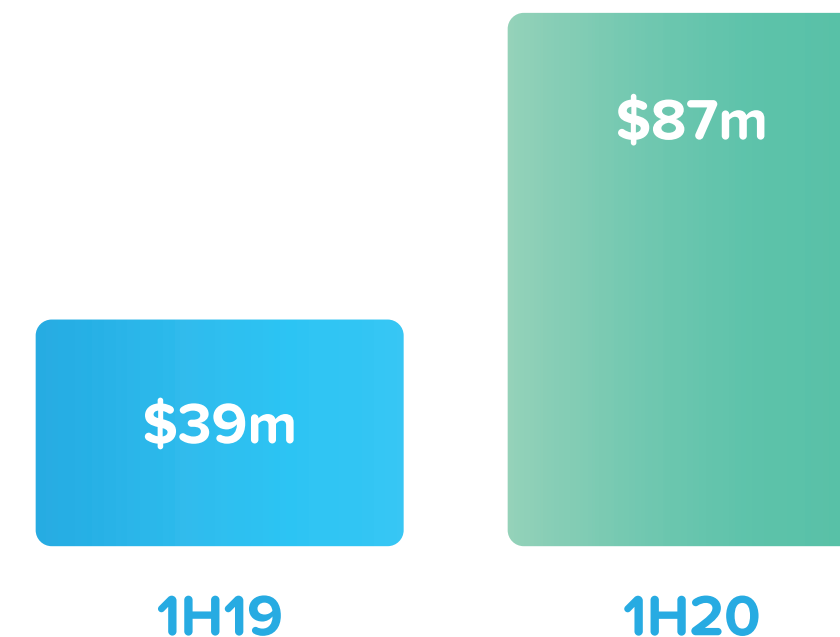
White label - AFG Commercial powered by Thinktank

- ▶ Settlements have increased to **\$87 million** from **\$39 million** in H1 FY19
- ▶ Number of brokers lodging AFG Commercial deals has grown from **133** in H2 FY19 to **168** in H1 FY20

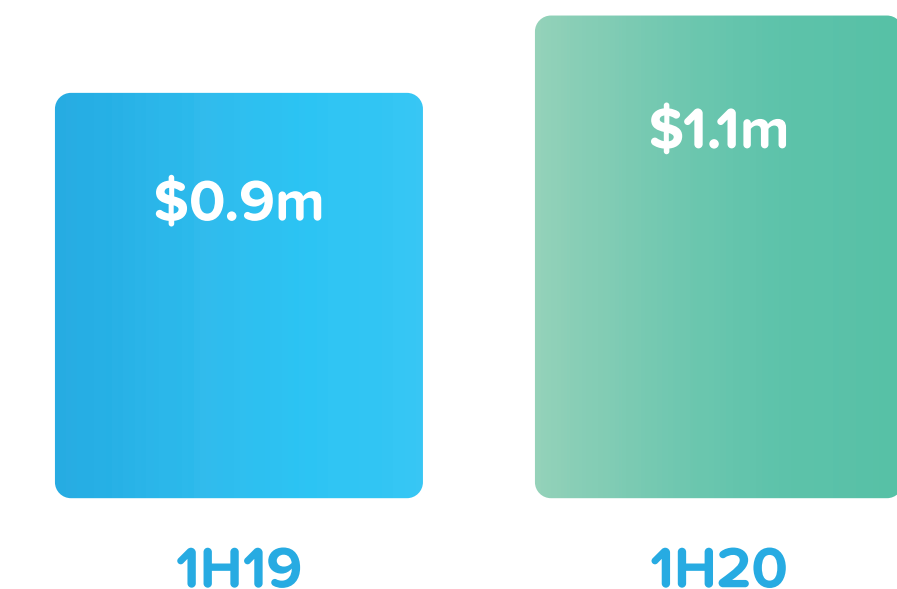
Equity investment in Thinktank

- ▶ The Thinktank equity investment delivered earnings of **\$1.1 million** in H1 FY20
- ▶ Thinktank is now positioned for future growth with white label arrangements with multiple aggregators

AFG Commercial powered by Thinktank Settlements

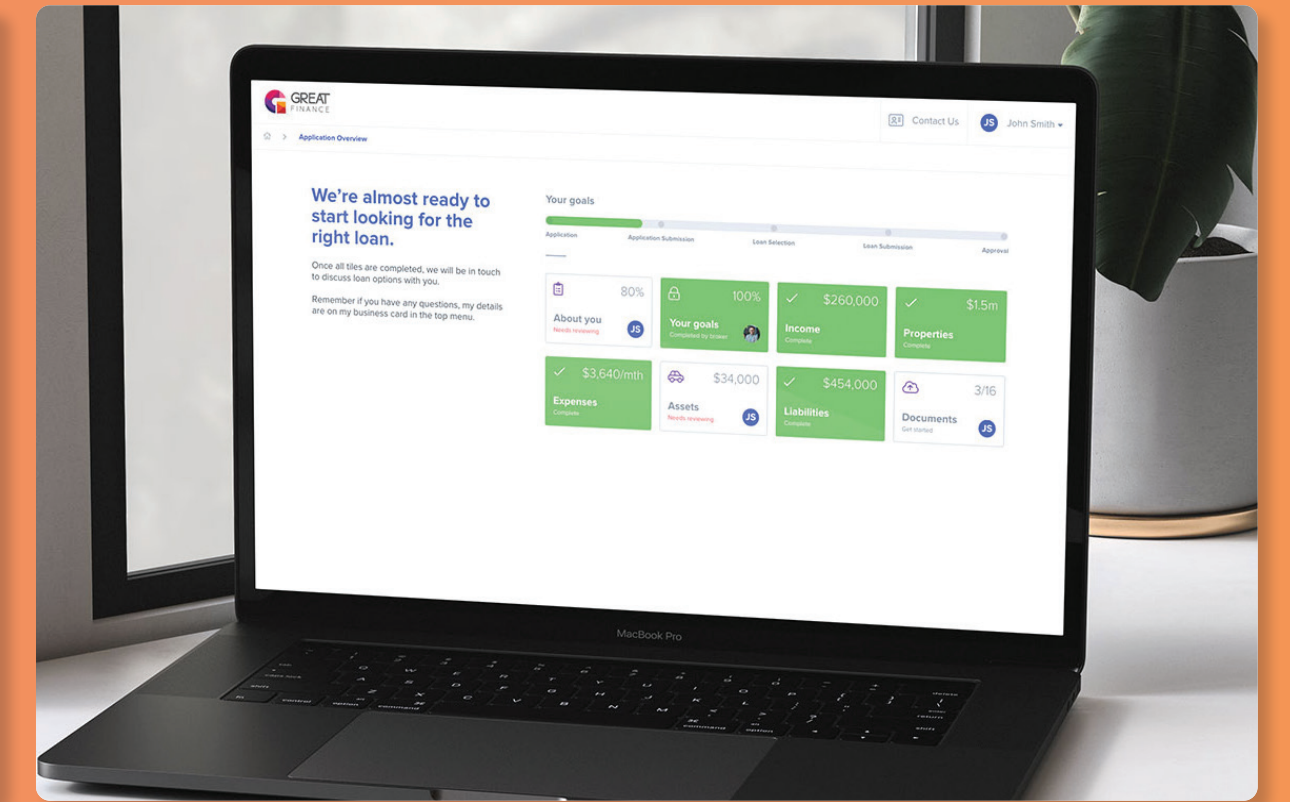
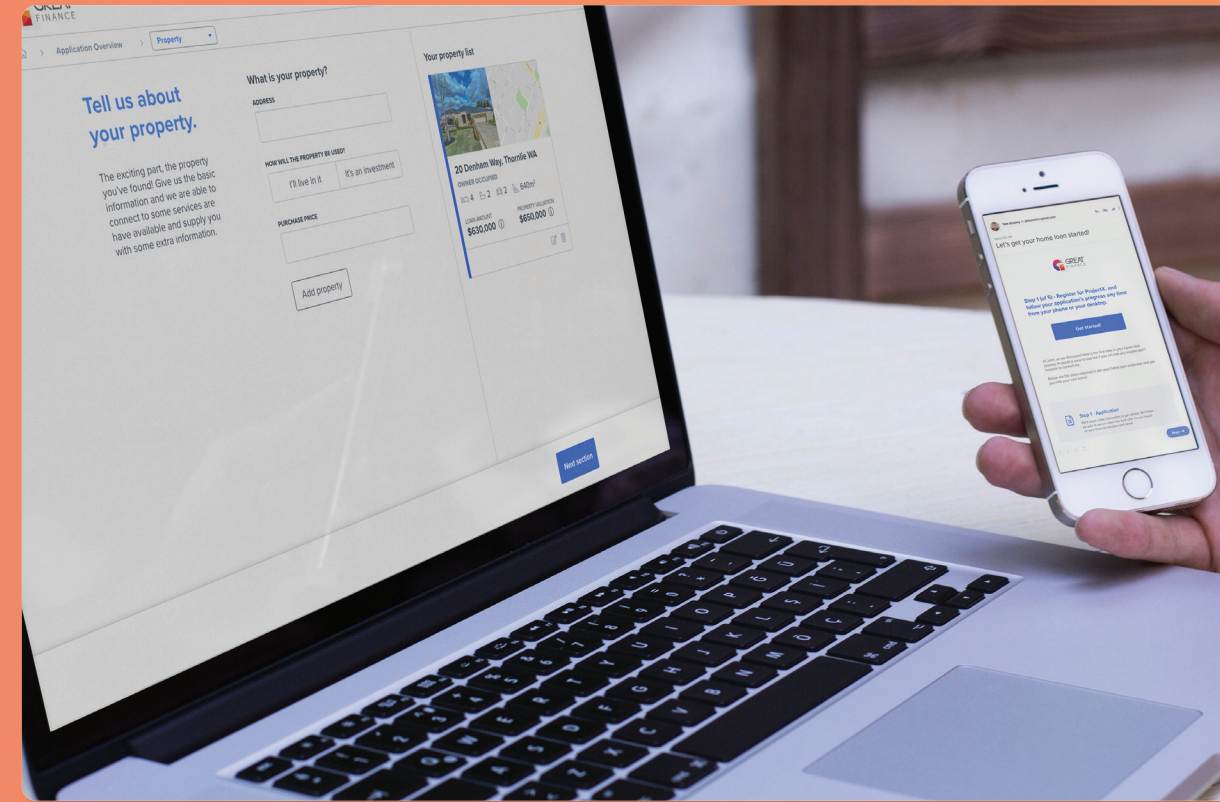


