



**AFG**

# 2017 HALF-YEAR FINANCIAL RESULTS

FEBRUARY 2017

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# 2017 HALF-YEAR FINANCIAL RESULTS - HIGHLIGHTS

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- H1 FY17 NPAT - \$13.4 million up 14.2% on H1 FY16
- AFG Home Loans settlements up 34% to \$1.24 billion and now representing 7.2% of settlements (compared to 5.2% in H1 FY16) with the trail book increasing 42% to \$4.6 billion
- Profit before tax for the AFG Home Loans segment up 97% to \$4.8 million as a result of higher settlements of AFG Home Loans branded products and improved margins in the securitisation programme
- H1 FY17 Residential settlements of \$17.6 billion with the Residential trail book now \$120.7 billion
- Despite headwinds in property development lending Commercial settlements were up 5.0% to \$1.5 billion and the Commercial trail book now over \$6.3 billion
- Broker numbers grew to over 2,800 nationally, up from 2,650 at 30 June 2016
- Interim dividend of 4.2 cents per share, up 40% on H1 FY16

# H1 FY17 RESULTS - ACTUAL

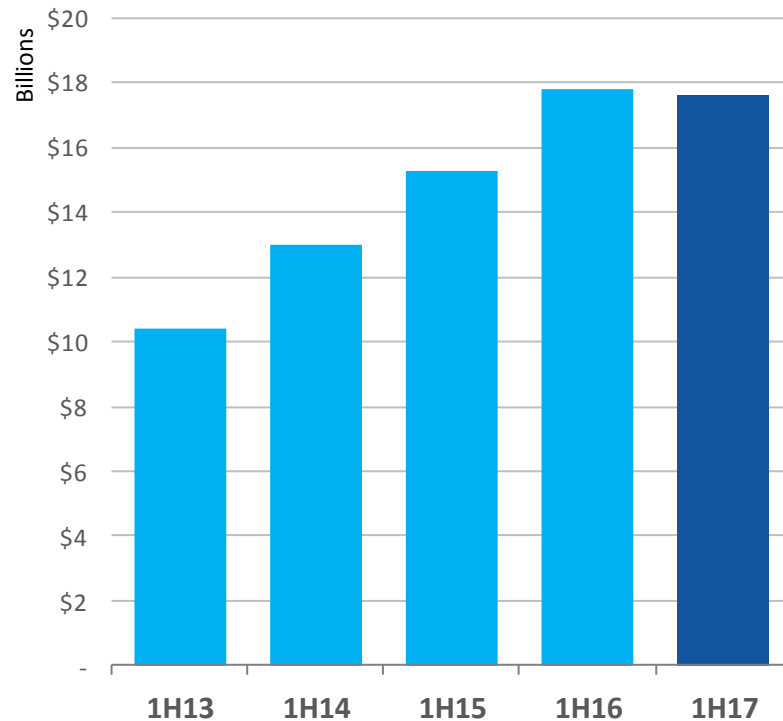
The H1 FY17 result was reflective of the Group's earnings diversification strategy. Settlements of AFG branded products were up 34% and profit before tax contributed by the AFG Home Loans segment were up 97% as a result of increased settlements and improved margins in the securitisation programme

	1H17 \$000's	1H16 \$000's		
<b>Statutory NPAT</b>	13,371	11,713		14%
<b>Loan Book</b>	127,102,771	114,499,417		11%
<b>Settlements</b>				
Residential	17,608,127	17,774,781		(1%)
Commercial	1,513,314	1,435,772		5%
<b>AFGHL Settlements</b>	1,239,435	926,860		34%
<b>AFGHL Loan Book</b>	4,606,027	3,238,365		42%
<b>AFG Securities Loan Book</b>	1,079,155	1,035,622		4%
<b>Net Interest</b>	7,063	6,406		10%
<b>Net Interest Margin</b>	1.32%	1.23%		8%
<b>EPS</b>	6.2 cents	5.5 cents		14%

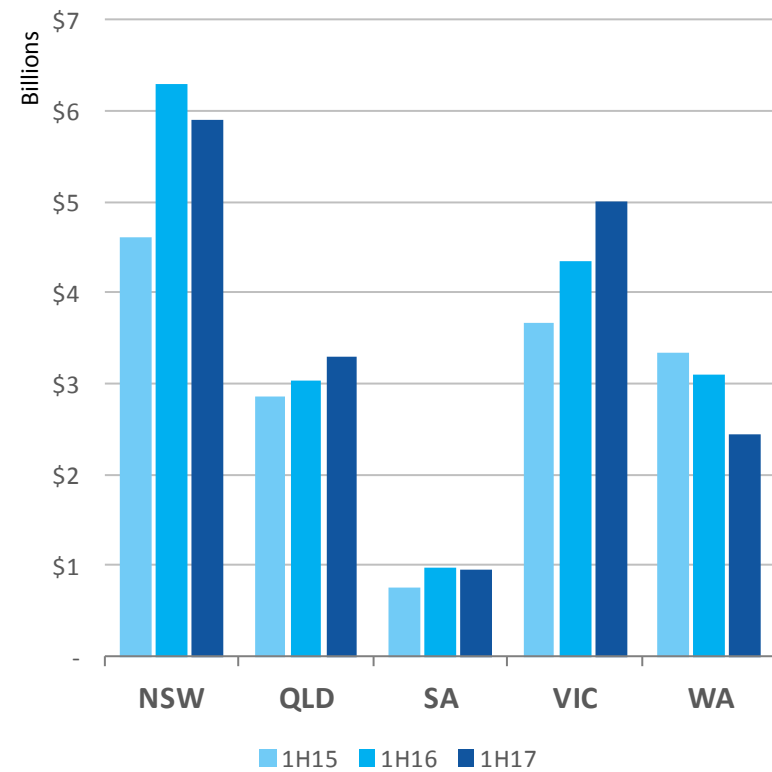
# RESIDENTIAL SETTLEMENTS

The Residential portfolio showed particularly strong growth in Victoria and Queensland, offset by weaker economic conditions in Western Australia and changes to lending criteria impacting New South Wales. Residential loan book of \$120.7 billion generating ongoing trail commission

