AFG

Equity Raising

13 May 2020

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This Presentation is dated 13 May 2020 and has been prepared by Australian Finance Group Ltd (ABN 11 066 385 822) (**AFG**). This Presentation has been prepared in connection with AFG's proposed underwritten $60m offer of new fully paid ordinary shares (**New Shares**) in AFG, comprising:

- a placement of New Shares to institutional and sophisticated investors (**Placement**) under section 708A of the *Corporations Act 2001* (Cth) (**Corporations Act**); and
- a pro rata accelerated non-renounceable entitlement offer to certain eligible shareholders of AFG (**Entitlement Offer**). The Entitlement Offer is being made to:
  - eligible institutional shareholders of AFG (**Institutional Entitlement Offer**); and
  - eligible retail shareholders of AFG (**Retail Entitlement Offer**),
- under section 708AA of the Corporations Act as modified by the Australian Securities and Investments Commission Corporations (Non-Traditional Rights Issues) Instrument 2016/84.

The Placement and the Entitlement Offer together form the **Offer**. The distribution of this Presentation in jurisdictions outside of Australia and New Zealand may be restricted by law and any such restriction should be observed. Any failure to comply with such restrictions may constitute a violation of applicable securities laws. Refer to Slide 34 and 35 of this Presentation for further details about international offer restrictions.

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Disclaimer

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This Presentation has been authorised for release to ASX by the AFG Board of Directors.

Executive Summary

Equity Raising of $60m to strengthen the capital position, support future growth of AFG Securities and other ongoing growth initiatives

Trading update and outlook	• The March 2020 quarter was very active for AFG and the broader property market. AFG has also seen strong residential lodgements continue for April 2020 • As we progress into the June 2020 quarter, AFG expects COVID-19 to have an adverse impact on new lodgements and settlements and creates some economic uncertainty moving forward which will likely be underpinned by a slowdown in economic activity, higher levels of unemployment and a potential decrease in house price and sale volumes • Increased refinancing activity expected to partly offset fall in new mortgages • Increased levels of hardship • Despite the uncertainty we remain confident of the critical role brokers play in delivering choice and competition to Australian borrowers
Funding update and position	• Access to wholesale funding markets and funding terms have been impacted by COVID-19 uncertainty. This has a direct impact on the AFG Securities business, which relies on its existing warehouse facilities and access to RMBS markets • AFG Securities recently extended its two key originating warehouse facilities and currently has $546 million of undrawn capacity. As part of the roll forward, Australian Office of Financial Management (**AOFM**) has provided mezzanine funding to replace some of the existing providers and allow increased warehouse limits • Whilst overall market appetite has been reduced, there are early signs of the market opening with two RMBS deals launched in May by other issuers • AFG is anticipating increased capital funding requirements for AFG Securities mortgages from current position of 1-2% in subordinated notes

Equity raising	• AFG is undertaking a fully underwritten Equity Raising of $60 million (**Equity Raising or Offer**) via:
	  ◦ An Institutional Placement of approximately $15 million (**Placement**); and
	  ◦ A 1 for 5.5 pro-rata accelerated non-renounceable entitlement offer of approximately $45 million (**Entitlement Offer**)
	• Offer to be conducted at a price of $1.15 per share, being a discount of 17.3% to AFG's last closing price of $1.39 and a discount of 14.4% to the Theoretical Ex-Rights Price as at 12 May 2020[1]
	• Certain AFG Directors and Management have committed to subscribe for approximately $5 million of the Equity Raising and to sub underwrite up to $690,000 of the Retail Entitlement Offer

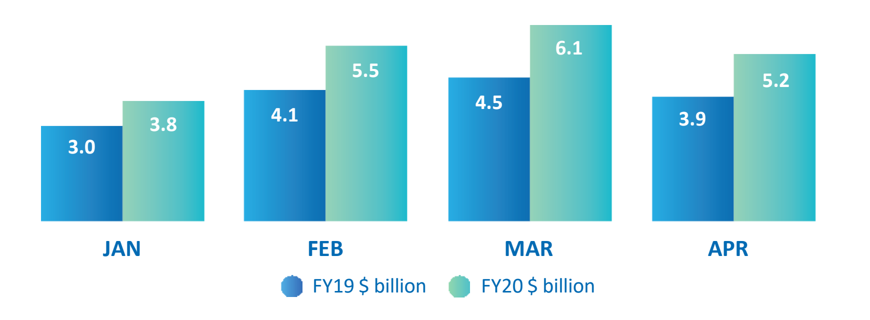
Use of funds	• Provides operational flexibility to manage capital and funding for the key long-term drivers of our growth strategy • Proceeds will be deployed across the business over the short to medium term • Majority of the proceeds are to strengthen the capital position, provide additional liquidity for funding facilities and potential ongoing hardship impacts and support growth in the AFG Securities business • Additional $5 million of funds allocated to accelerate and enhance AFG's technology investment • AFG also expects the current environment could create market opportunities and the Company may also apply up to $10 million for strategic investment opportunities