Equity investment contribution to Earnings



Continued investment in technology

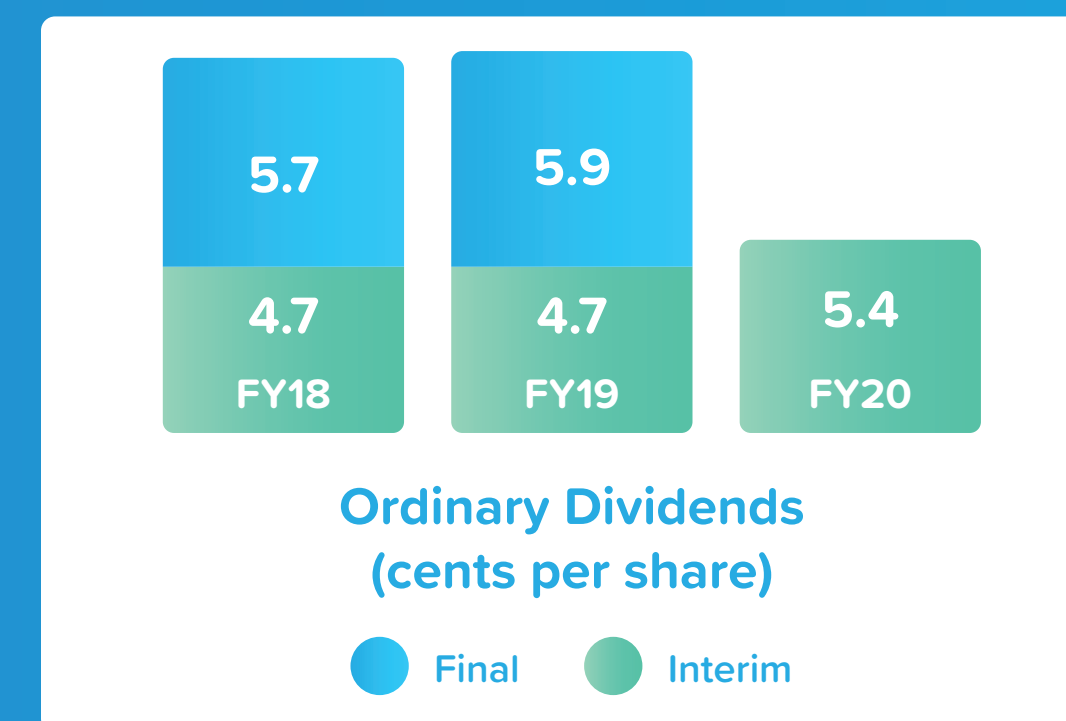
- ▶ Supporting the execution of our strategy to attract & retain brokers - upgrading AFG's core broker platform with the latest technology for growth, efficiency and customer management
- ▶ Allows the option of online interaction between broker and customer
- ▶ Improve process efficiency, submission quality and compliance capability
- ▶ New customer portal in pilot mode with broker portal to be released in H1 FY21



Summary cash flow

	Dec 2019 \$000's	Dec 2018 \$000's
Cashflows from Operating activities		
Cash receipts from customers	253,629	246,824
Cash paid to suppliers and employees	(246,794)	(235,703)
Interest received	44,368	33,395
Interest paid	(27,150)	(24,859)
Income taxes paid	(7,187)	(7,144)
Net cash from operating activities	16,866	12,513
Net cash used in investing activities	(441,413)	(283,366)
Net cash generated by financing activities	444,365	274,310
Net increase in cash and cash equivalents	19,818	3,457
Cash and cash equivalents at the begining of period	96,818	88,710
Cash and cash equivalents at the end of the period	116,636	92,167
Cash reconciliation		
Un-restricted net cash	50,412	49,016
Restricted cash (Securities)	66,224	43,151
Total cash	116,636	92,167

- ▶ Net cash flow from operating activities **\$16.9 million** in H1 FY20, **35%** above H1 FY19. Benefit of historical trail book growth flowing through as increased cash flow
- ▶ AFG Securities loan book grew by **51%** to **\$2.5 billion**, Net interest cash flow grew **102%** as H1 FY20 benefitted from lower cost of funds
- ▶ The AFGS loan book provides a strong platform to generate increased ongoing cashflow and earnings in future years
- ▶ H1 FY20 includes increased investment in technology to update core broker platform
- ▶ AFG continues to generate strong cash flows and maintains a capital light business model allowing ongoing investment to generate future growth



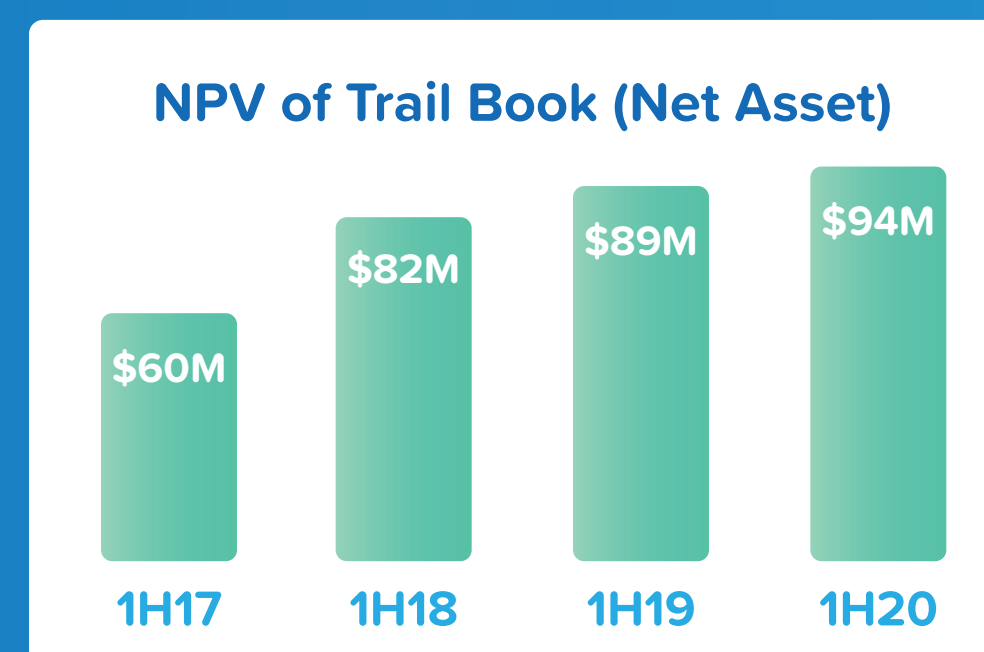
Summary balance sheet

AFG maintains a strong, debt-free balance sheet which provides the platform for future investment in both organic and inorganic growth opportunities

Points to note:

1. Includes restricted cash of **\$66.2 million** (\$47.2 million at Jun 2019)
2. Trail book accounting including Residential, AFG Home Loans and Commercial trail books. Total net asset is now **\$94 million**
3. AFG Securities programme
4. Investment in Thinktank
5. AFG continues to be capital light which assists in maintaining strong cash flows
6. Investment in technology
7. Includes trail book accounting liability and general trade creditors and accruals

Total subordinated notes subscribed of **\$27.3 million** as at 31 December 2019 (30 June 2019: **\$27.1 million**)



AFG

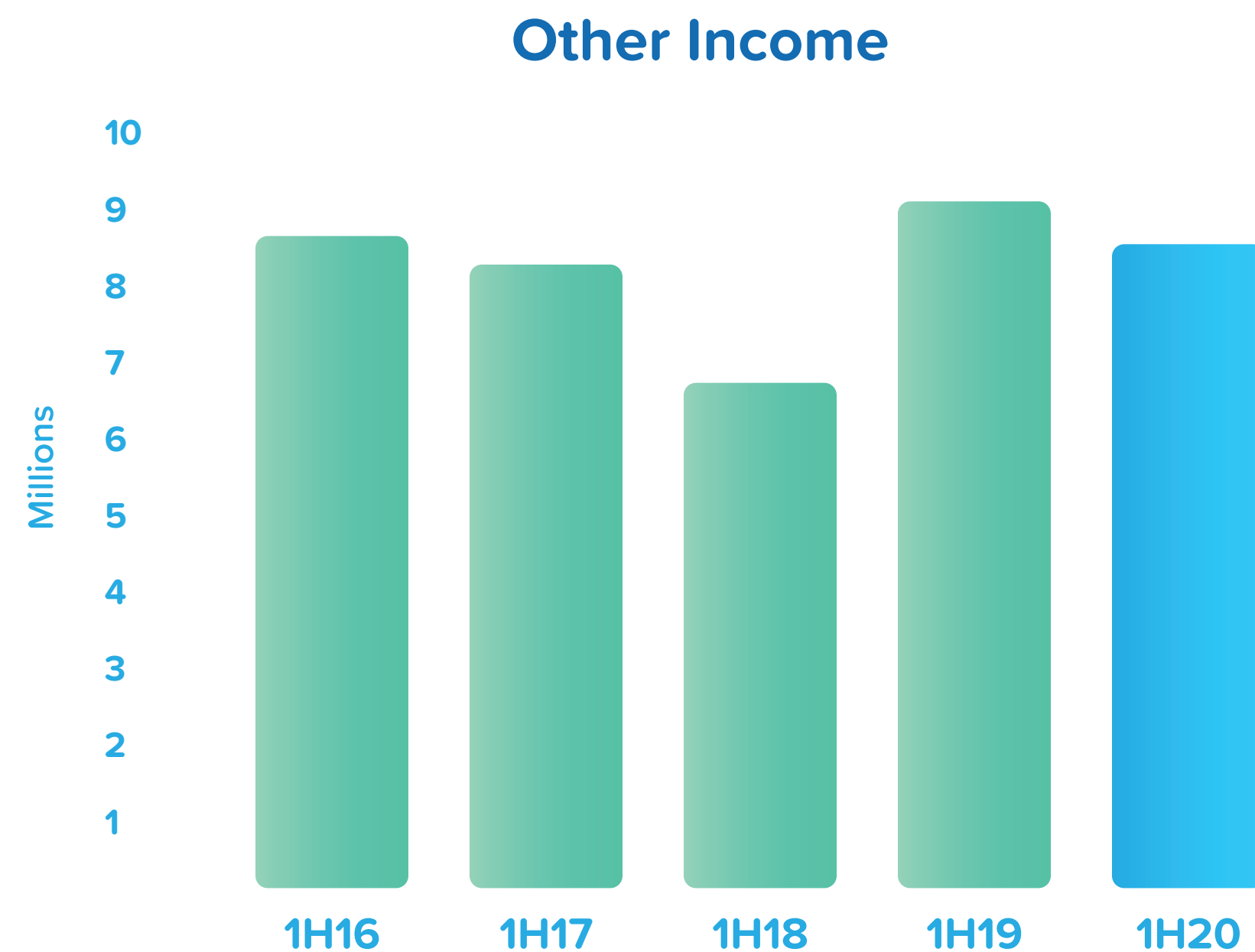
		Dec 2019 \$000's	Jun 2019 \$000's
Assets			
Cash	1	116,636	96,818
Receivables		6,668	5,415
Contract Assets	2	927,644	899,727
Loans and advances	3	2,514,331	2,072,004
Right of use Asset		7,098	-
Investment in associate	4	15,868	14,341
Property, plant and equipment	5	659	849
Intangible assets	6	2,141	806
Total assets		3,591,045	3,089,960
Liabilities			
Trade and other payables	7	911,732	881,180
Interest bearing liabilities	3	2,531,745	2,073,772
Employee benefits		4,347	5,234
Lease liability		7,223	-
Provisions		2,989	3,129
Deferred tax liability		21,992	21,823
Total liabilities		3,480,028	2,985,138
Net assets		111,017	104,822
Equity			
Share capital		43,541	43,541
Reserves		2,100	1,534
Retained earnings		65,376	59,747
Total equity		111,017	104,822

Impact of trail book accounting

Underlying profit **20%** above H1 FY19 excluding change in value of future trailing commission

- 1 Discount rates once set are not adjusted during the life of the loan. The spread in discount rate captures loans settled in previous financial years as well as the current financial year.
- 2 The percentage paid to brokers is fixed by the terms of their respective agreement with the Group. As a consequence, management does not expect changes to the percentage paid to brokers to be reasonably possible.