Residential Settlements



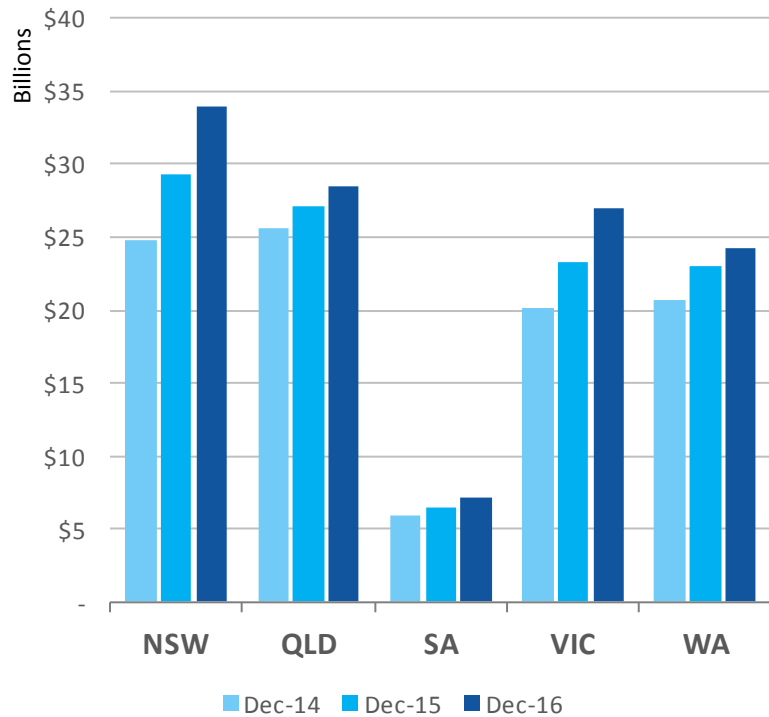
Residential Settlements by State



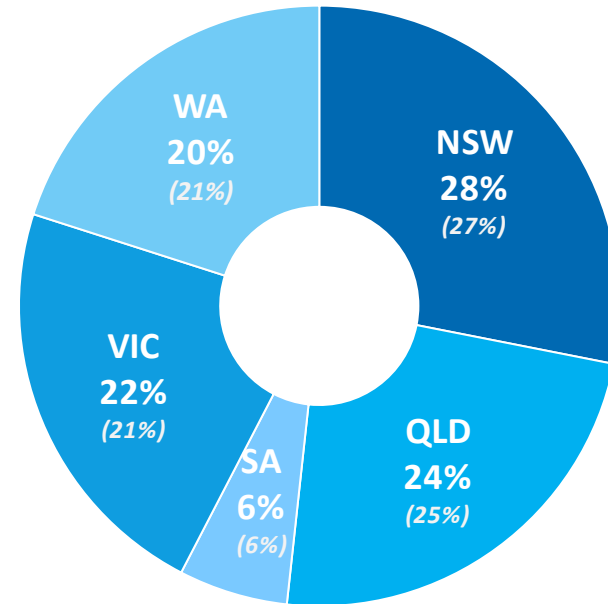
# RESIDENTIAL PORTFOLIO DECEMBER 2016

The Residential portfolio grew from \$114.7 billion to \$120.7 billion during the period with growth in all States. Re-weighting of the loan book continues.

Residential Portfolio by State

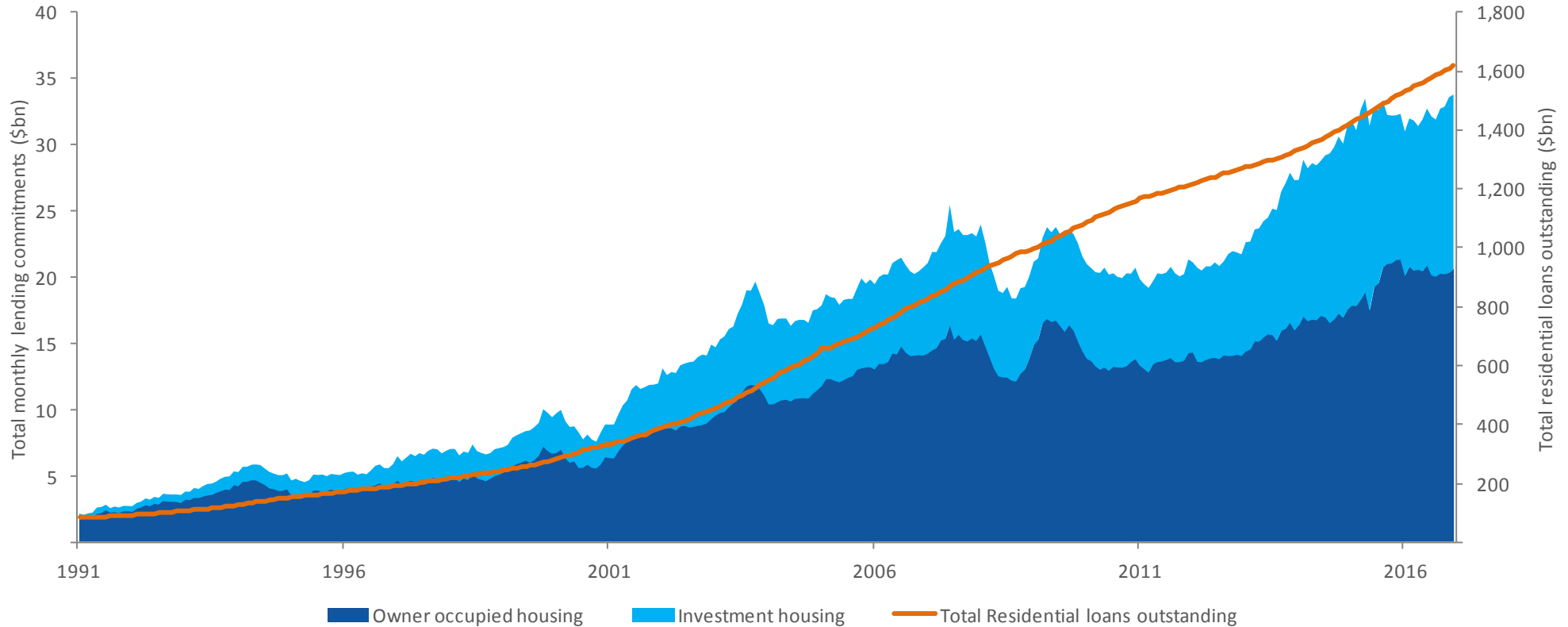


Residential Loan Book Location



# RESIDENTIAL PORTFOLIO DECEMBER 2016

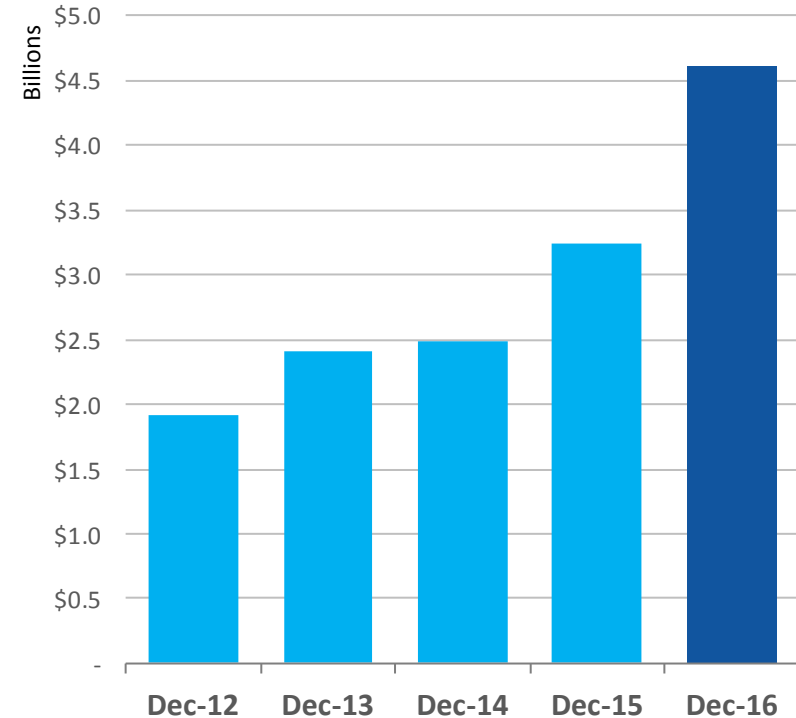
AFG's residential loan book continues to grow at a faster rate than the total Australian residential mortgage market. Since 2010 AFG's CAGR of 11.3% compares very favourably against market growth of 6.0%.