1. Theoretical ex-rights price ("TERP") includes shares issued under the Placement, Institutional Entitlement Offer and the Retail Entitlement Offer. TERP is the theoretical price at which AFG shares should trade after the ex-date for the Entitlement Offer. TERP is a theoretical calculation only and the actual price at which AFG shares trade at that time will depend on many factors and may not be equal to TERP. TERP is calculated by reference to the last traded price on Tuesday, 12 May 2020, being A$1.39.

Trading Update

Trading update

AFG has experienced strong growth in lodgements, with the March quarter up 33% on the same period last year. This trend has continued into April although the settlement conversion ratio remains uncertain, it is expected to be lower



	JAN 2020	FEB 2020	MAR 2020	APR 2020	Q3 FY20	Q3 FY19
Lodge #	7,203	9,945	11,196	9,407	28,344	23,036
Lodge Vol ($000's)	3,764,133	5,491,165	6,147,542	5,239,456	15,402,840	11,610,804
Average loan size	522,578	552,153	549,084	556,974	543,425	504,029
Investor %	25%	25%	26%	26%	25%	26%
First Home Buyers %	17%	16%	13%	12%	15%	14%
Refinance %	27%	27%	33%	37%	30%	25%
Upgrader %	39%	41%	38%	36%	39%	43%
Interest Only %	17%	17%	18%	17%	17%	19%
Principal and Interest %	83%	83%	82%	83%	83%	81%

March Quarter performance

- Total residential lodgements of **$15.4 billion** for the March quarter. Volumes for the quarter were 33% up on Q3 2019, headlined by Victoria being 40% higher
- AFG Home Loan lodgements of **$1.5 billion** for the March quarter, up 17% on Q3 2019
- AFG Securities lodgements of **$677 million** for the March quarter, up 34% on Q3 2019
- Across all lenders processing times have increased, resulting in a backlog for some lenders

Update for April performance

- Total residential lodgements of **$5.2 billion** in April, up 34% on April 2019 with growth in all states
- It is noted credit activity in April 2019 was subdued following the Financial Services Royal Commission and in the lead up to the Federal Election
- Refinance activity in wholesale broking being maintained from March Quarter
- AFG Home Loans lodgements of **$268 million** for April, down 34% on prior year on the back of increased competition from the major banks
- AFG Securities lodgements of **$51 million** for April ($260 million for March), down 69% on prior year. This reflects reduced credit appetite and increases to pricing made to manage our existing pipeline and maintain consistent customer response times as AFG teams relocated to work from home and assisted with managing customer hardship enquiries
- Significant shift in mix towards the majors continues (currently approximately 70% market share, from 57.5% in February)
- Settlement conversion ratio remains uncertain but is expected to be lower and subject to delays given the impact of operating in COVID-19 environment

Financial impact of COVID-19

AFG's financial performance is expected to be impacted. AFG is implementing a number of initiatives to support the business and manage the disruption in the market

Residential Mortgages

44% of 1H FY20 gross profit

Residential settlements are expected to fall in upcoming months, driven by:

- Slowdown in economic activity, higher levels of unemployment and a potential decrease in housing prices and house sale volumes
- Lenders are strengthening credit underwriting criteria and restricting lending to certain segments of the economy
- During a period of slower origination of new loans, brokers historically will more actively review their back books to assist existing customers to refinance into more competitive arrangements
- Majority of lenders have confirmed they will continue to honour trail commission payments on COVID-19 hardship cases for 6 months