		Dec 2019 \$000's		Dec 2018 \$000's
Statutory	Operating Income	Profit After Tax	Operating Income	Profit After Tax
Underlying results from continuing operations	296,988	17,670	279,374	14,715
Change in the present value of contract asset and trailing commission payable	27,917	678	35,199	1,971
Results from continuing operations	324,905	18,348	314,573	16,686
		Dec 2019		Jun 2019
Average loan life	Between 3.2 and 5.1 years		Between 3.2 and 5.1 years	
Discount rate per annum ¹	Between 5% and 13.5%		Between 5% and 13.5%	
Percentage paid to members ²	Between 85% and 94%		Between 85% and 93.8%	

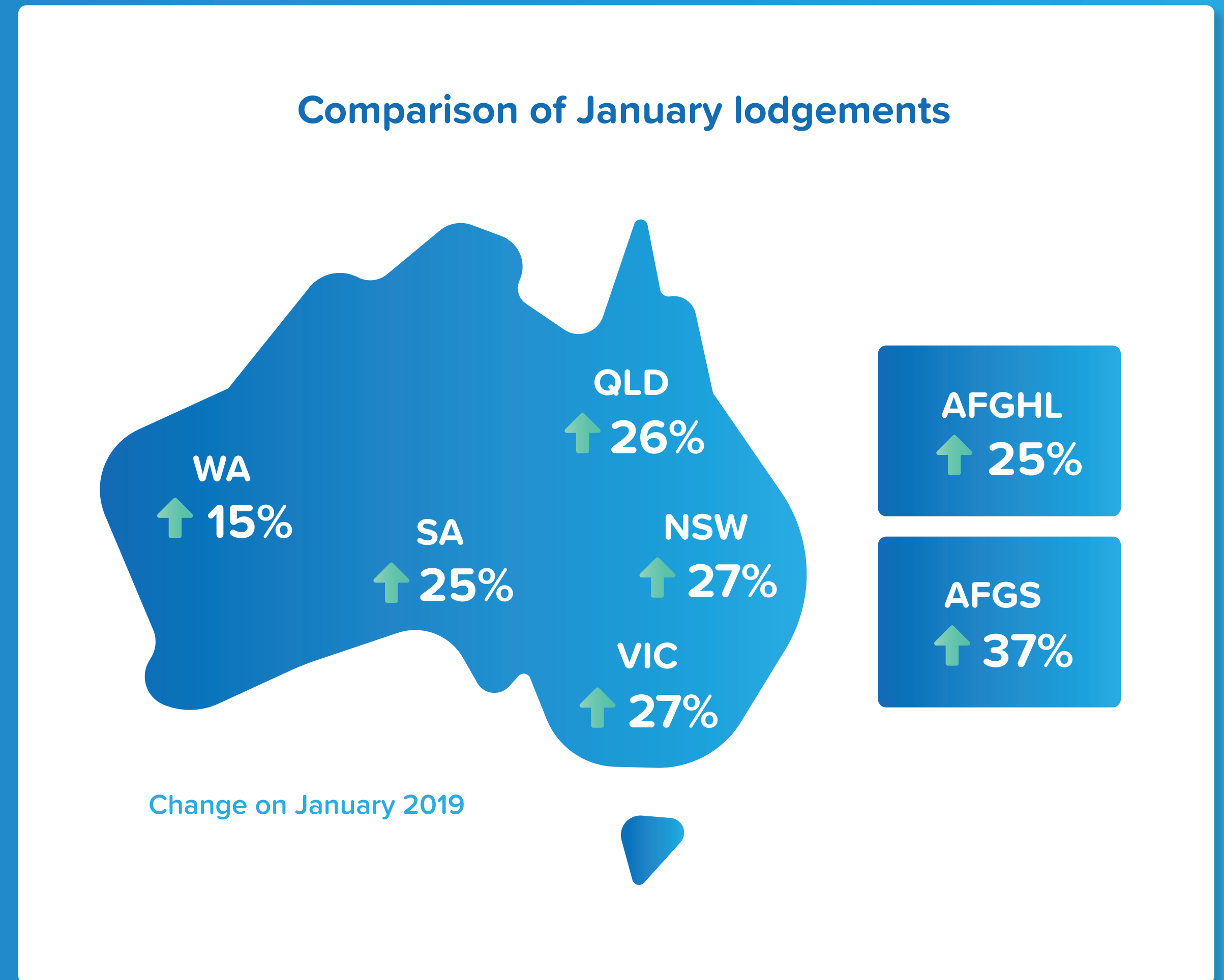


Other income

- ▶ Service fees have increased **2%** in H1 FY20, driven by an increase in broker services, including compliance and marketing services. Other income has decreased with H1 FY19 including one-off items
- ▶ Sponsorship income decreased slightly in H1 FY20 which predominately relates to the timing of conferences held in the year
- ▶ FY16 and FY17 included Volume Bonus Income of **\$4 million** and **\$3 million** respectively. Volume bonuses have been removed from the industry

January 2020 trading

- ▶ Total residential lodgements **\$3.75 billion**, up **25%** on January 2019
- ▶ AFG Home Loans lodgements up **25%** on January 2019
- ▶ AFG Securities lodgements up **37%**
- ▶ Residential lodgement growth across all states



In conclusion



H1 FY20 result demonstrates the robust nature of the business driven by AFG's earnings diversification strategy.



Continued growth in the AFGS loan book achieved while maintaining quality – expanding a strong platform for future earnings.



Investment in technology to update the core broker platform with the latest technology capabilities for brokers' growth, efficiency and customer management. Delivering better outcomes for brokers and customers.



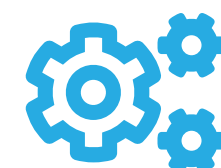
While the market begins to increase volumes complexity remains. Greater competition and choice evidenced by the growth in non-major lenders. Brokers are in a strong position to continue to be a dominant channel for home lending.



Investment in Thinktank continues strong contribution to earnings in H1 FY20. Growth underpinned by strong relationships with multiple aggregators.



AFG Business platform experienced significant growth in volume. Lender panel now expanded to include all 4 majors. This will further drive competition and choice in the SME market.



Merger with Connective progressing through court process and ACCC has released a Statement of Issues seeking industry views and further information.

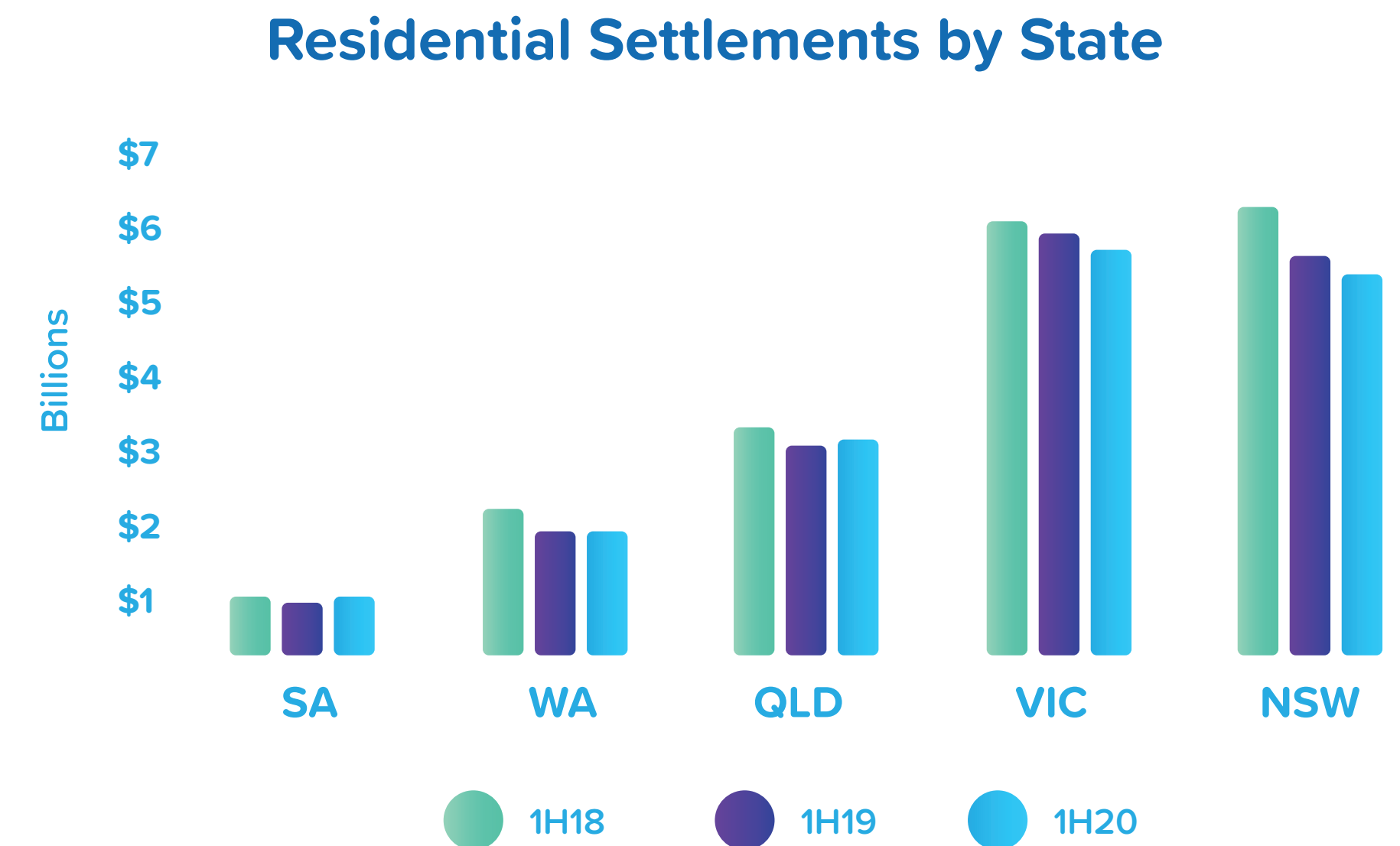
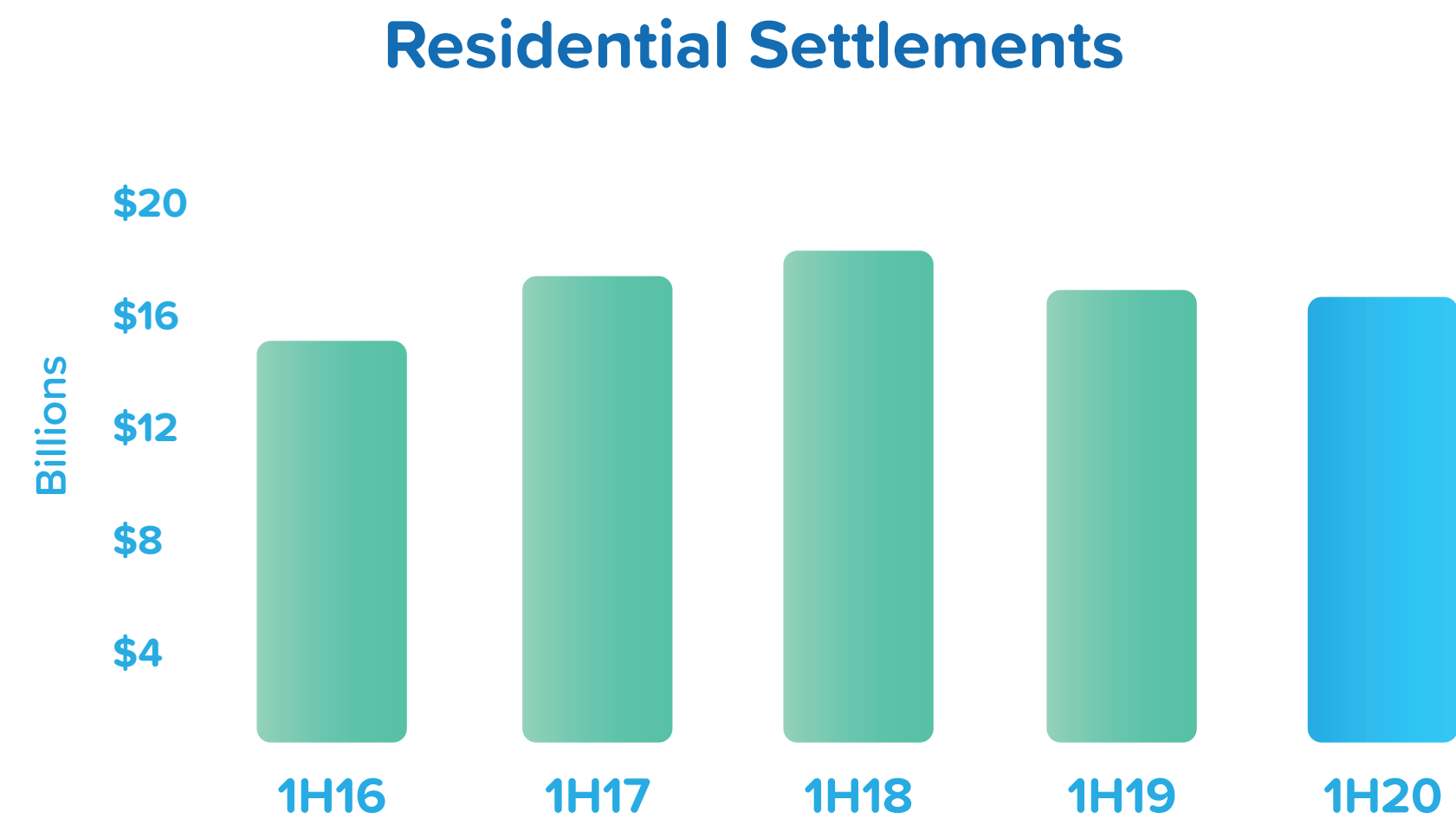