# AFG HOME LOANS

- Strategy continues to deliver positive results with profit before tax 97% above 1H FY16
- Total settlements were \$1.24 billion in 1H FY17 up 34% from \$0.93 billion in 1H FY16
- Increased level of penetration of total settlements reaching 7% for 1H FY17 (up from 5.2% in 1H FY16)
- AFG Home Loan book of \$4.6 billion up 44% from \$3.2 billion
- Improved margin within AFG Securities owing to lower cost of funds and repricing parts of the loan book when the majority of the market repriced loan books during Q2 of 1H FY16 and Q1 of 1H FY17
- Completion of term deal 2016-1 which locks funding away for a longer term and de-risks exposure to warehouse structure

AFGHL Portfolio

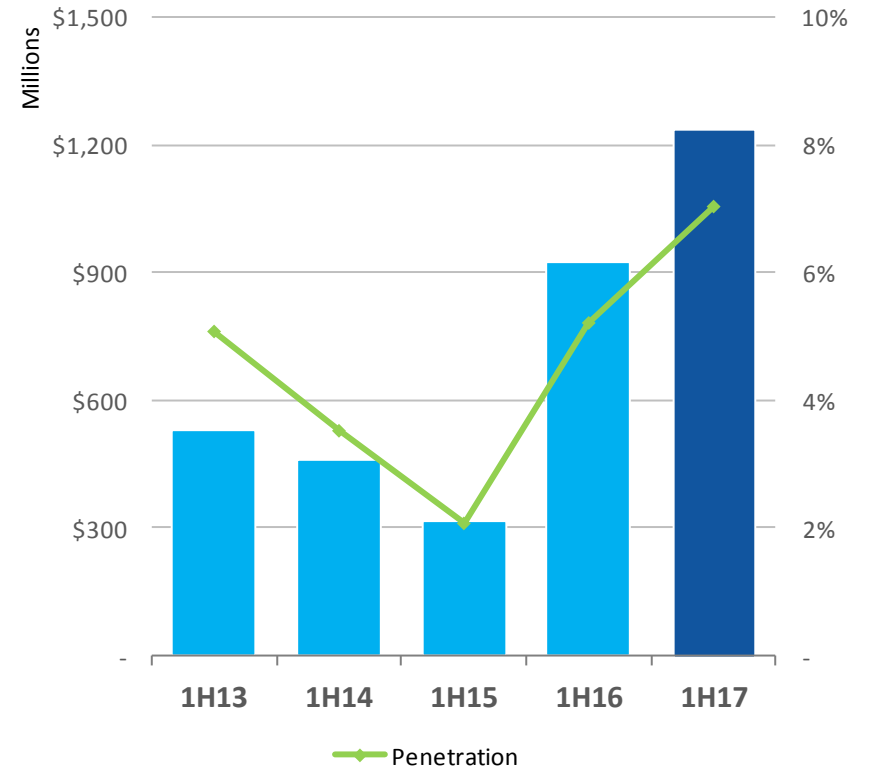


	1H FY17 \$000's	1H FY16 \$000's
Total AFGHL Revenue	35,550	33,351
AFGHL Profit Before Tax	4,775	2,419

# AFG HOME LOANS

- Successful launch of new funder in Q2 FY17 of the Alpha product delivering more than \$350m of lodgments in the half
- Four core prime mortgage funders provide diversification around our growth strategy in this segment
- The addition of the Alpha product is complementary to the current product offering giving more choice to consumers with a strong fixed interest and construction offering
- Scalable business model delivering growing profitability with the white label offering simplifying business processes
- AFG Home Loans has over 10,000 retail customers