AFGHL White Label

18% of 1H FY20 gross profit

- Similar thematics impacting residential mortgages will also impact AFGHL white label settlements
- All white label partners are supportive of AFG and have confirmed they will continue to honour trail commission payments of COVID-19 hardship cases for 6 months
- Trail component of earnings should support future operating cashflow

AFG Securities

25% of 1H FY20 gross profit

- Existing loan book of $2.85 billion is expected to continue to deliver strong net interest income although loan book growth is likely to slow
- Recently renewed both its major funding warehouses although is expecting an approximately 15 bps increase in the cost of funding, including undrawn line fees
- Similar to its competitors, AFG is actively assessing its provision levels in the current environment and will provide an update at the full year results
- Wholesale funding markets remain dislocated as a result of COVID-19. AFG will look to provide additional capital to strengthen its strategic and competitive position, provide additional liquidity, support additional growth in facilities and provide support for potential impacts of ongoing hardship cases - this is the primary purpose of the Equity Raising

Commercial / other

13% of 1H FY20 gross profit

- Commercial volumes typically highly sensitive to economic outlook
- AFG Business is providing choice and competition for SME customers by providing brokers with improved technology and incorporating recent federal government funding initiatives for SMEs into its platform

COVID-19 Responses

AFG is committed to assisting its customers through COVID-19, as well as supporting brokers to manage the increase in inquiries, simplifying COVID-19 information requirements and providing hardship assistance for AFG Securities customers

Category	Overview
Residential Mortgages	• Majority of funding partners have committed to honouring trail commission on hardship cases for 6 months • AFG has launched a new client assistance calculator for brokers to provide an overview of options available to their customers if their circumstances have changed due to COVID-19 • Development of a COVID-19 resource centre. Brokers can access information about individual lender responses and federal and state government assistance schemes for their own businesses and for their customers
AFGHL White Label	• All white label partners have committed to honouring trail commission on hardship cases for the next 6 months
AFG Securities	See below

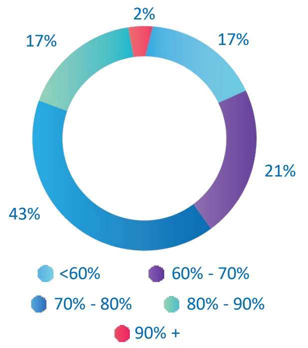
Flexible approach to assist customers with a suitable solution

Package	Description	% loan portfolio As at 7 May 2020
COVID-19 hardship	Deferral of principal and interest	4.98%
COVID-19 arrangement	Change repayment type to interest only for a period	4.30%
COVID-19 arrangement - other	Reduced repayments or arrangement to draw on advance prepayments	0.28%

- All loans with an LVR above 80% at settlement have Lenders Mortgage Insurance
- New hardship applications have slowed significantly in May

Composition of customers

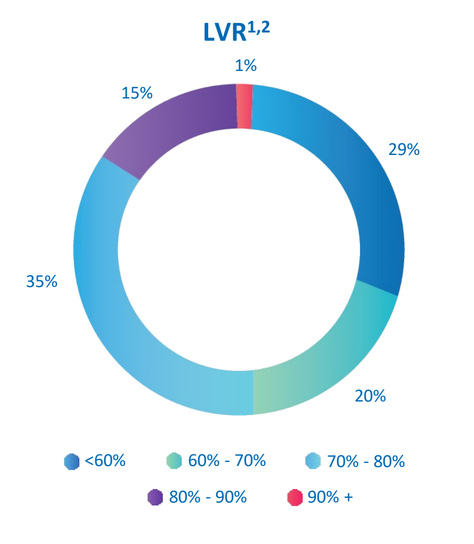
LVR bands of customers in COVID-19 hardship or arrangements[1]