Strong cash flow generation including the flow through from historic trail book growth. Cash flow generation capability of the business and debt free balance sheet places AFG in a strong position for future growth initiatives.

Q&A
Thank you

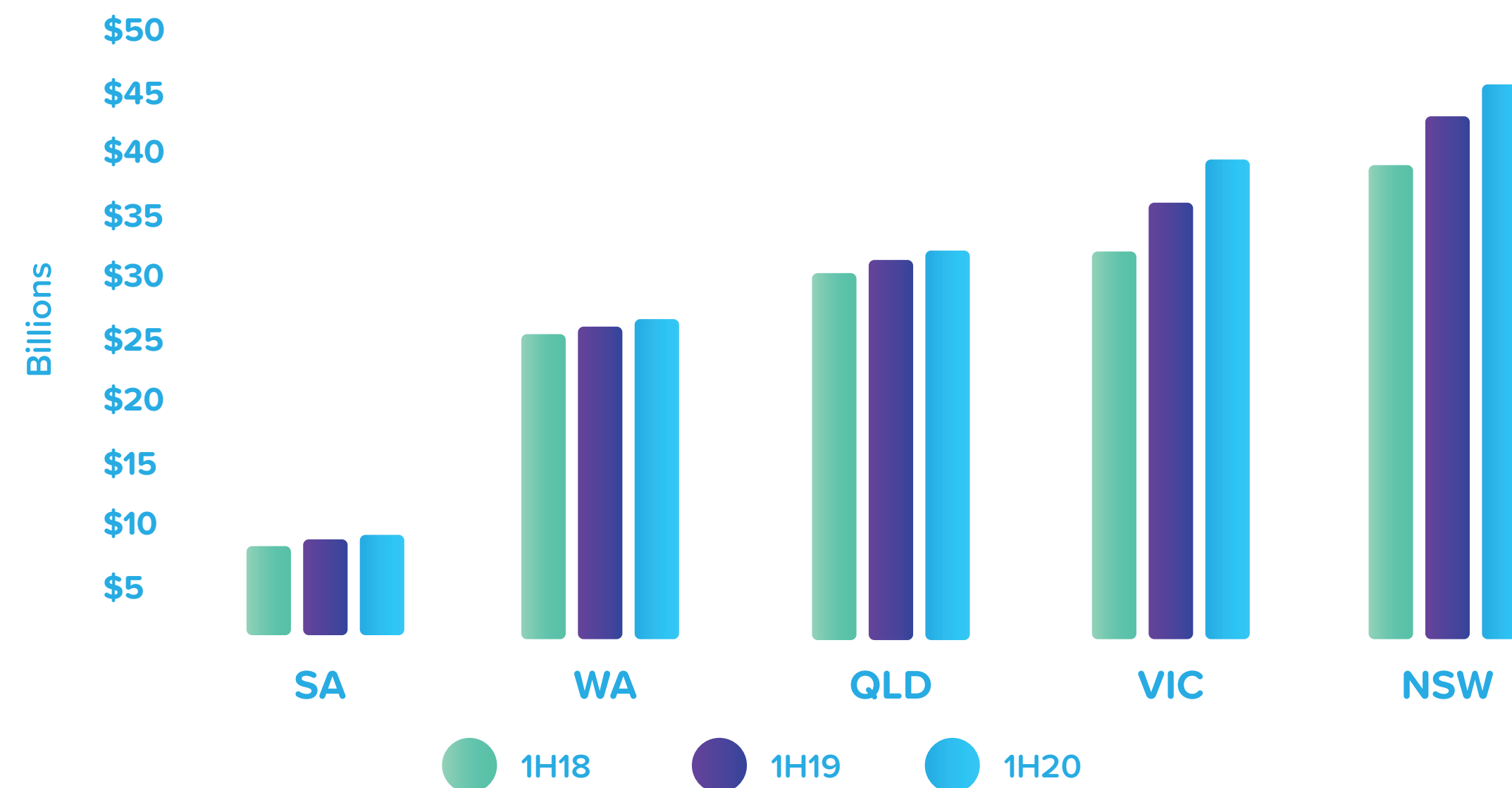
Appendices

Residential settlements