AFGHL Settlements

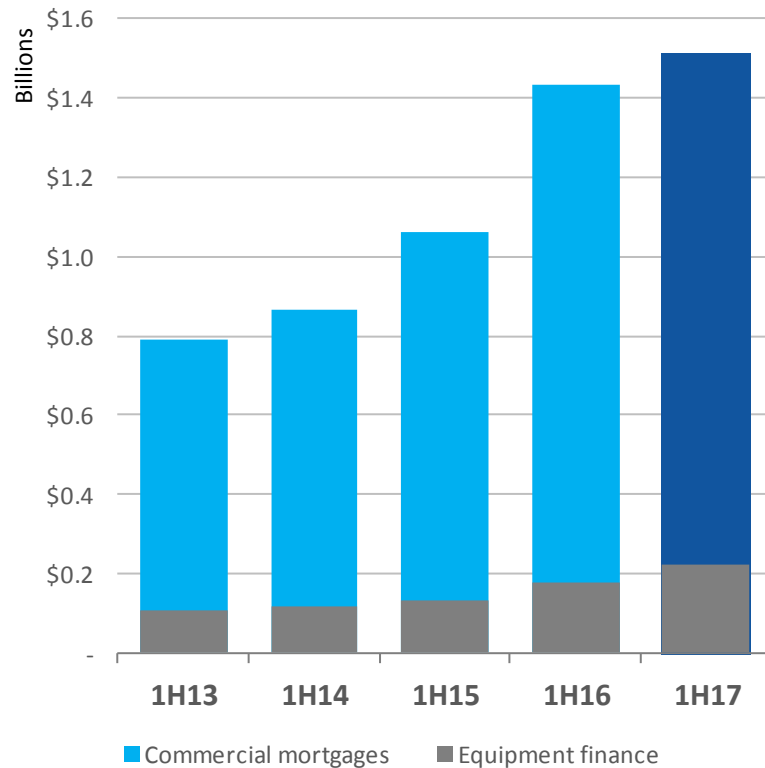




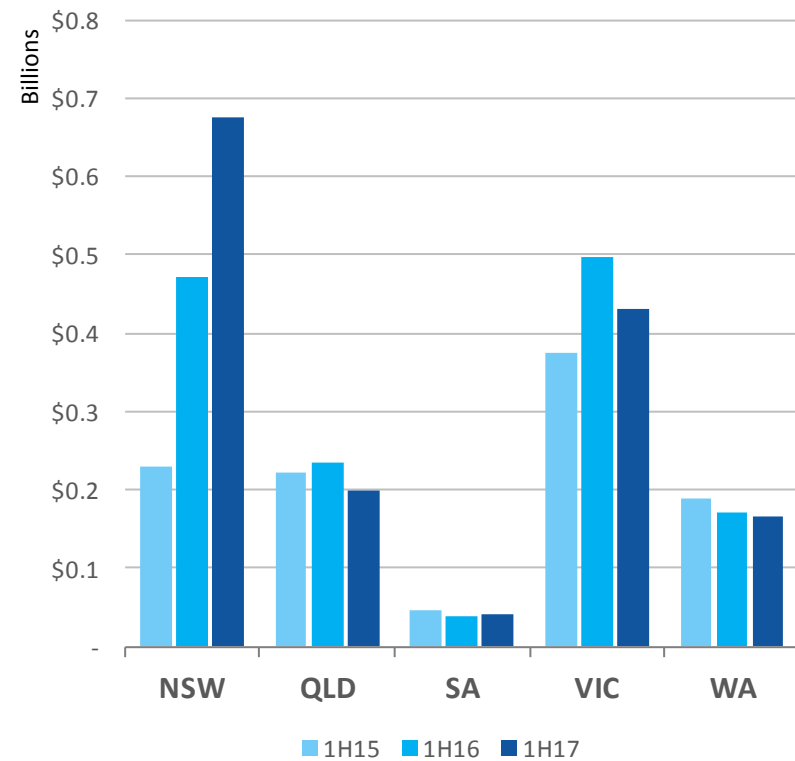
# COMMERCIAL SETTLEMENTS

Commercial settlements up 5% with strong growth in New South Wales offset, by head winds in property development lending particularly in Victoria and Queensland. Equipment finance settlements are up 23% in H1 FY17

Commercial and EF Settlements



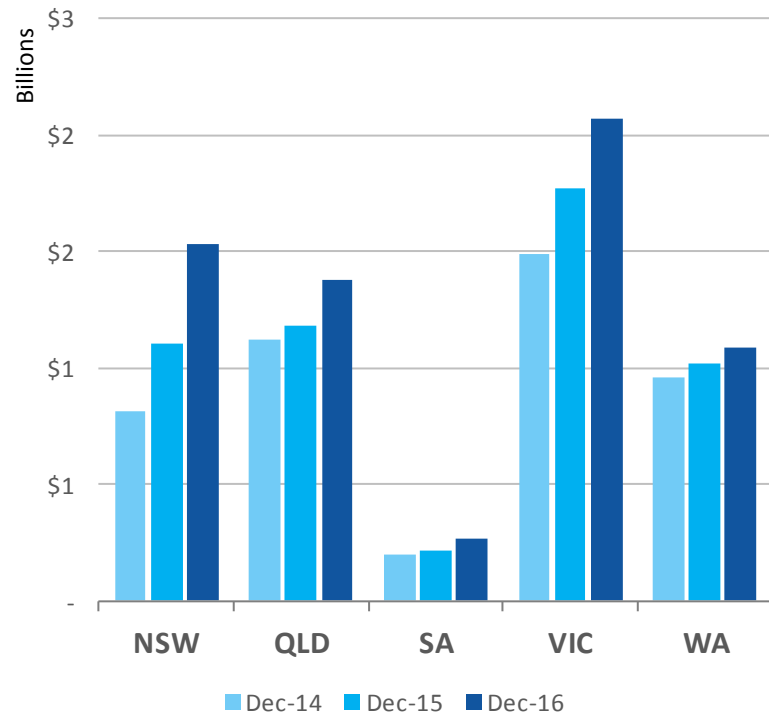
Commercial Mortgages Settlements by State



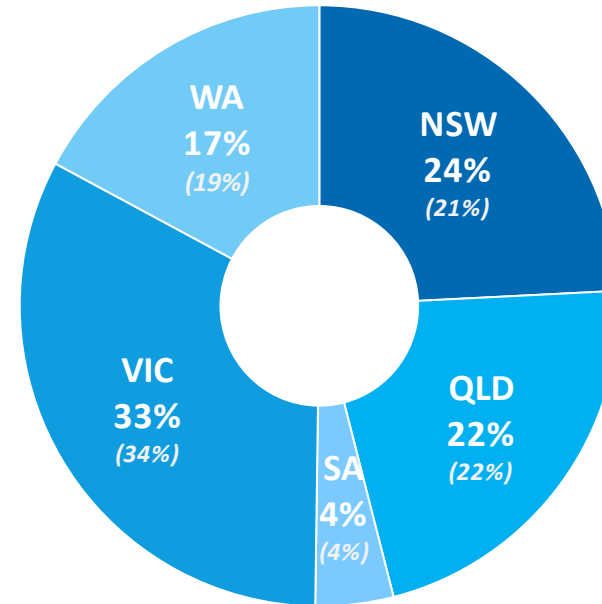
# COMMERCIAL PORTFOLIO DECEMBER 2016

The Commercial portfolio grew to \$6.3 billion generating ongoing trail commission

Commercial Portfolio by State



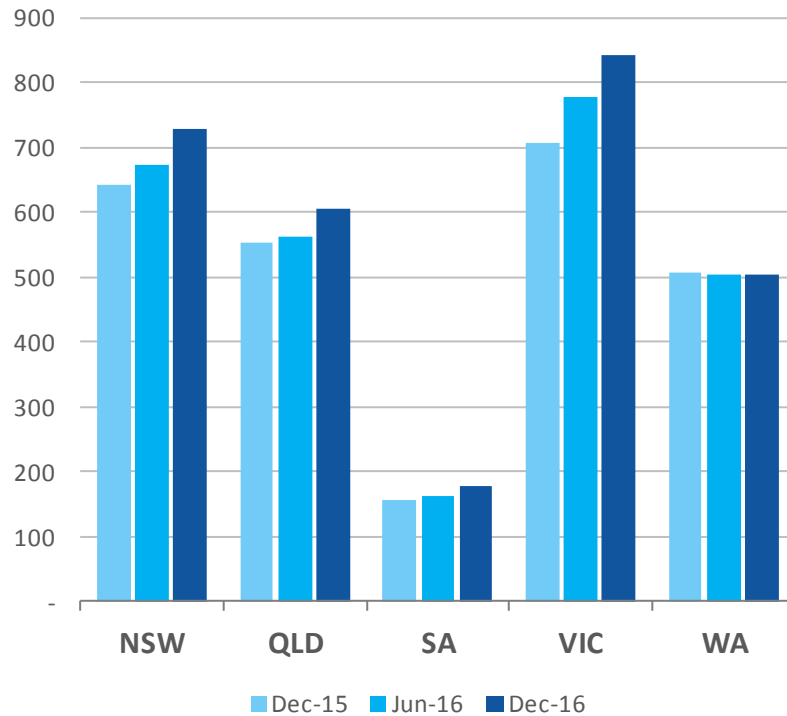
Commercial Loan Book Location



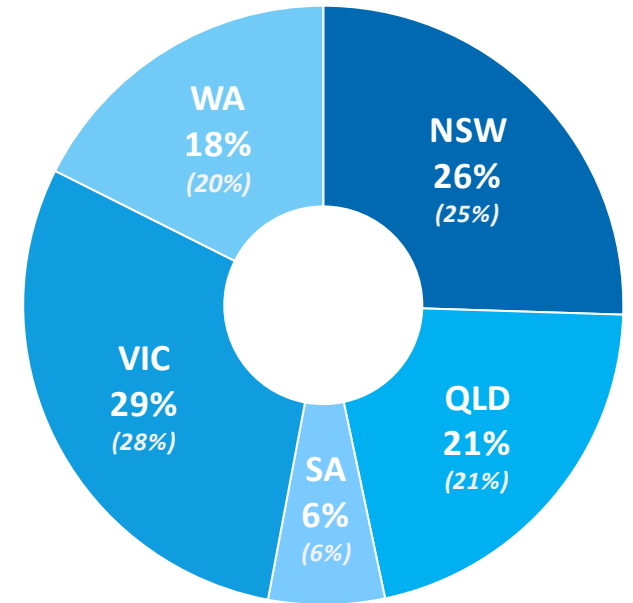
# DISTRIBUTION NETWORK

Net recruitment of contracted brokers continued strongly with 2,800+ contracted brokers at 31 December 2016 providing a powerful national distribution network