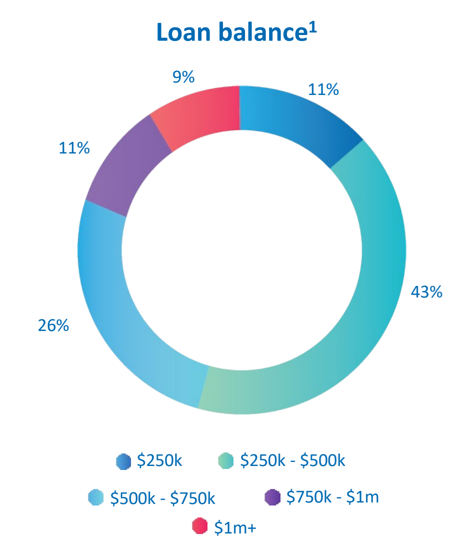


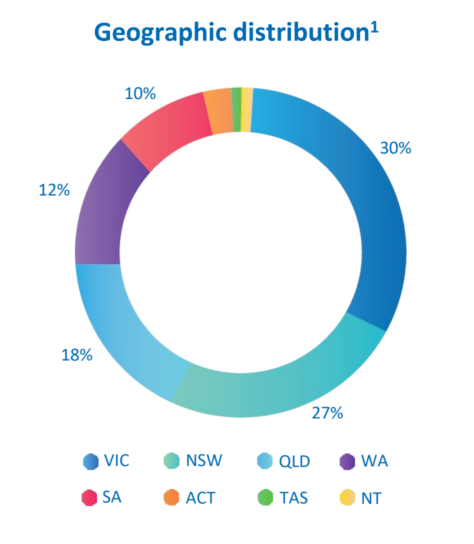
1. As at 7 May 2020. LVR calculated based on latest property valuation performed (typically at settlement or at the date of refinance).

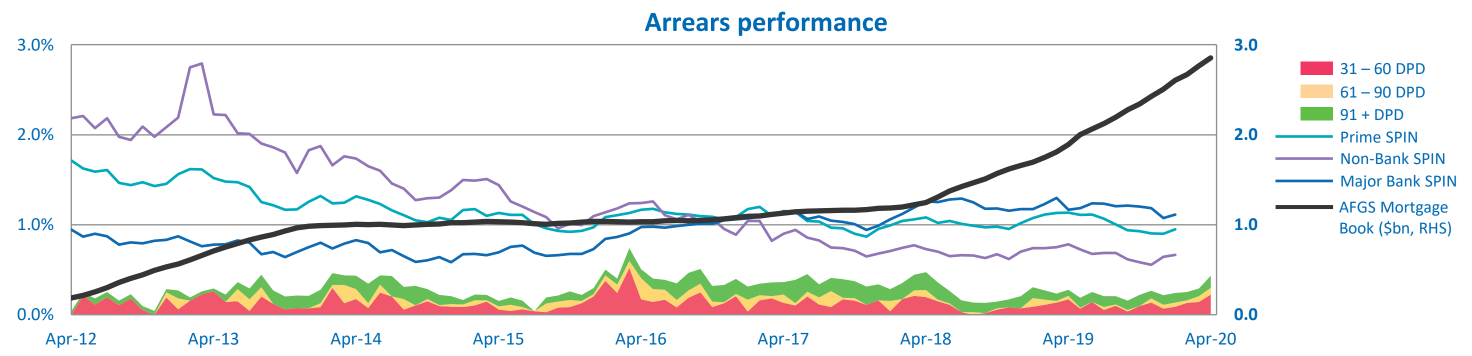
AFG Securities – portfolio composition

AFG has achieved strong growth in its loan portfolio while maintaining a quality loan composition – Relatively low LVRs, geographic diversification and low levels in arrears









Note: DPD = Days past due. SPIN is Standard & Poor's Mortgage Performance Index. AFG and peers do not classify hardship cases as arrears.

- Arrears[3] remain well below industry average. As at 30 April 2020, 27 loans were in 30+ day arrears excluding hardship cases
- AFG has over 15 years of experience issuing and managing credit risk
  - As at 30 April 2020, AFG Securities has issued $5.1 billion of originations and incurred losses of $0.2 million (across 26 loans)
- AFG currently has a collective provision of $1.2 million for losses, which is expected to increase for FY2020
- All loans that have an LVR greater than 80% are covered by Lenders Mortgage Insurance
- To date AFGS has not incurred any losses on non-LMI insured loans
- The general consensus market outlook is for property price declines of between 5% and 15%. If this assumption holds, we do not expect losses to be material
- AFG's non-recourse funding structure limits AFG's material exposure to losses to its investment in subordinated notes ($31.8m at 30 April 2020)

AFG

1. As at 30 April 2020. Composition by loan value 2. LVR calculated based on latest property valuation performed (typically at the date of the refinance)
3. AFG reports arrears excluding hardship cases consistent with APRA's guidance for regulated ADI's