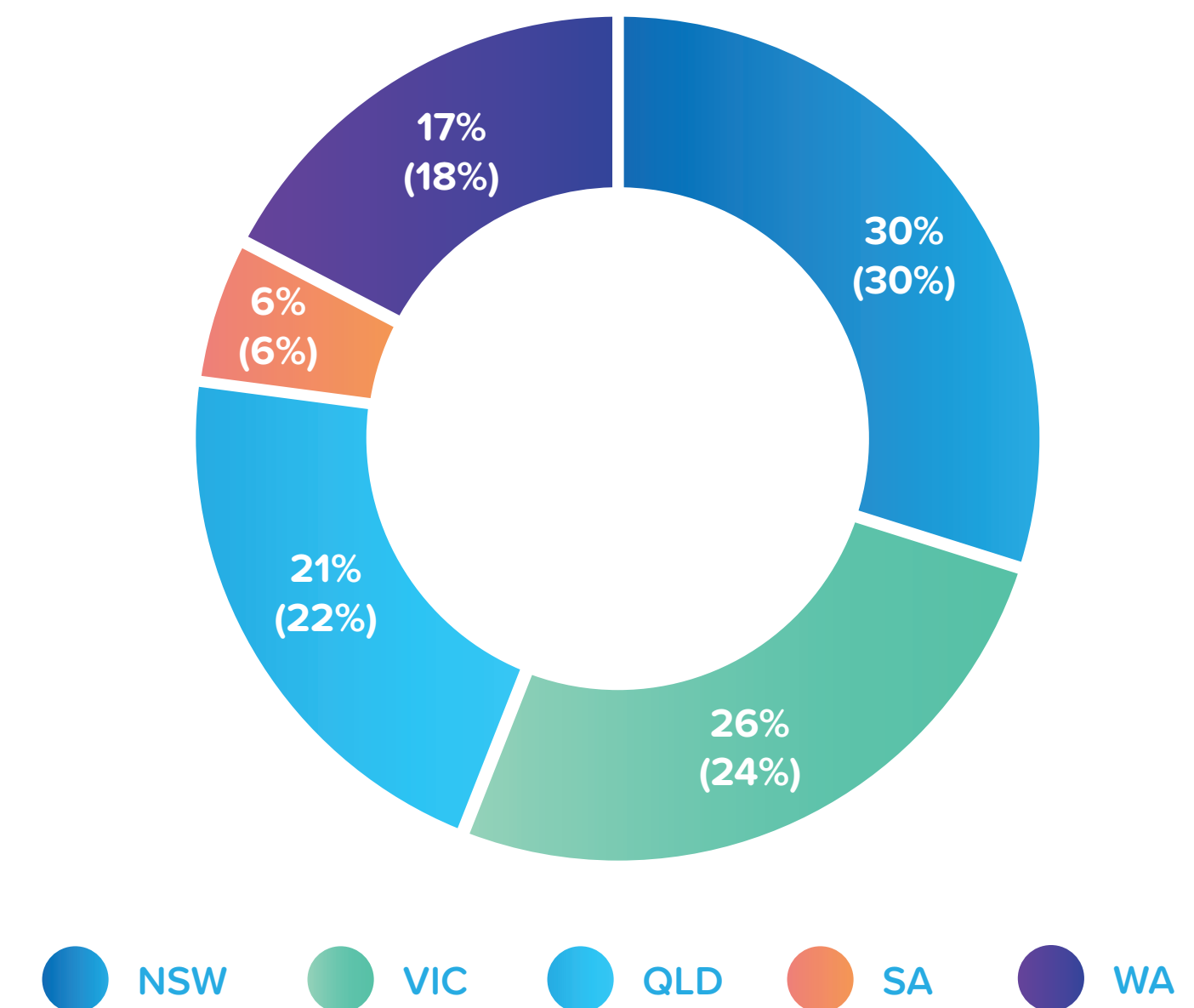


Residential portfolio - December 2019

Residential Portfolio by State

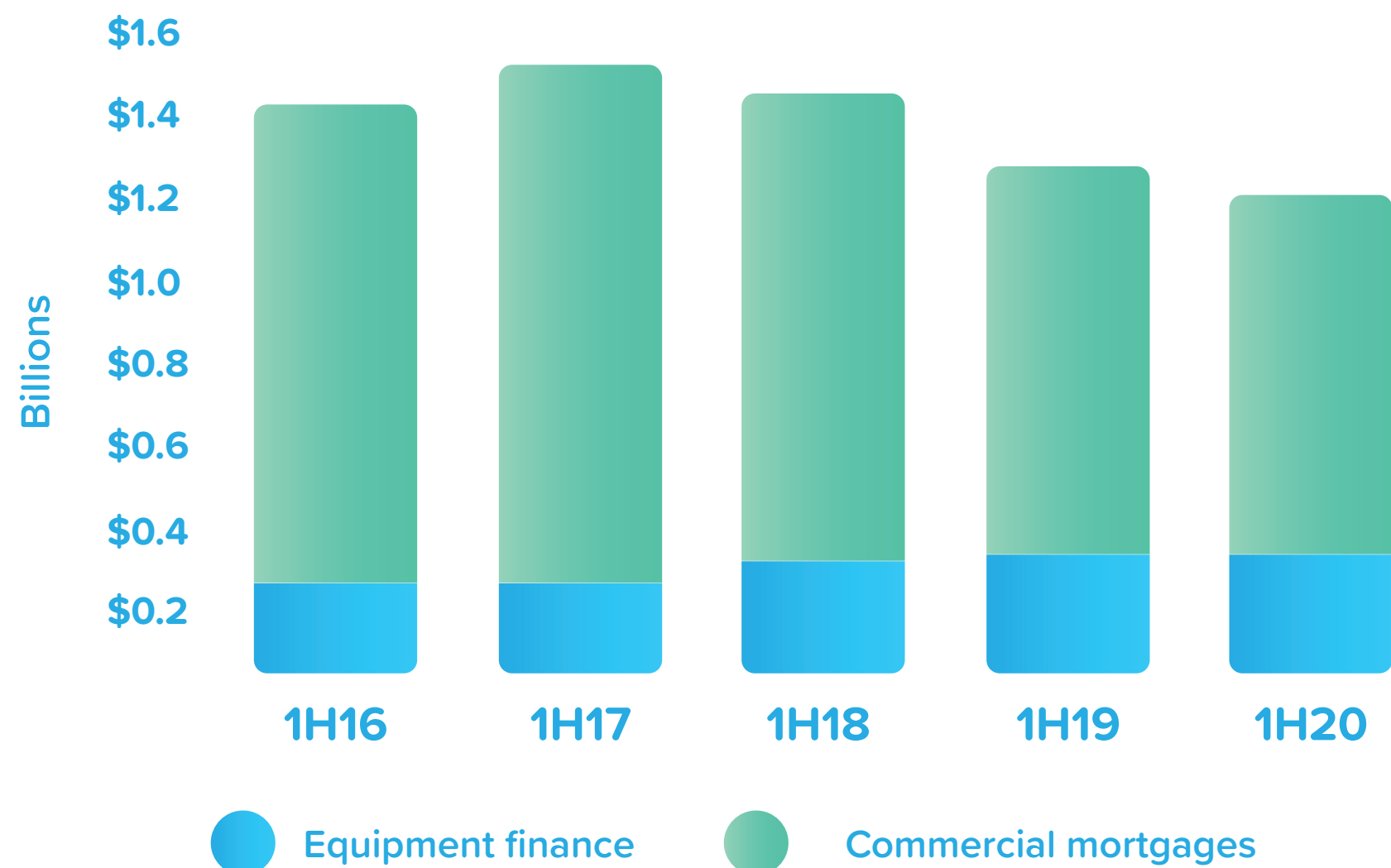


Residential Loan Book Location

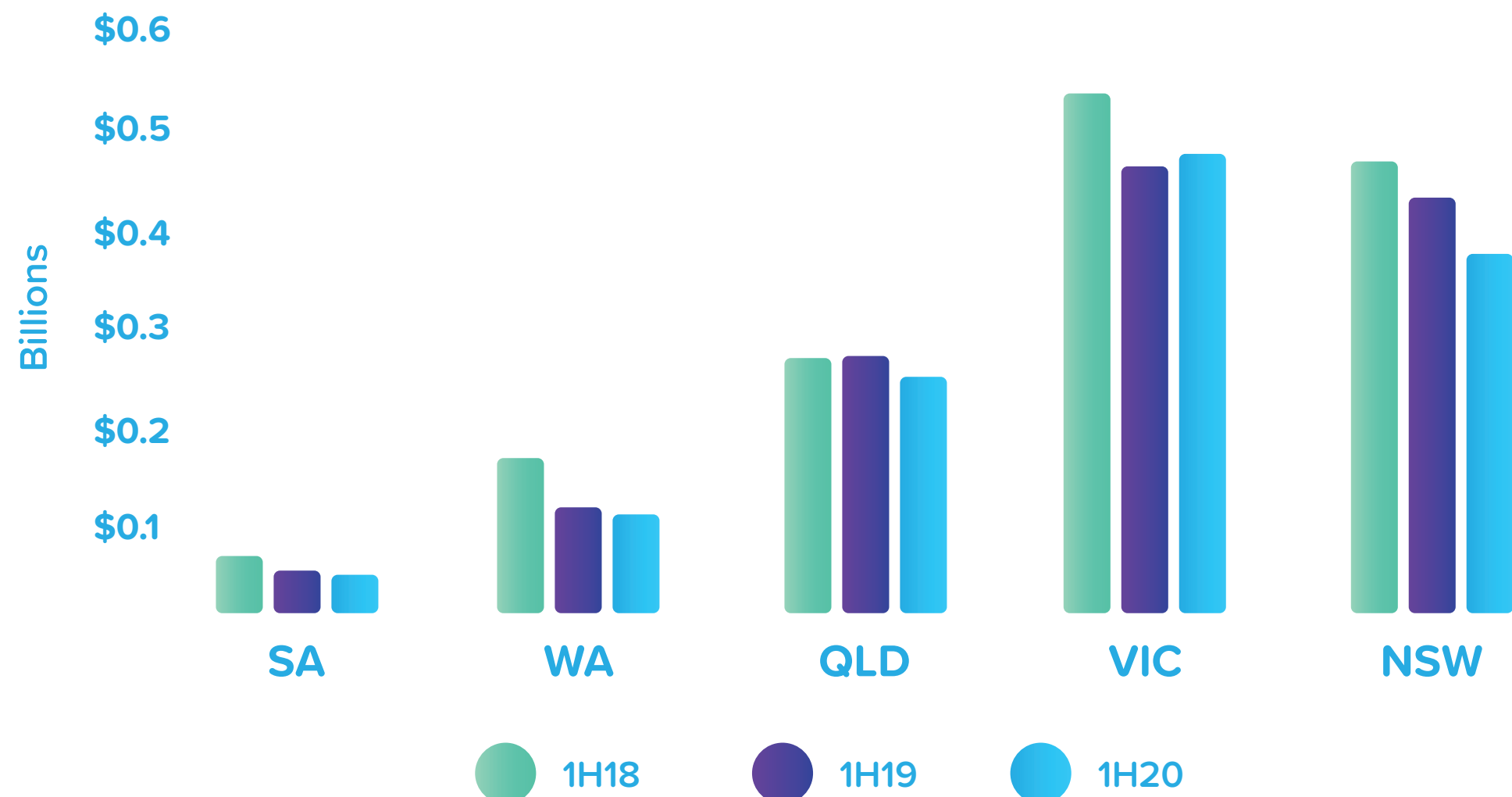


Commercial and Asset Finance aggregation settlements

Commercial and EF Settlements