Broker Numbers



Broker Location



A photograph of three business professionals in suits sitting around a table, working on laptops and tablets. The image is overlaid with a semi-transparent blue filter. On the left side, there is a dark blue diagonal shape containing the text 'FINANCIAL INFORMATION' in white, bold, uppercase letters, followed by a short white horizontal line.

# FINANCIAL INFORMATION

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# SUMMARY CASH FLOW

Net cash flows from operating activities decreased 82% to \$3.9 million compared to \$21.8 million in December 2015. This is largely attributable to:

- A net \$9.8 million decrease in restricted cash flows within the securitisation programme compared to prior period. Restricted cash is variable depending on the timing of draw downs and repayments to warehouse facilities in particular; and
- Timing factors in relation to the payment of tax as well as commission payments to brokers. Adjusting for these timing factors net cash flows from operating activities are comparable to the prior period
- Excluding the securitisation programme AFG remains in a strong net cash position with free cash after working capital requirements of circa \$40 million for future growth opportunities

	Dec 2016 \$000's	Dec 2015 \$000's
<b>Cash flows from operating activities</b>		
Cash receipts from customers	230,628	221,316
Cash paid to suppliers and employees	(220,201)	(204,440)
Interest received	22,628	23,056
Interest paid	(15,565)	(16,650)
<b>Cash flow prior to securitisation movements and income taxes</b>	<b>17,490</b>	<b>23,282</b>
Advances of customer borrowings	(35,677)	(15,329)
Proceeds from securitisation	28,088	17,570
Income taxes paid	(5,957)	(3,764)
<b>Net cash generated by operating activities</b>	<b>3,944</b>	<b>21,759</b>
<b>Cash flows from investing activities</b>	<b>251</b>	<b>1,105</b>
<b>Net cash generated/(used in) financing activities</b>	<b>(11,757)</b>	<b>(331)</b>
Net increase in cash and cash equivalents	(7,562)	22,533
Cash and cash equivalents at 1 July	130,665	90,776
<b>Cash and cash equivalents at 31 December</b>	<b>123,103</b>	<b>113,309</b>

<b>Cash Reconciliation</b>	Dec 2016	Jun 2016
Un-restricted net cash	\$85.48m	\$85.95m
Restricted cash (Securities)	\$37.62m	\$44.72m
<b>Total cash</b>	<b>\$123.10m</b>	<b>\$130.67m</b>

# SUMMARY BALANCE SHEET

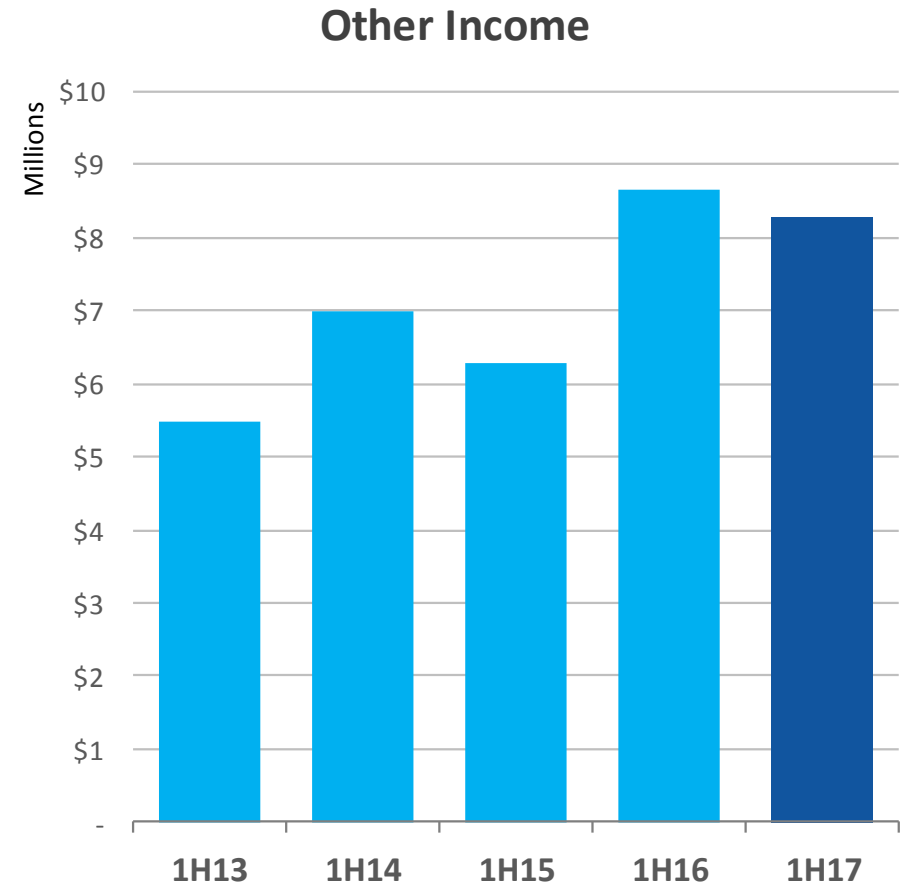
	Dec 2016 \$000's	Jun 2016 \$000's
<b>Assets</b>		
Cash <sup>1</sup>	123,103	130,665
Receivables <sup>2</sup>	679,566	650,108
Loans and advances <sup>3</sup>	1,082,163	1,046,412
Property, plant and equipment <sup>4</sup>	2,179	2,379
Intangible assets	1,199	757
<b>Total assets</b>	<b>1,888,210</b>	<b>1,830,321</b>
<b>Liabilities</b>		
Interest bearing liabilities <sup>3</sup>	1,099,935	1,072,215
Trade and Other payables <sup>5</sup>	679,641	652,049
Employee benefits	3,744	3,818
Provisions	495	322
Deferred tax liability	14,061	13,397
<b>Total liabilities</b>	<b>1,797,876</b>	<b>1,741,801</b>
<b>Net assets</b>	<b>90,334</b>	<b>88,520</b>
<b>Equity</b>		
Share capital	43,541	43,541
Reserves	67	23
Retained earnings	46,703	44,980
Non-controlling interest	24	(24)
<b>Total equity</b>	<b>90,334</b>	<b>88,520</b>

**Points to note:**

1. Cash and liquidity levels remain within desired ranges. Includes restricted cash of \$37.6 million (FY16: \$44.7 million)
2. Predominantly related to trail book accounting
3. Largely AFG Securitisation business. Total subordinated notes subscribed of \$9.9 million (FY16: \$8.7 million)
4. The Group remains capital light with the growing trail book a strong cash flow generating asset
5. Includes trail book accounting liability and general trade creditors and accruals.