Use of Funds & Offer Details

Use of Funds

Taking a longer term view on the growth of AFG, the majority of the proceeds are to strengthen the capital position, provide liquidity and support strategic growth in the AFG Securities lending book

- An equity raising strengthens the capital position of the business and provides flexibility, positioning AFG strongly during the uncertainty from COVID-19
- Proceeds will be deployed across the business over the short / medium term
  - Existing unrestricted cash is predominately required for working capital needs and normal fluctuations in subordination requirements
  - AFG retains flexibility in deploying the funds against a backdrop of changing business conditions and will continue to consider the use of the funds against alternative funding solutions (e.g. AOFM's forbearance facility or additional mezzanine financing)
  - COVID-19 has been the catalyst for the lenders and brokers to embrace the transformation of certain activities linked to the home loan application process. These initial changes deliver more efficient, secure and consumer friendly outcomes. We expect this trend will continue, and brokers will be at the forefront of this
  - There is an opportunity to accelerate and enhance our technology build to drive increased recruitment of brokers and a higher level of efficiency for our staff, brokers and their customers
  - This environment may create market opportunities that AFG might choose to seize
- To the extent AFG does not require all the funds raised as anticipated, they may be applied to the pending acquisition of Connective, other organic and inorganic growth initiatives or returned to shareholders in due course

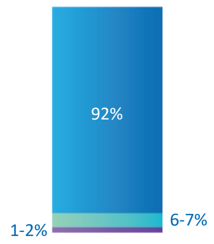
Use of funds	Indicative Allocation of Funds	Benefits to AFG
Investment in AFG Securities	Up to \$45m - \$55m	Allows AFG to continue to insulate and grow AFG Securities **Strengthen capital position** • Strengthening the position of facilities with additional credit enhancement into warehouses and term transactions (if required) • Additional liquidity requirements to support hardship cases (if required) **Support growth** • Funding continued growth in the portfolio, consistent with its historical considered and credit conscious manner • Market for mezzanine funding is currently dislocated. AFG may temporarily provide mezzanine financing in its warehouse facilities to maintain momentum
Technology accelerations / enhancements	\$5m	Accelerate and enhance technology investment to support brokers to engage with clients remotely and manage workflow more efficiently Ongoing developments of AFG Securities technology, including the customer digital offering driving a better user experience and client service efficiencies
Potential investments	Up to \$10m	Potential investment in strategic and acquisition opportunities

Capital management and funding

Completion of the Equity Raising will further strengthen AFG's strong balance sheet which provides a robust platform for the future

($m)	Facility Limit (Current) Unaudited	Drawn (30 April 2020) Unaudited	
Warehouse facilities	$2,070m	$1,524m	Undrawn capacity: $546m
Securitised funding facilities	$1,331m	$1,331m	
Wholesale funding facilities	$3,401m	$2,855m	
Less: restricted cash		*($57m)*	
Net wholesale funding debt		$2,798m	
Unrestricted cash and cash equivalents		*$52m*	
Pro-forma unrestricted cash and cash equivalents (adjusted for the Offer)[1]		*$112m*	

Warehouse facilities



Senior funding (~92%)

AFG continues to receive strong support from senior funders

Mezzanine funding (6 – 7%)

AFG may temporarily invest in mezzanine to provide additional capacity to deploy senior funding

Subordinated notes held by AFG (1 – 2%)

AFG, together with other issuers in the market, may be required to increase the level of subordinated notes held given the increase in hardships in its loan portfolio

Corporate position

- Pro-forma unrestricted cash and cash equivalents of $112m post completion of the Equity Raising (pre offer costs)
- AFG's corporate balance sheet is debt free once adjusting for its non-recourse funding special purpose vehicles