Commercial Settlements by State

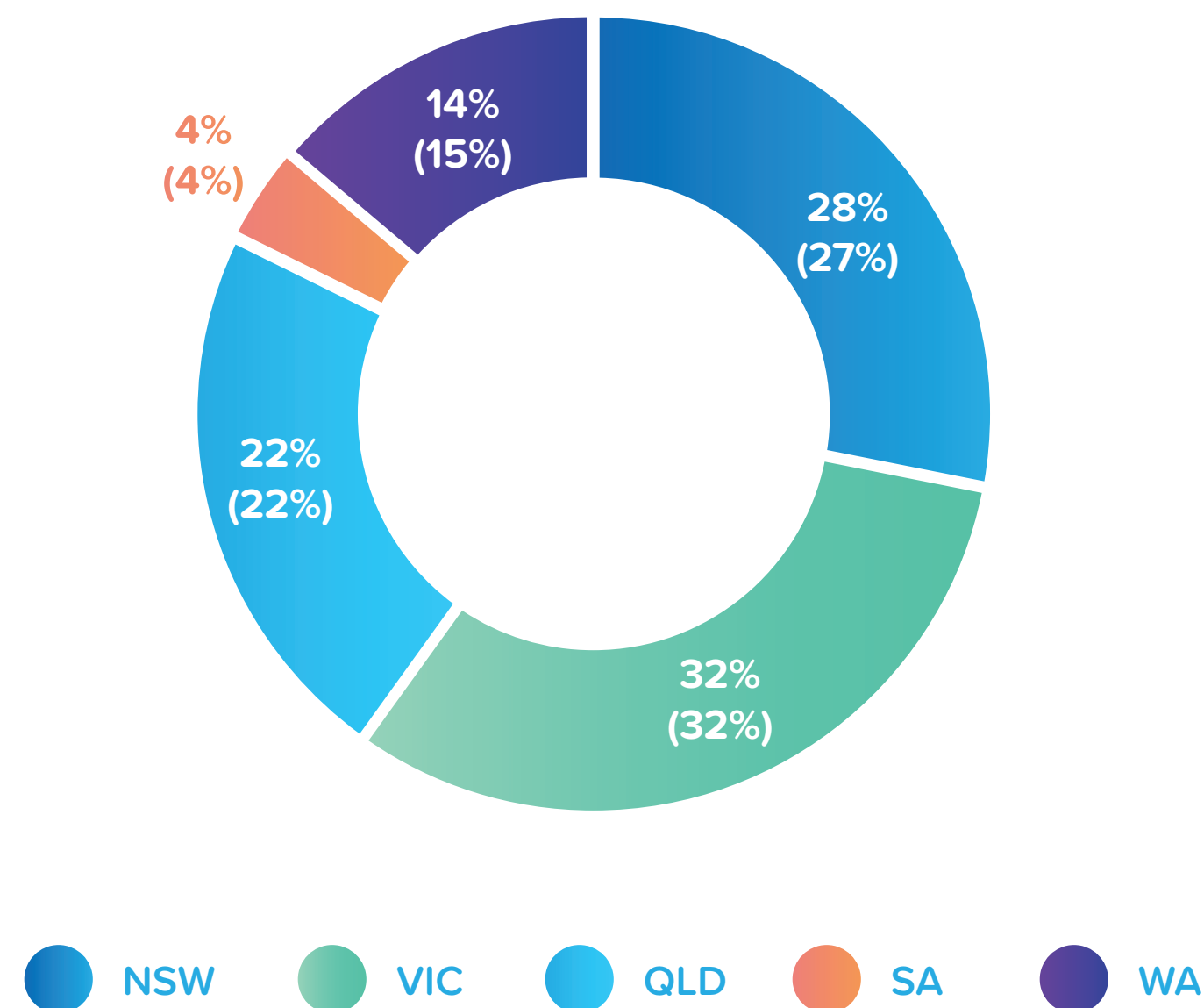


Commercial portfolio - December 2019

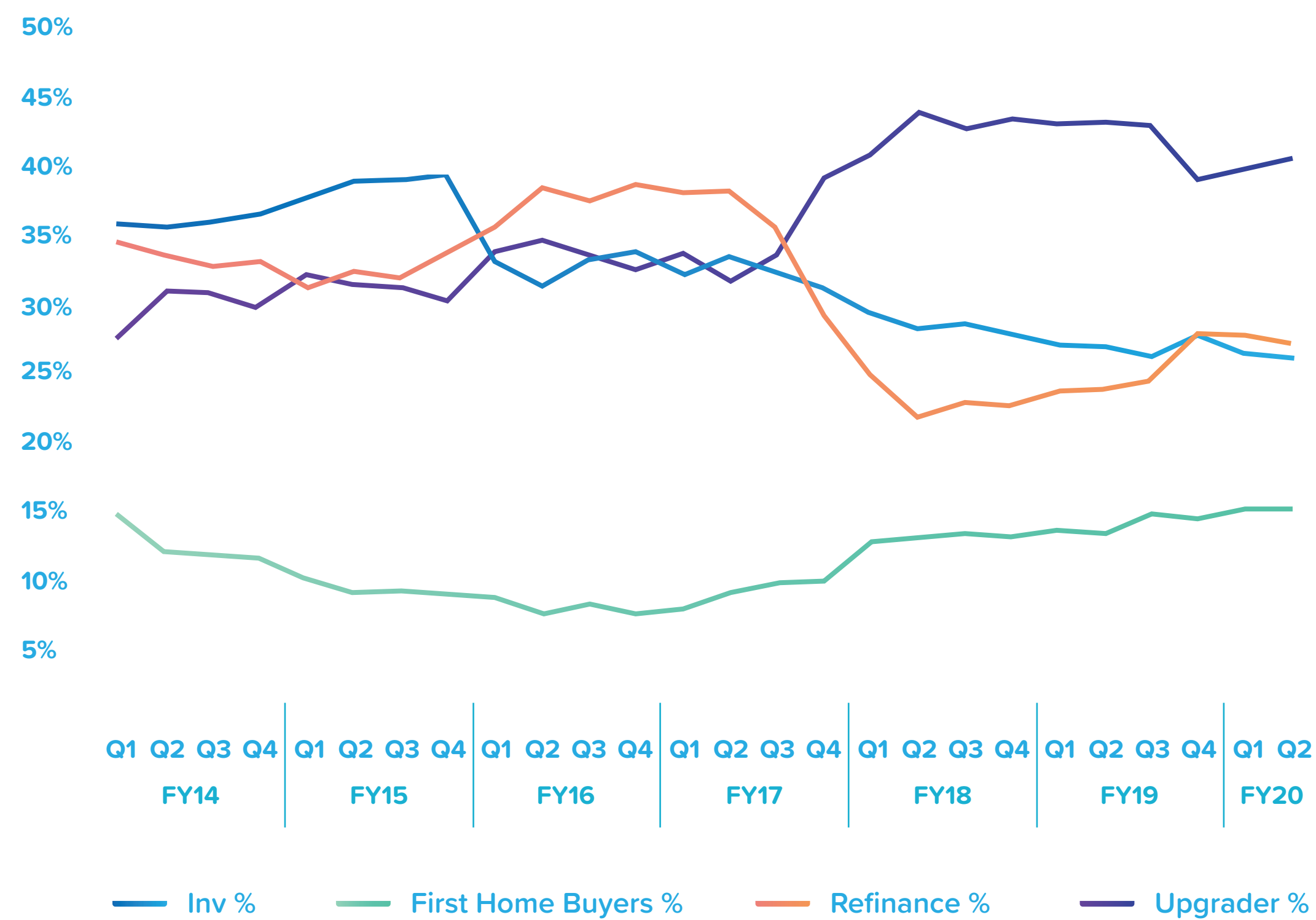
Commercial Portfolio by State



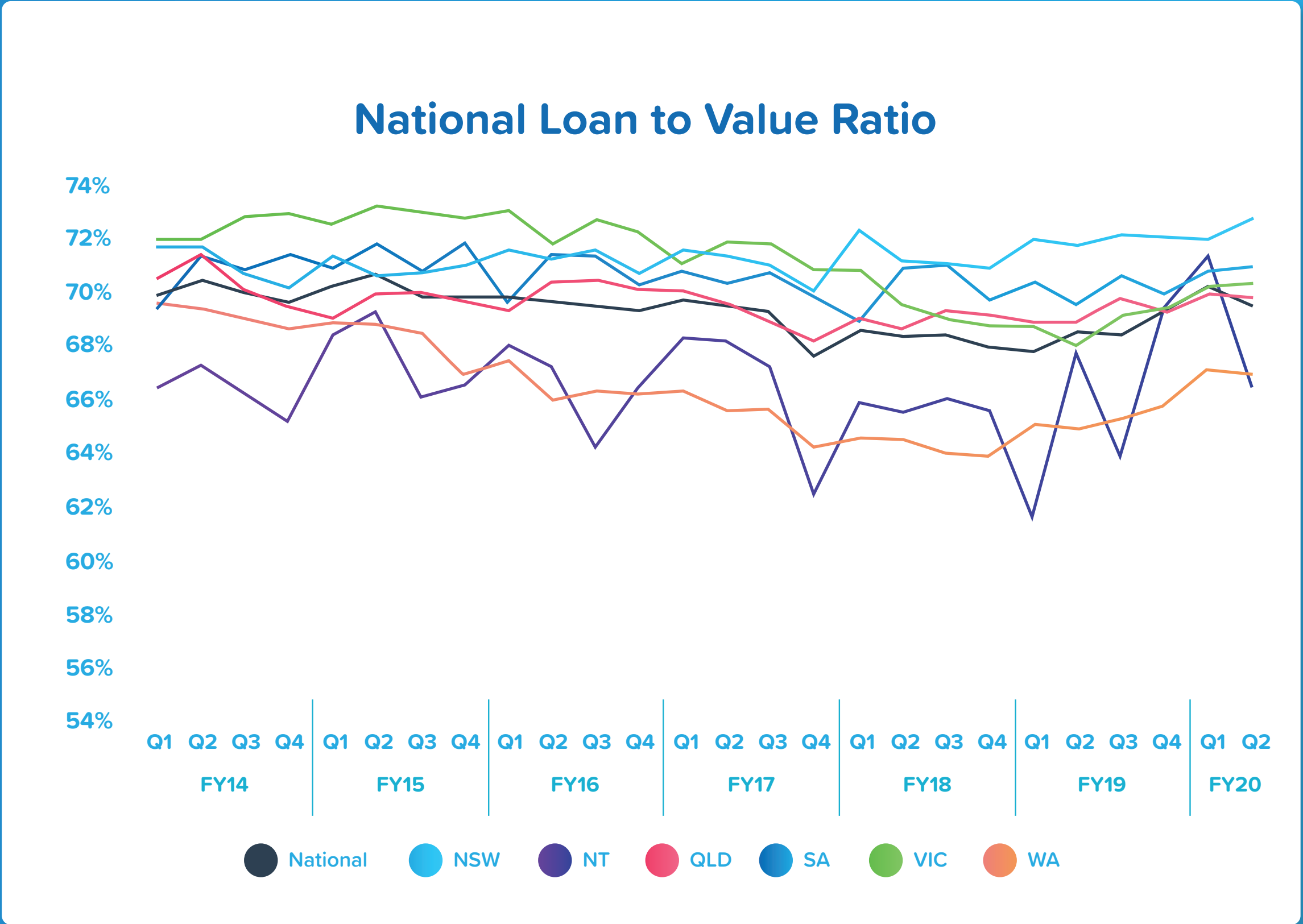
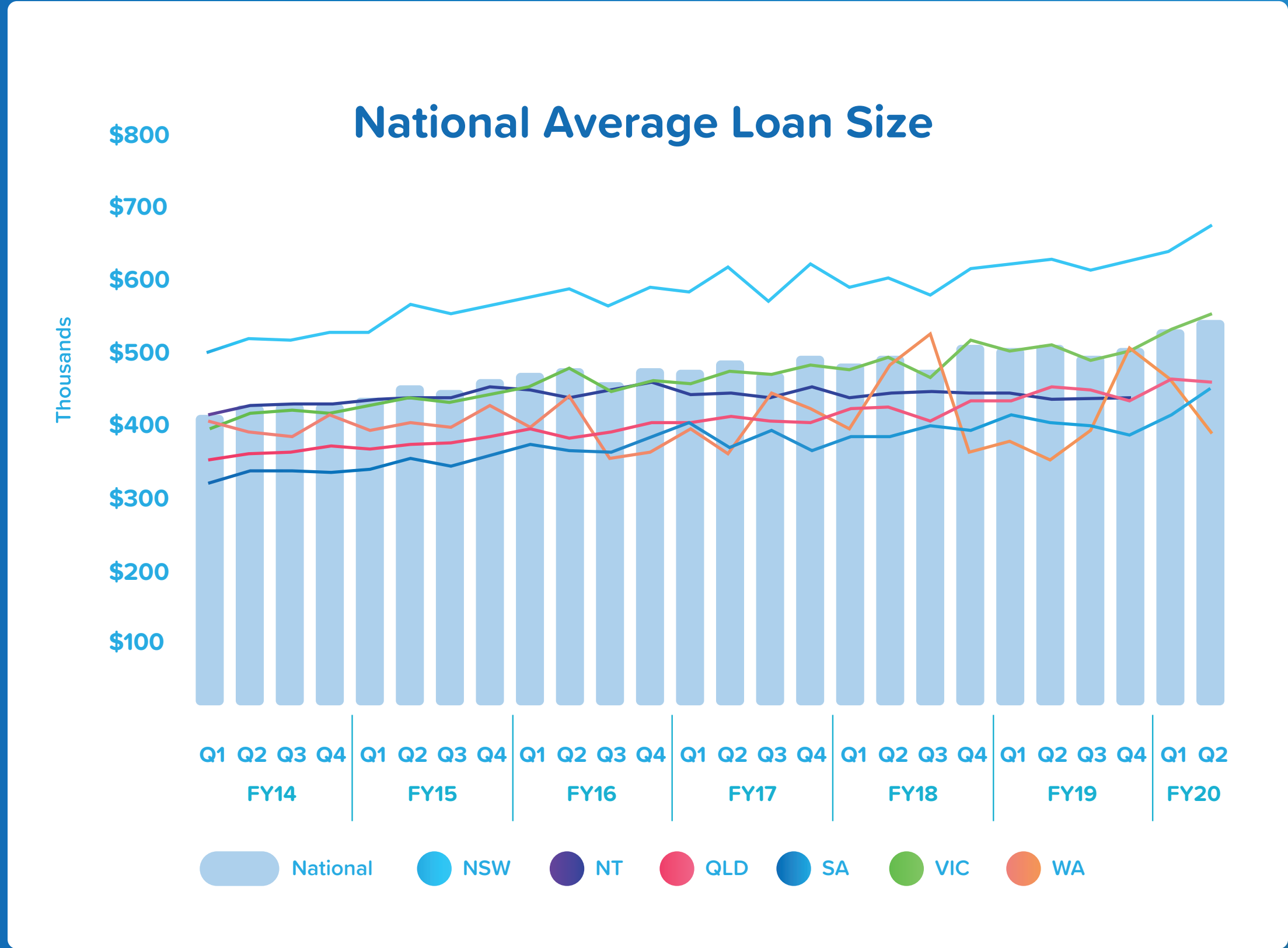
Commercial Loan Book Location