# OTHER INCOME

- 18% growth in service fees in H1 FY17 continues to show the value of the AFG brand and technology proposition to brokers following growth of 20% in 1H FY16
- Sponsorship and incentive income received in H1 FY17 was down 23%. Sponsorship income is offset by an equivalent decrease in expenditure



A background image showing two business professionals in a meeting. A woman in the foreground is smiling and looking towards a man whose profile is visible on the left. They are both dressed in business attire. The image is overlaid with a semi-transparent blue filter. A dark blue diagonal shape is present on the left side of the image.

# STRATEGIC & MARKET OUTLOOK

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# Strategic & Market Outlook

Combination of continued customer demand for mortgage brokers, improved credit growth in Q2 FY17, new AFG branded products, a complicated investment lending environment and recruitment continue to leave us optimistic about the sector



The Group's residential volumes mirrored the market with Q1 slower with improvement in Q2. Despite headwinds, Residential is an important asset class and we believe it will continue to grow over time. Q1 FY17 was impacted by changes in lending criteria particularly in New South Wales, this lessened significantly in Q2. 1 in 11 loans written in Australian are written through an AFG broker and believe our business model will provide long term value to both our customers and shareholders.



Investment lending continues to be a complicated segment with regular changes in lenders' appetite it is difficult for consumers to navigate. This is likely to be positive for **mortgage brokers as consumers seek advice and choice**. We expect property development lending in the commercial segment will remain difficult in the near term as a result.



Initial positive signs of a **turnaround in Queensland activity** identified at 30 June 2016 have gained momentum with settlements up 8.5% on prior period and with a particularly strong **Q2 up 15.4%**.



Non-major lenders' market share is expected to improve in the short term following strong lodgements in Q2, of which AFG Home Loans is one. The Group's diversification strategy is validated by the excellent growth in AFG Home Loans settlements. **AFG Home Loans settlements** across all brands **increased 34%** to \$1.24 billion and accounted for 7% of overall residential settlements in HY17. The AFG Home Loans loan book is now **\$4.6 billion up 44%** from 31 December 2015.



AFG continues to be systematically important to the Australian banking system. Brokers provide a vital distribution network for small and large lenders which **provides greater choice and competition for consumers**. Broker numbers at 31 December of over 2,800 – up from 2,650 at 30 June 2016.



The securitisation market has opened up strongly in recent times with some initial downward pressure on pricing.

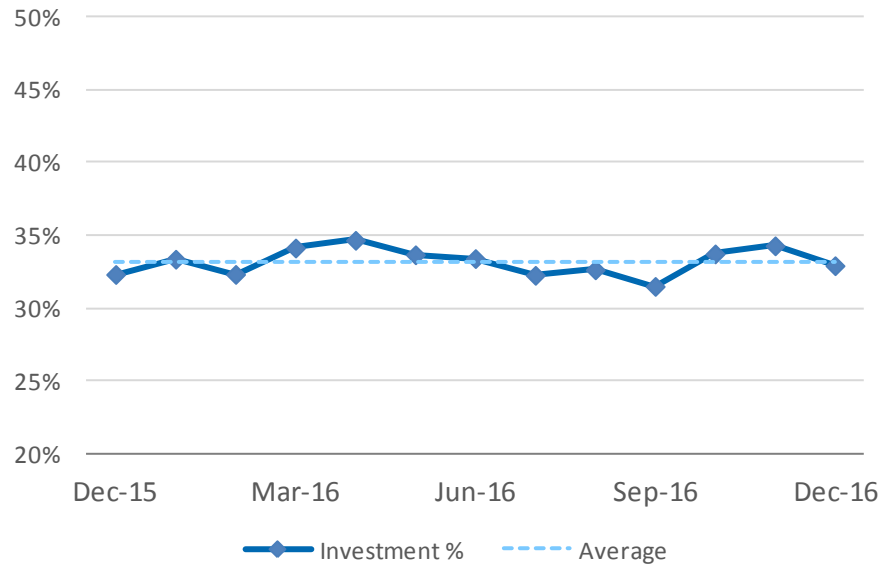
# AFG'S GROWTH STRATEGY

Protect and grow residential mortgage broking business	Grow commercial mortgage broking business	Increase penetration of AFG Home Loans product	Provide additional products to mortgage broker network	Pursue initiatives for growth via the online channel
<ul style="list-style-type: none"> <li>• Ongoing commitment to continue to drive growth by providing choice, competition and value to consumers and an effective distribution channel to lenders of all sizes</li> <li>• Continue to expand broker network and distribution reach through active recruitment program and continue investment in technology platforms</li> </ul>	<ul style="list-style-type: none"> <li>• Commercial represents a growth opportunity for AFG, we remain confident that brokers are committed to offering their customers more choice and that we represent a viable distribution channel for lenders for products other than residential mortgages</li> <li>• Commercial loan book has reached \$6.3 billion up from \$5.7 billion at 30 June 2016</li> <li>• Investment in strategic alliances and Financial Technology such as Biz2Credit</li> </ul>	<ul style="list-style-type: none"> <li>• AFG Alpha has been added to the AFG product suite and funding sources to provide additional variety and options for customers</li> <li>• Continued use of the securitisation market as an alternative funding source at appropriate times</li> <li>• Gradual widening of risk appetite to supplement existing prime mortgage flow in a less competitive sector</li> </ul>	<ul style="list-style-type: none"> <li>• Utilising existing distribution network and customer behaviour information to increase market share of additional products</li> <li>• The ability for us to provide new means and products for our brokers to service their clients is critical to growing our network. We remain committed to working with our brokers to deliver choice, competition and high quality service that establishes life relationships with customers across multiple product lines</li> </ul>	<ul style="list-style-type: none"> <li>• The online channel continues to develop and AFG believes it will be a viable distribution channel in the medium to long term</li> <li>• Continue to explore and assess organic and inorganic opportunities in this area</li> </ul>

