

AUSTRALIAN FINANCE GROUP FINANCIAL RESULTS FOR FY2016

26 August 2016

Australian Finance Group (ASX: AFG) reports a net profit after tax (NPAT) of \$22.6 million for the 2016 financial year (FY2016), approximately 15.1% ahead of Prospectus forecast of \$19.7 million and an increase of 48% compared with \$15.3 million from continuing operations in FY2015. Increased profit was underpinned by increased sales of AFG branded products, increased residential and commercial settlements and improved securitisation margins.

Highlights

- Combined residential and commercial loan book of \$120.4 billion up 12.6% on prior period
- NPAT of \$22.6 million up 48% on prior period continuing operations
- Residential settlements up 8% to \$33.84 billion
- Commercial loan book of \$5.67 billion up 12.1% on prior period
- Continued strong cash flows and balance sheet to drive and deliver the Group's growth plans
- Final dividend payment of 5.4 cents per share giving yield of 8.4% per share based on closing share price at 30 June 2016
- EPS for FY2016 is 10.54 cents per share up 48% from FY2015 EPS of 7.12 cents per share calculated on profit from continuing operations and number of shares at the point of listing

AFG Managing Director Brett McKeon said the results are a testament to the Company's focus on its broking business and earnings diversification strategy. "AFG's network of brokers provide a vital distribution network delivering greater choice and market competition for consumers and businesses. With broker market penetration of the Australian mortgage market now at more than 52%, AFG continues to be systematically important to the Australian banking system."

"The 2016 result was underpinned by another strong period of growth for our residential business, with settlements increasing by 8% to \$33.84 billion."

This result was supported by an exceptional year for the commercial lending business. "Our Commercial loan book grew very well during the year as more small to medium sized businesses recognized the value a commercial broker can deliver. Commercial settlements grew by 15% year on year to reach \$2.76 billion, exceeding the prospectus FY2016 target of \$2.45 billion. We expect this trend to continue, predominately in asset lending," said Mr McKeon.

"Our own AFG Home Loans business also outperformed internal expectations. From a prospectus forecast of \$1.30 billion in settlements of white label products, we rounded out the financial year at \$1.44 billion. This was driven by the move from a soft launch to full rollout of our Edge product, and the more recent addition of the new Icon home loan. These have been well received by our broker network with the products delivering more choice, competitive pricing and excellent service to our brokers and their customers."

Together with our broking business, a focus on earnings diversification is one of the key differentiators for AFG and one of the reasons behind the Company's continued success.

“Our technology platform FLEX has the ability to generate additional revenue for AFG and our brokers by using the customer data held within the system. We are able to seamlessly offer building, contents, landlords, life, and income protection insurances to our brokers’ customers. This year we added the ability to offer our brokers depreciation reports for investment properties and launched a pilot vehicle financing offering to our broker network in February 2016.

“The distribution network our brokers represent is a key driver of future growth and opportunity for AFG and clearly one of choice for Australian consumers,” said Mr McKeon.

In August 2016 AFG signed off on a strategic alliance with leading international fintech company Biz2Credit Inc. The exclusive agreement will provide access to Biz2Credit’s patented analytics and financial services technology to allow small business borrowers access to a broad range of options and will deliver faster access to capital. This new platform is a first for Australia and will not only enable existing lenders to reach their target audience in the small to medium enterprise (SME) market faster, but will also open the door to more choice for consumers.

Company Outlook

In terms of current trading, Mr McKeon advised that strong growth in both residential and commercial settlements was evident on the eastern seaboard, particularly in Victoria and Queensland. The company has a residential loan book of \$114.7 billion generating ongoing trail commission and AFG’s own securitized loan book has seen improved net interest margin driving solid returns across the financial year. The FY2016 Securities loan book of \$1.043 billion is up from \$1.020 billion at 30 June 2015.

Mr McKeon noted the company has achieved a record year in the recruitment of high performing brokers to AFG lifting broker numbers from just over 2,400 in 2015 to finish the financial year with over 2,650 active brokers working with AFG.

Over the last 12 months AFG has completed a migration of our IT systems to be hosted in the cloud. This enables us to scale far beyond current requirements and the reduction in operational and maintenance activities allow us to further invest in technology innovation.

AFG’s lender panel is also growing. “We have recently added both commercial and residential lenders to lift the number of lenders on our panel to more than 45,” said Mr McKeon. “This will continue to position AFG as a market leader by providing a greater level of choice to our brokers and their customers.

“AFG has recorded an excellent first full year as a listed company in 2016 with outperformance of prospectus forecast results and a positive outlook for the future. Strong cash flows, a growing network and powerful balance sheet provide a solid foundation for growth,” concluded Mr McKeon.

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