Types of lodgements

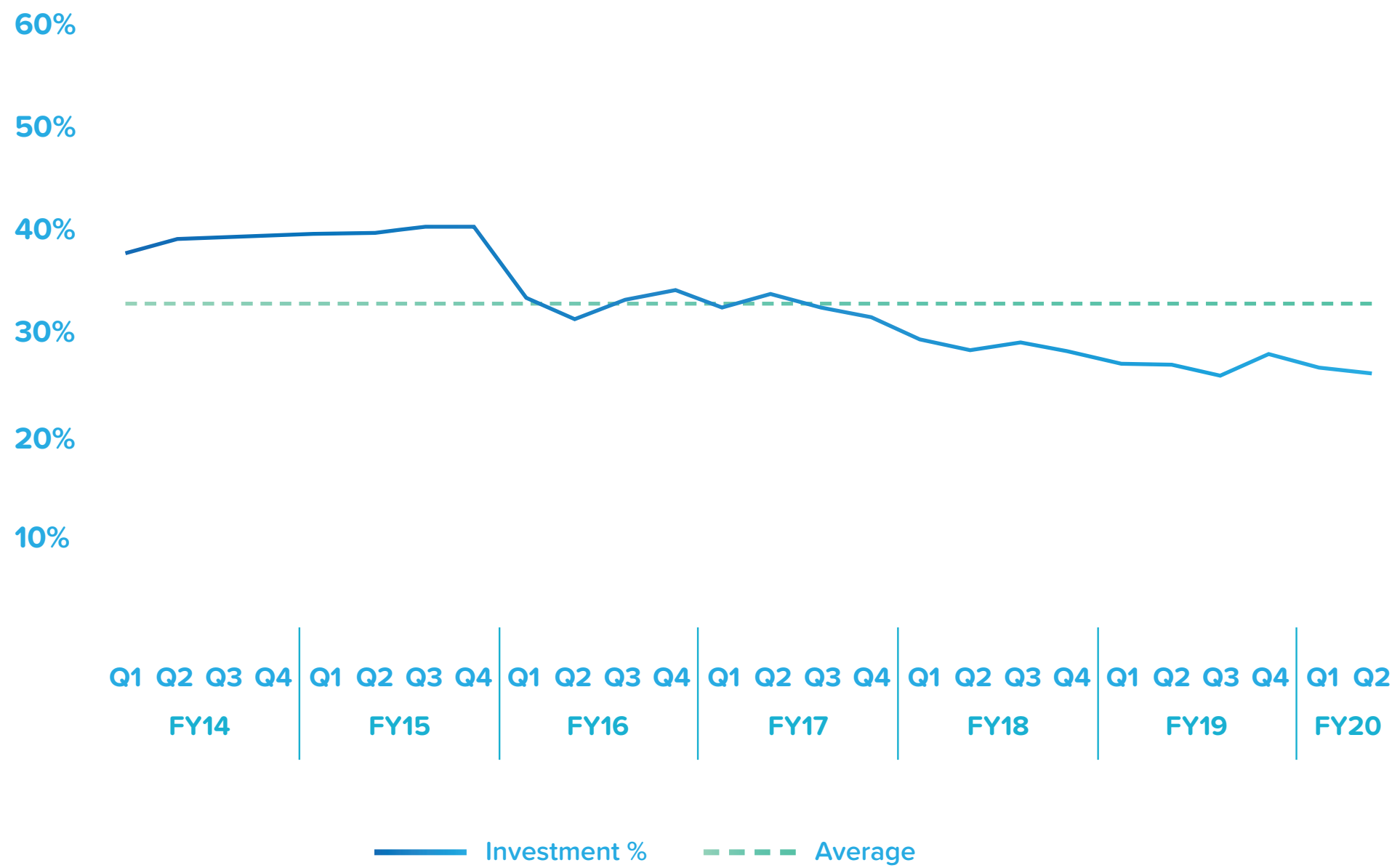


Lending activity

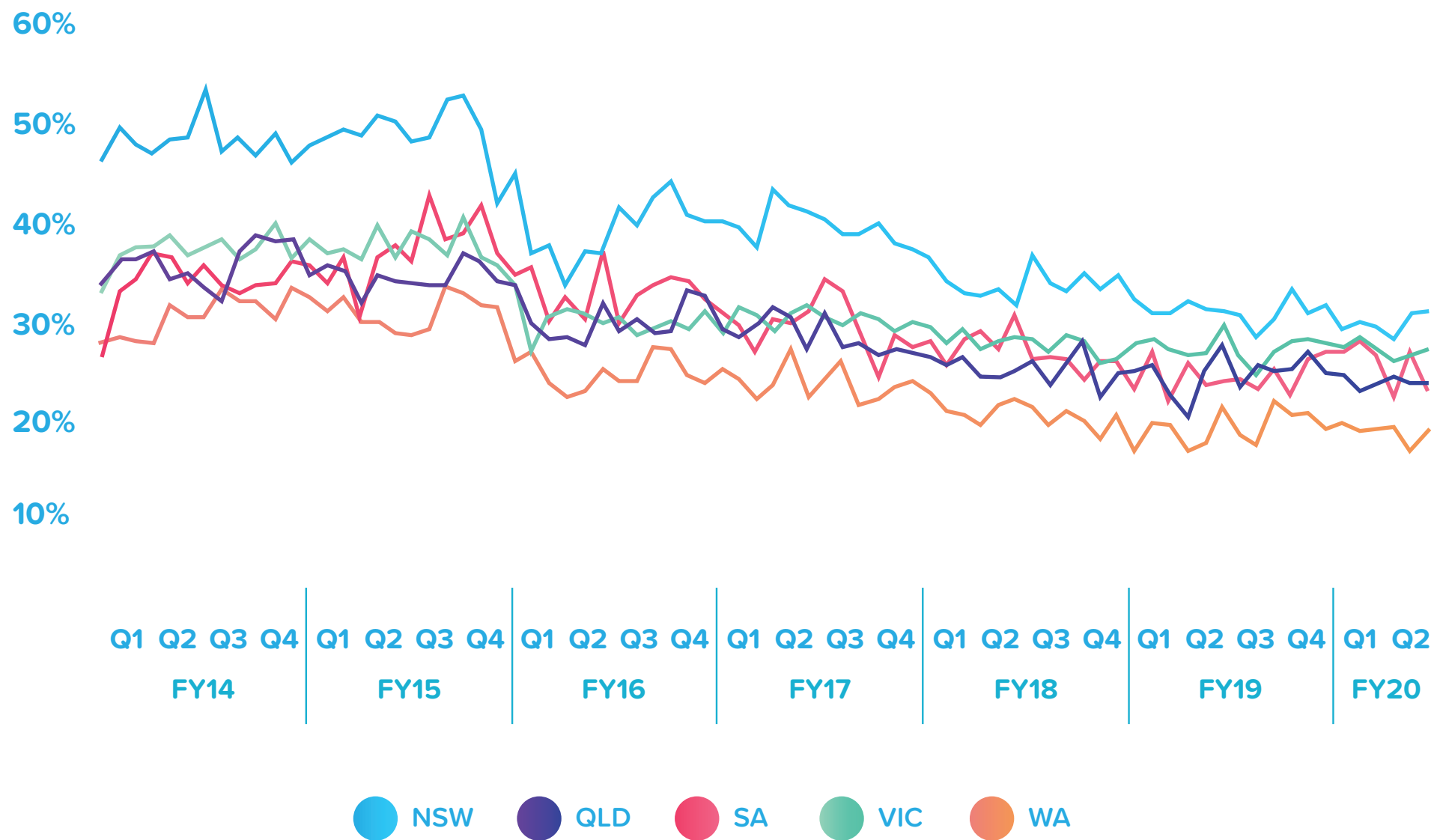


Investor loans

Investor Loans %

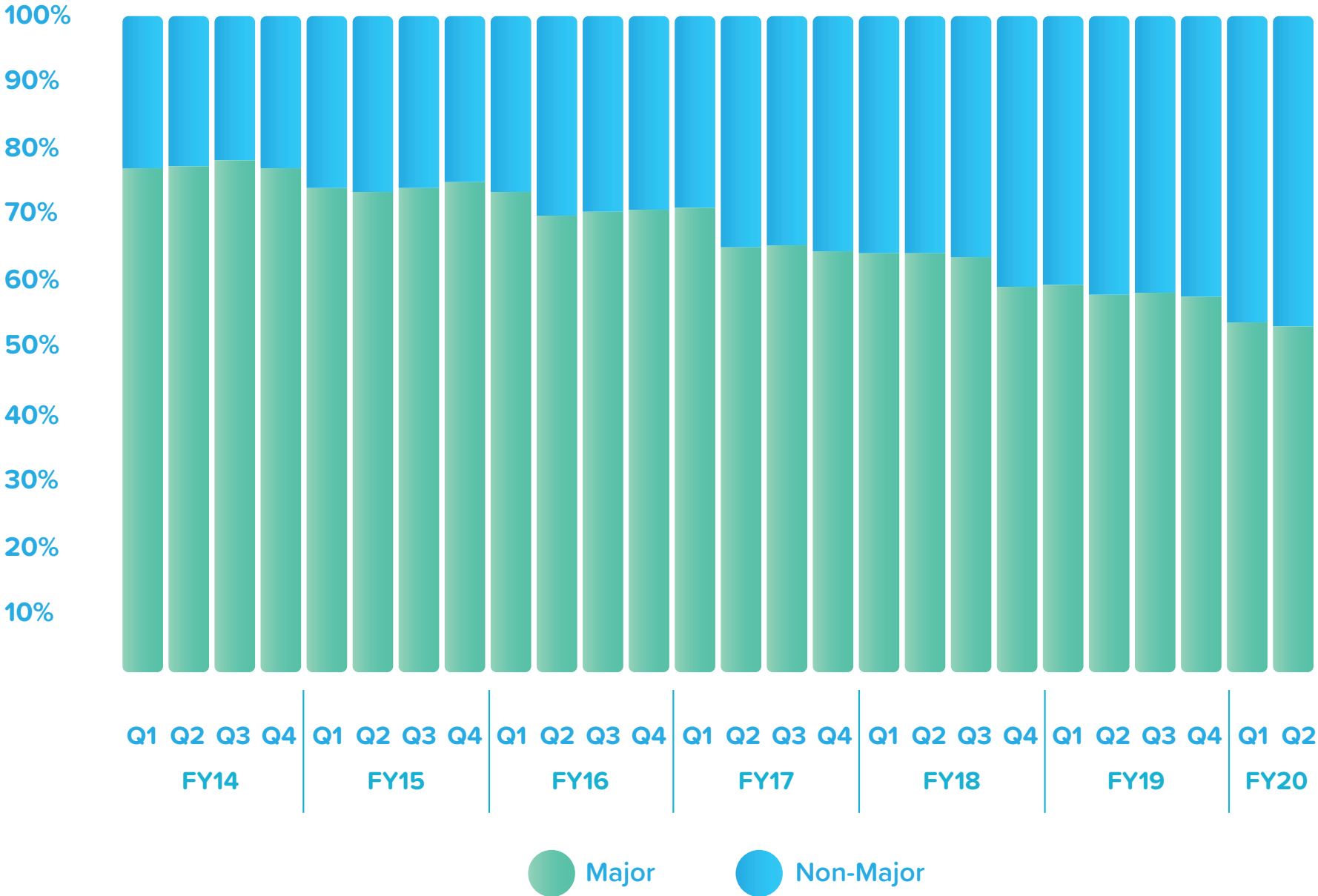


Investor Loans % per State

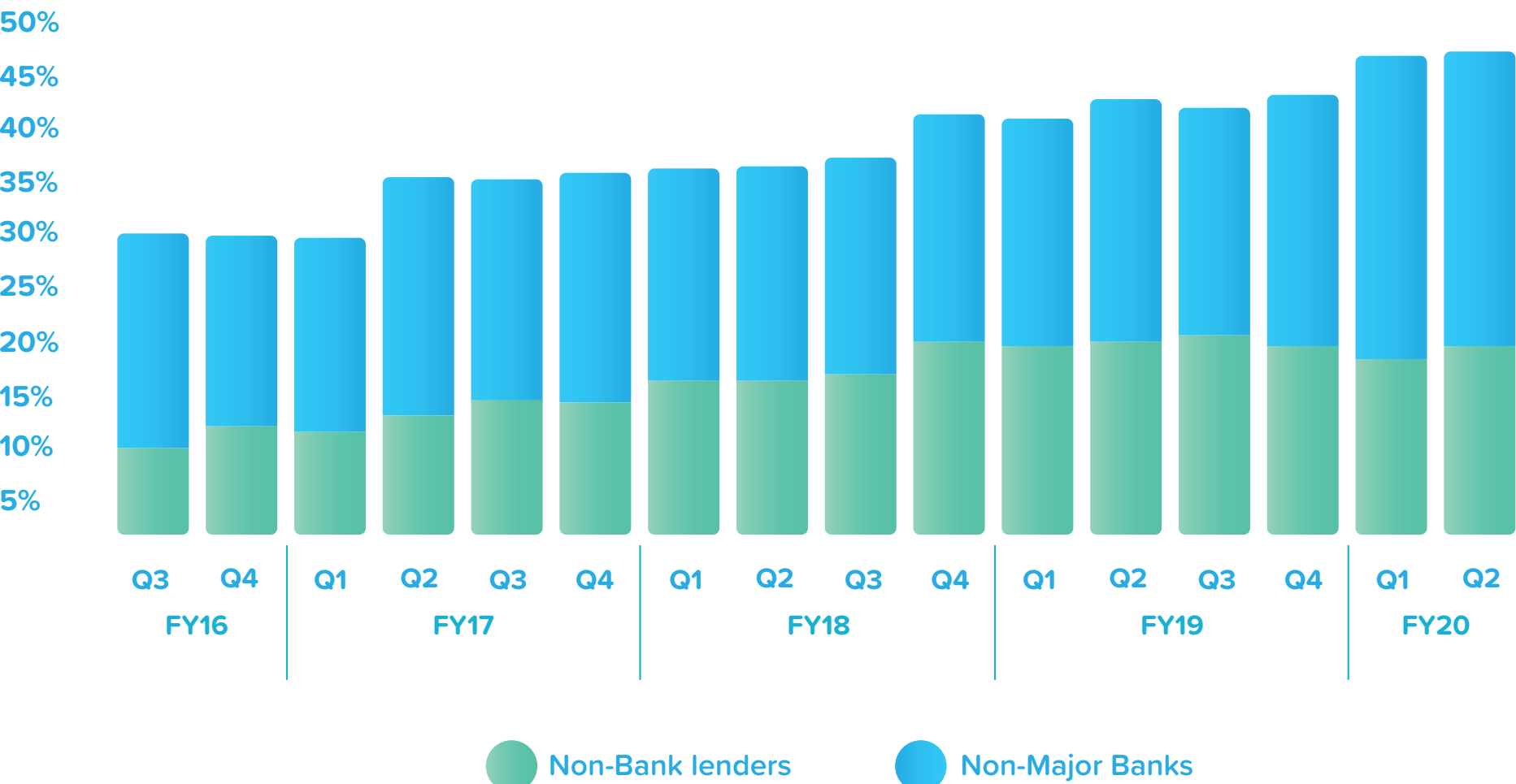


Lending activity

Major vs Non-Major



Non-Major Market Share



Summary P&L

	1H20	1H19
Commissions	250,971	253,647
Interest on trail commission income receivable	28,156	26,741
Mortgage management services	140	103
Securitisation transaction fees	1,270	687
Securitisation interest income	44,368	33,395
Total Revenue	324,905	314,573
Securitisation interest expense	(27,150)	(24,859)
Commission and other cost of sales	(254,939)	(253,031)
Gross Profit	42,816	36,683
Other income	8,595	9,151
Administration expenses	(2,801)	(2,434)
Other expenses	(23,126)	(21,090)
Depreciation and amortisation	(1,320)	(526)
Result from operating activities	24,164	21,784
Finance income	776	1,042
Share of profit of an associate	1,147	921
Profit before tax	26,087	23,747
Income tax expense	(7,739)	(7,061)
Net Profit after tax related to FY	18,348	16,686

Consolidated income statement

	Dec 2019 \$000's	Dec 2018 \$000's
Continuing Operations		
Commission and other income	280,537	281,178
Securitisation interest income	44,368	33,395
Operating income	324,905	314,573
Commission and other cost of sales	(254,939)	(253,031)
Securitisation interest expense	(27,150)	(24,859)
Gross profit	42,816	36,683
Other income	8,595	9,151
Administration expenses	(2,801)	(2,434)
Other expenses	(24,446)	(21,616)
Results from operating activities	24,164	21,784
Finance income	776	1,042
Finance expenses	-	-
Share of profit from associate	1,147	921
Net finance income	1,923	1,963
Profit before tax from continuing operations	26,087	23,747
Income tax expense	(7,739)	(7,061)
Profit for the period	18,348	16,686

	Dec 2019 \$000's	Dec 2018 \$000's
Profit attributable to:		
Equity holders of the Company	18,348	16,686
Non-controlling interests	-	-
Profit for the period	18,348	16,686
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Net fair value change on equity investments at FVOCI	3	(7)
Total comprehensive income for the period	18,351	16,679
Total comprehensive income for the period attributable to:		
Equity holders of the Company	18,348	16,686
Non-controlling interests	-	-
Total comprehensive income for the period	18,348	16,686
Earnings per share		
Basic earnings per share (cents per share)	8.52	7.77
Diluted earnings per share (cents per share)	8.42	7.74

Extracted from Appendix 4D

Balance sheet

	Dec 2019 \$000's	Jun 2019 \$000's
Assets		
Cash and cash equivalents	116,636	96,818
Trade and other receivables	6,668	5,415
Contract assets	927,644	899,727
Loans and advances	2,514,331	2,072,004
Right of use asset	7,098	-
Investment in associate	15,868	14,341
Property, plant and equipment	659	849
Intangible assets	2,141	806
Total assets	3,591,045	3,089,960

	Dec 2019 \$000's	Jun 2019 \$000's
Liabilities		
Interest-bearing liabilities	2,531,745	2,073,772
Trade and other payables	904,749	874,076
Employee benefits	4,347	5,234
Current tax payable	3,191	2,808
Lease liability	7,223	-
Contract liability	3,792	4,296
Provisions	2,989	3,129
Deferred tax liability	21,992	21,823
Total liabilities	3,480,028	2,985,138
Net assets		
Net assets	111,017	104,822
Equity		