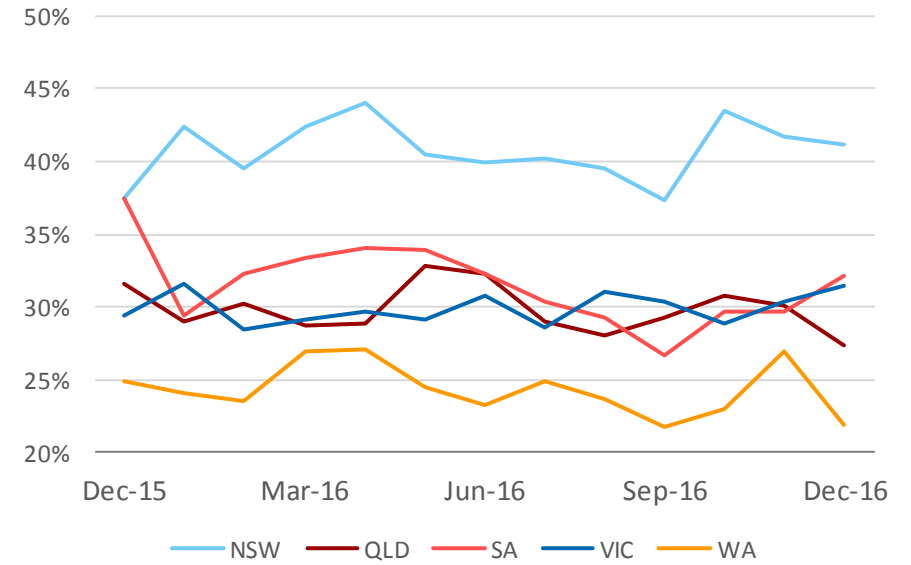
# INVESTOR LOANS

Investor loans have stabilised in a tighter band of variability as a percentage of overall flows following APRA actions to reduce investor activity in 2015

Investor Loans % past 12 months

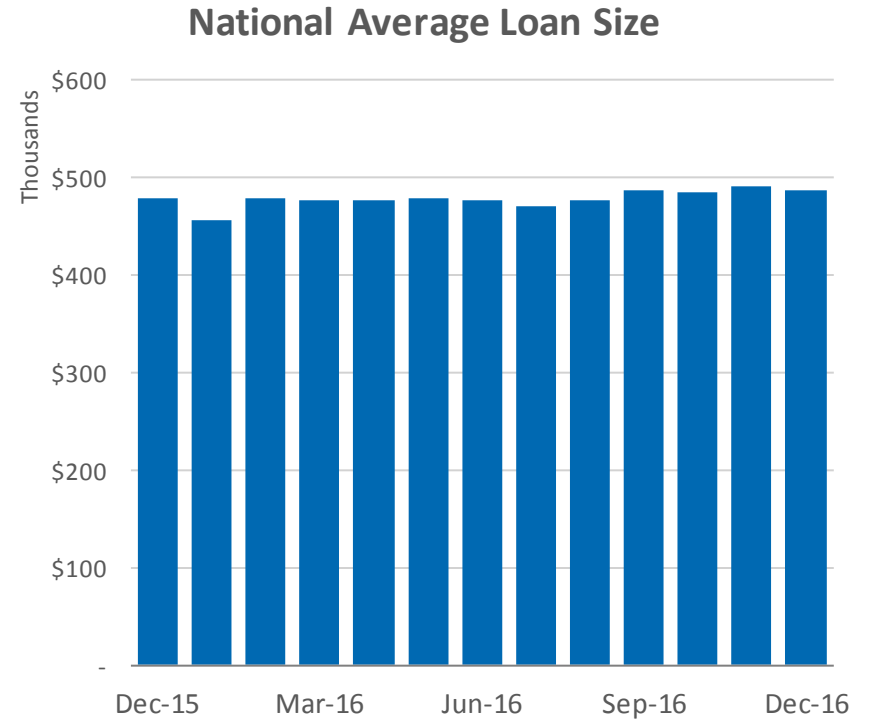
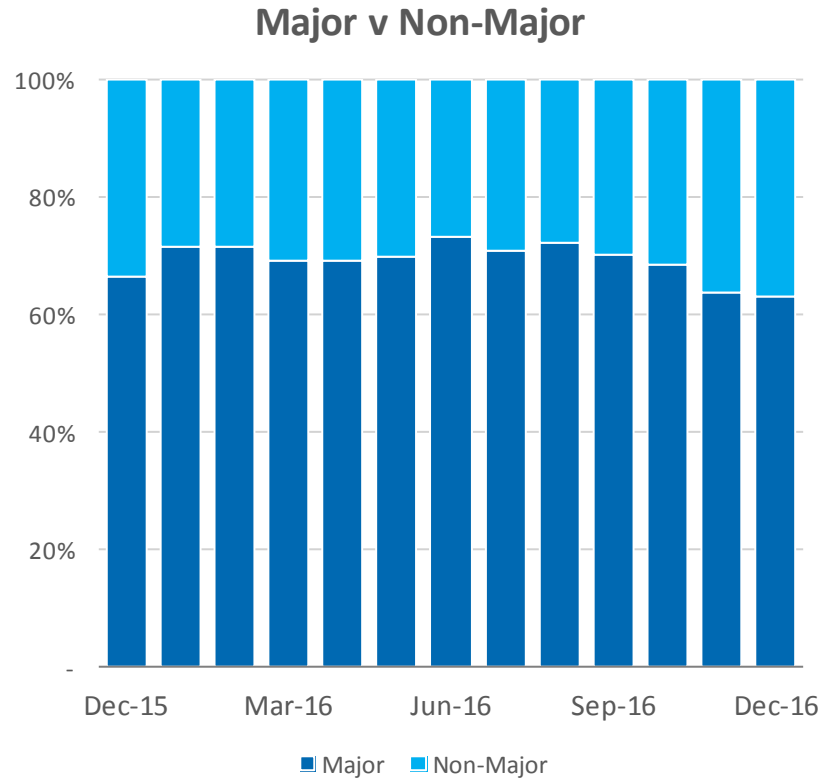


Investor Loans % per State



# LENDING ACTIVITY

Non-majors increased market share in the last quarter of the calendar year, average loan size remains steady









# JANUARY TRADING

## Comparison of January Lodgments

Change on January 2016

- Total Residential lodgements were \$3.25 billion
- On a like for like basis lodgements were up 8% on January 2016
- Victoria and Queensland continue their strong lodgement growth, partially offset by continued weakness in Western Australia
- AFG Home Loans continued its strong momentum in January 2017

NSW		4%
QLD		24%
SA		0%
VIC		21%
WA		(19%)
AFG HL		76%

## IN CONCLUSION

— The first half of FY17 delivered strong growth for shareholders despite a challenging market. The result indicates the Group is well placed to continue to provide growth for shareholders

We have a positive outlook on future growth for the Group:

- We expect the long term trend of consumers choosing brokers to provide them with choice to continue
- Brokers continue to build market share reflecting customer preference for the channels. They are here to stay.
- We see white label lending as an opportunity to grow and other business lines like Commercial as opportunities to more strongly broaden our revenue base
- AFG has strong distribution and a competitive position underpinned by strong B2B IT capabilities that will keep AFG well positioned in this sector. We expect further channel change and for an agile business like AFG this is an opportunity
- We see AFG continuing to be a first choice partner for lending and broking groups based on our core capabilities



# APPENDICES

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# BALANCE SHEET

	Dec 2016 \$000's	Jun 2016 \$000's
<b>Assets</b>		
Cash and cash equivalents	123,103	130,665
Trade and other receivables	679,519	650,059
Current tax asset	-	-
Loans and advances	1,082,163	1,046,412
Other financial assets	47	49
Property, plant and equipment	2,179	2,379
Intangible assets	1,199	757
<b>Total assets</b>	<b>1,888,210</b>	<b>1,830,321</b>