Wholesale funding for AFG Securities

- Recently rolled its originating warehouse facilities
  - Expiry dates extended to December 2020 and May 2021
  - Funding costs expected to increase by approximately 15 bps, driven by a combination of funding margin increases and higher undrawn facility capacity which attracts additional line fees
  - The AOFM has provided mezzanine funding to replace some of the existing providers. The funding provided by the AOFM is at an increased facility size which allows access to increased warehouse limits
- AFG also has a small facility which funds approximately $123m of assets with limited capacity for new originations. The intention was to broaden the product offering and funding capacity of this warehouse as a third originating facility. This has not yet eventuated. If AFG is unable to reach an agreement to renew this facility, the facility will transition into amortisation, which results in the cash flows from the facility of circa $125k/month (including a step up margin) being used to repay senior tranches of the facility and as a consequence not being available to AFG[2]
- AFG has historically provided 1-2% credit enhancement into its warehouse facilities (via investing in subordinated notes)
  - This may be required to increase given current funding market sentiment and increasing levels of hardships within its portfolio
  - AFG may also invest in the mezzanine funding as required, subject to availability and cost of alternative funding, to provide a level of protection whilst maintaining a long-term focus on growth
- AFG's total subordinated notes subscribed is $31.8m at 30 April 2020
- AFG will consider whether to adjust its dividend policy with release of its FY20 results, when the impact and duration of COVID-19 is better understood

1. Adjusted for proceeds of the Equity Raising, before anticipated offer costs 2. Refer to Key – risks – Securitisation warehouse facilities (short term funding).

Offer details

Offer size and structure	• Fully underwritten Equity Raising of $60 million, comprising of:
	  ◦ An Institutional Placement of approximately $15 million (**Placement**)
	  ◦ A 1 for 5.5 pro-rata accelerated non-renounceable entitlement offer of approximately $45 million (**Entitlement Offer**), including an:
	    ▪ Institutional component to raise approximately $31 million (**Institutional Entitlement Offer**); and
	    ▪ Retail component to raise approximately $14 million (**Retail Entitlement Offer**)
	• Certain AFG Directors and Management have committed to subscribe for approximately $5 million of the Offer and to sub underwrite up to $690,000 of the Retail Entitlement Offer
	• Approximately 52m new fully paid ordinary shares in AFG (**New Shares**) to be issued under the Equity Raising (approximately 24% of the existing shares on issue)
	• The Equity Raising is fully underwritten by Macquarie Capital (Australia) Limited. Euroz Securities Limited and Morgans Corporate Limited are Co-managers to the Equity Raising

Offer price	• All shares under the Equity Raising will be issued at a fixed price of $1.15 per New Share (the **Offer Price**) which represents:
	  ◦ 14.4% discount to the Theoretical Ex-Rights Price of $1.34[1]; and
	  ◦ 17.3% discount to the last closing price of $1.39 on Tuesday, 12 May 2020

Institutional Entitlement Offer and Placement	• The Placement and Institutional Entitlement Offer will be conducted by a bookbuild process on Wednesday, 13 May 2020 • Entitlements under the Institutional Entitlement Offer that are not taken up and entitlements of ineligible institutional shareholders and ineligible retail shareholders under the Entitlement Offer will be offered for sale in the bookbuild
Retail Entitlement Offer	• The Retail Entitlement Offer will open at 9am on Wednesday, 20 May 2020 and close at 5pm on Tuesday, 2 June 2020
Ranking	• New Shares will rank equally with existing fully paid ordinary shares from their time of issue
Record date	• Entitlement Offer is open to existing eligible AFG shareholders on the register as at Friday, 15 May 2020

AFG

1. Theoretical ex-rights price ("TERP") includes shares issued under the Placement, Institutional Entitlement Offer and the Retail Entitlement Offer. TERP is the theoretical price at which AFG shares should trade after the ex-date for the Entitlement Offer. TERP is a theoretical calculation only and the actual price at which AFG shares trade at that time will depend on many factors and may not be equal to TERP. TERP is calculated by reference to the last traded price on Tuesday, 12 May 2020, being A$1.39.