Share capital	43,541	43,541
Share-based payment reserve	2,193	1,630
Other capital reserves	(93)	(96)
Retained earnings	65,376	59,747
Total equity	111,017	104,822

Cash flows

Cash reconciliations	Dec 2019	Dec 2018
Un-restricted net cash	50,412	49,016
Restricted cash (Securities)	66,224	43,151
Total cash	116,636	92,167

	Dec 2019 \$000's	Dec 2018 \$000's
Cash flows of operating activities		
Cash receipts from customers	253,629	246,824
Cash paid to suppliers and employees	(246,794)	(235,703)
Interest received	44,368	33,395
Interest paid	(27,150)	(24,859)
Income taxes paid	(7,187)	(7,144)
Net cash from operating activities	16,866	12,513
Cash flows from investing activities		
Interest received	776	1,042
Acquisition of property, plant and equipment	(1,637)	(111)
Investment in Thinktank	(379)	-
Decrease in other loans and advances	1,533	212
Loans and advances	(441,706)	(284,509)
Net cash used in investing activities	(441,413)	(283,366)
Cash flows used in financing activities		
Proceeds from warehouse facility	119,350	404,024
Proceess from/(repayments to) securitised funding facilities	338,624	(117,455)
Lease rental payment	(890)	-
Decrease in loans from funders	-	(15)
Dividends Paid	(12,719)	(12,244)
Net cash generated by financing activities	444,365	274,310
Net increase in cash and cash equivalents		
Net increase in cash and cash equivalents	19,818	3,457
Cash and cash equivalents at the beginning of the period	96,818	88,710
Cash and cash equivalents at the end of the period	116,636	92,167

Impact of securitisation SPVs on balance sheet

The proforma balance sheet shows the Group's balance sheet with the 'non-recourse' special purpose vehicles (SPVs) relating to the securitisation business and the balance sheet of the Group separately

Points to note:

1. The AFG business is largely debt free outside the non-recourse securitisation book within the special purpose vehicles
2. AFG's total subordinated notes subscribed of **\$27.3 million** reflects the total cash exposure to the securitisation business at 31 December 2019 (**\$27.1 million** at 30 June 2019). This includes growth in the loan book

	AFG SPV's	AFG exSPV's	Re-classification	AFG Limited
Cash and cash equivalents	64,299	52,337	-	116,636
Trade and other receivables	-	6,668	-	6,668
Contract assets	-	927,644	-	927,644
Loans and advances	2,504,462	9,869	-	2,514,331
Right of use asset	-	7,098	-	7,098
Investment in associate	-	15,868	-	15,868
Investment in subordinated notes	-	27,330	(27,330)	-
Property, plant and equipment	-	659	-	659
Intangible assets	-	2,141	-	2,141
Total assets	2,568,761	1,049,614	(27,330)	3,591,045
Liabilities				
Interest bearing liabilities	2,562,994	(3,919)	(27,330)	2,531,745
Trade and other payables	5,600	906,132	-	911,732
Employee benefits	-	4,347	-	4,347
Lease liability	-	7,223	-	7,223
Provisions	-	2,989	-	2,989
Deferred tax liability	-	21,992	-	21,992
Total liabilities	2,568,594	938,764	(27,330)	3,480,028
Net assets	167	110,850	-	111,017

Important disclaimer

This presentation contains general information which is current as at 20 February 2020.

The information is intended to be a summary of Australian Finance Group Limited (AFG) and its activities as at 31 December 2019, and does not purport to be complete in any respect.

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