	Dec 2016 \$000's	Jun 2016 \$000's
<b>Liabilities</b>		
Interest-bearing liabilities	1,099,935	1,072,215
Trade and other payables	676,835	646,113
Employee benefits	3,744	3,818
Current tax payable	447	1,060
Deferred income	2,359	4,876
Provisions	495	322
Deferred tax liability	14,061	13,397
<b>Total liabilities</b>	<b>1,797,876</b>	<b>1,741,801</b>
<b>Net assets</b>	<b>90,334</b>	<b>88,520</b>
<b>Equity</b>		
Share capital	43,541	43,541
Share-based payment reserve	141	97
Other capital reserves	(74)	(74)
Retained earnings	46,726	44,980
<b>Total equity attributable to equity holders of the Company</b>	<b>90,334</b>	<b>88,544</b>
Non-controlling interest	-	(24)
<b>Total equity</b>	<b>90,334</b>	<b>88,520</b>



# CONSOLIDATED INCOME STATEMENT

	Dec 2016 \$000's	Dec 2015 \$000's
<b>Continuing Operations</b>		
Commission and other income	256,742	258,380
Securitisation interest income	22,628	23,056
<b>Operating income</b>	<b>279,370</b>	<b>281,436</b>
Commission and other cost of sales	(233,859)	(237,045)
Securitisation interest expense	(15,565)	(16,650)
<b>Gross profit</b>	<b>29,946</b>	<b>27,741</b>
Other income	8,283	8,659
Administration expenses	(1,529)	(1,671)
Other expenses	(18,538)	(19,064)
<b>Results from operating activities</b>	<b>18,162</b>	<b>15,665</b>
Finance income	1,226	1,403
Finance expenses	(9)	(22)
<b>Net finance income</b>	<b>1,217</b>	<b>1,381</b>
<b>Profit before tax from continuing operations</b>	<b>19,379</b>	<b>17,046</b>
Income tax expense	(6,008)	(5,333)
<b>Profit for the period</b>	<b>13,371</b>	<b>11,713</b>

	Dec 2016 \$000's	Dec 2015 \$000's
<b>Other comprehensive income</b>		
<b>Items that may be reclassified subsequently to profit or loss</b>		
Net change in fair value of available-for-sale financial assets	-	24
<b>Total comprehensive income for the period</b>	<b>13,371</b>	<b>11,737</b>
<b>Profit attributable to:</b>		
Equity holders of the Company	13,371	11,716
Non-controlling interests	-	(3)
<b>Profit for the period</b>	<b>13,371</b>	<b>11,713</b>
<b>Total comprehensive income for the period attributable to:</b>		
Equity holders of the Company	13,371	11,740
Non-controlling interests	-	(3)
<b>Total comprehensive income for the period</b>	<b>13,371</b>	<b>11,737</b>
<b>Earnings per share</b>		
Basic earnings per share (cents per share)	5.45	6.22
Diluted earnings per share (cents per share)	5.44	6.21

# CASH FLOWS

	Dec 2016 \$000's	Dec 2015 \$000's
<b>Cash flows from operating activities</b>		
Cash receipts from customers	230,628	221,316
Cash paid to suppliers and employees	(220,201)	(204,440)
Interest received	22,628	23,056
Interest paid	(15,565)	(16,650)
Advances of customer borrowings	(35,677)	(15,329)
Proceeds from securitisation	28,088	17,570
Income taxes paid	(5,957)	(3,764)
<b>Net cash from operating activities</b>	<b>3,944</b>	<b>21,759</b>
<b>Cash flows from investing activities</b>		
Interest received	1,225	1,339
Acquisition of property, plant and equipment	(200)	(82)
Payments for intangible assets	(524)	(43)
Decrease in other loans and advances	(250)	(109)
<b>Net cash from investing activities</b>	<b>251</b>	<b>1,105</b>
<b>Cash flows used in financing activities</b>		
Decrease in loans from funders	(156)	(331)
Dividends paid	(11,601)	-
<b>Net cash used in financing activities</b>	<b>(11,757)</b>	<b>(331)</b>
Net (decrease)/increase in cash and cash equivalents	(7,562)	22,533
Cash and cash equivalents at the beginning of the period	130,665	90,776
<b>Cash and cash equivalents at the end of the period</b>	<b>123,103</b>	<b>113,309</b>

Cash Reconciliation	Dec 2016	Jun 2016
Un-restricted net cash	\$85.48m	\$85.95m
Restricted cash (Securities)	\$37.62m	\$44.72m
<b>Total cash</b>	<b>\$123.10m</b>	<b>\$130.67m</b>

# IMPACT OF SECURITISATION SPVs ON BALANCE SHEET

The proforma balance sheet below 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

	AFG SPVs \$000's	AFG excl SPVs \$000's	Re- classifications	AFG Limited \$000's
<b>Assets</b>				
Cash and cash equivalents	36,141	86,962	-	123,103
Trade and other receivables	-	679,566	-	679,566
Loans and advances	1,079,419	2,744	-	1,082,163
Investment in subordinated notes	-	9,917	(9,917)	-
Property, plant and equipment	-	2,179	-	2,179
Intangible assets	-	1,199	-	1,199
<b>Total assets</b>	<b>1,115,560</b>	<b>782,567</b>	<b>(9,917)</b>	<b>1,888,210</b>
<b>Liabilities</b>				
Interest-bearing liabilities	1,110,037	(185)	(9,917)	1,099,935
Trade and other payables	4,714	674,927	-	679,641
Employee benefits	-	3,744	-	3,744
Provisions	-	495	-	495
Deferred tax liability	-	14,061	-	14,061
<b>Total liabilities</b>	<b>1,114,751</b>	<b>693,042</b>	<b>(9,917)</b>	<b>1,797,876</b>
<b>Net assets</b>	<b>808</b>	<b>89,526</b>	<b>-</b>	<b>90,334</b>

Points to note:

1. The AFG business is largely debt free outside the non-recourse securitisation book within the special purpose vehicles
2. AFGs total subordinated notes subscribed of \$9.9 million (FY2016: \$8.7 million) reflects the total cash exposure to the securitisation business at 30 June 2016.

# IMPACT OF TRAIL BOOK ACCOUNTING

Statutory	Dec 2016 \$000's		Dec 2015 \$000's	
	Operating income	Profit After Tax	Operating income	Profit After Tax
<b>Underlying results from continuing operations</b>	248,227	12,993	238,988	11,236
<b>Change in the present value of trailing commission receivable and payable</b>	31,143	378	42,448	447
<b>Results from continuing operations</b>	279,370	13,371	281,436	11,712

Key Assumptions	Dec 2016	Jun 2016
<b>Average loan life</b>	Between 4.3 and 5.2 years	Between 4.3 and 5.2 years
<b>Discount rate per annum<sup>1</sup></b>	Between 5% and 13.5%	Between 5% and 13.5%
<b>Percentage paid to members<sup>2</sup></b>	Between 85% and 92%	Between 85% and 91%

<sup>1</sup> 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.

<sup>2</sup> 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.

# Q&A

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**Thank you**

# Important Disclaimer

This presentation contains general information which is current as at 23 February 2017.

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