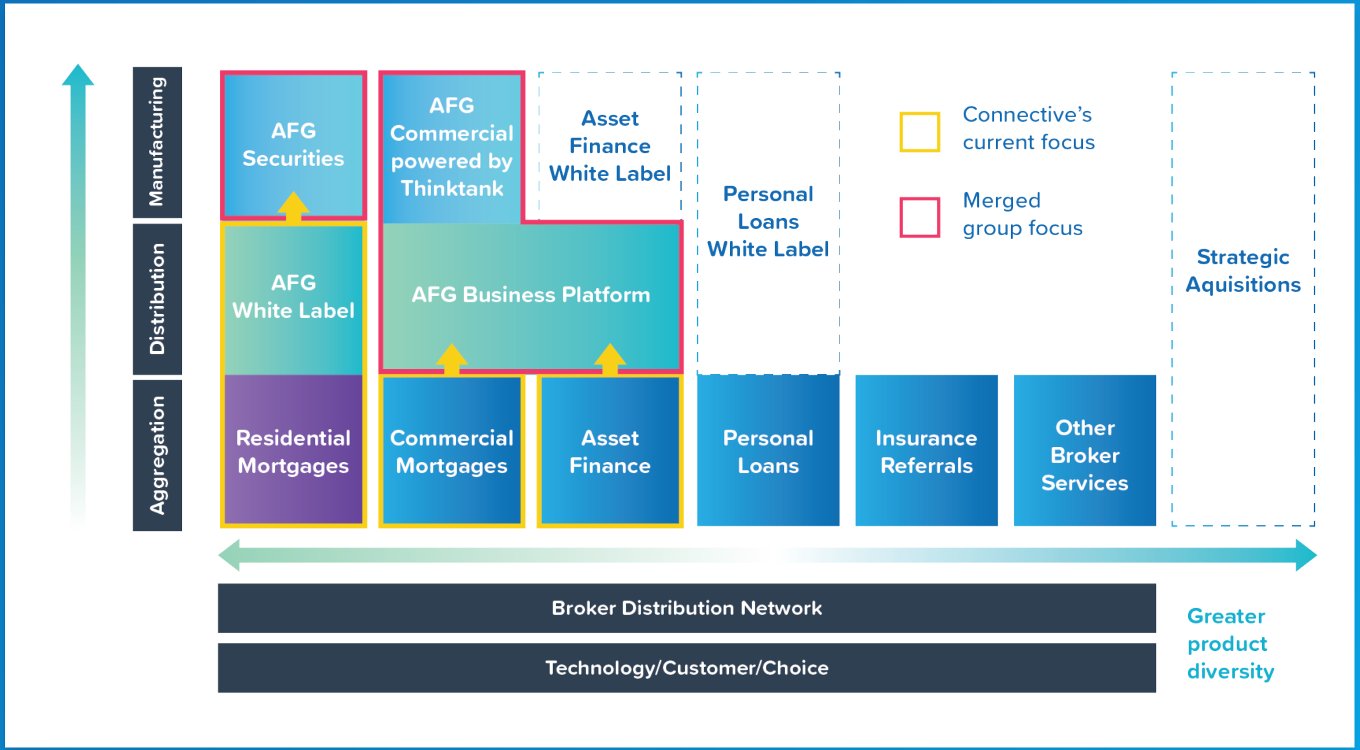
Offer timetable

Event	Indicative date
Equity Raising announcement and Placement and Institutional Entitlement Offer opens	Wednesday, 13 May 2020
Placement and Institutional Entitlement Offer closes	Wednesday, 13 May 2020
Trading in AFG shares resumes on an ex-entitlement basis	Thursday, 14 May 2020
Record date for determining entitlement for the Entitlement Offer	Friday, 15 May 2020
Despatch of Retail Offer Booklet and Retail Entitlement Offer opens	Wednesday, 20 May 2020
Settlement of Placement and Institutional Entitlement Offer	Friday, 22 May 2020
Allotment and normal trading of New Shares issued under the Placement and Institutional Entitlement Offer	Monday, 25 May 2020
Retail Entitlement Offer closing date	Tuesday, 2 June 2020
Settlement of Retail Entitlement Offer	Tuesday, 9 June 2020
Allotment of New Shares issued under the Retail Entitlement Offer	Wednesday, 10 June 2020
Normal trading of New Shares issued under the Retail Entitlement Offer	Thursday, 11 June 2020
Despatch of holding statements	Friday, 12 June 2020

AFG Investment Proposition

Stable platform continues to support future growth

More than half of overall profit now generated outside traditional aggregation, providing a stable platform for future growth



Strengths of the business model:

Established and diversified network with 2,975+ brokers across Australia, offering over 4,000 products

- Diversity with traditional wholesale broking/ aggregation, distribution and manufacturing, with the ability to adapt focus in changing market conditions whilst delivering a significant actuarially assessed cash flow stream
- Investment in broker technologies has supported brokers to continue to help their customers during COVID-19
- A commitment to grow the business while still maintaining a low capital intensity model
- Brokers continue to demonstrate again in the COVID-19 period their focus on customer outcomes and therefore the long-term sustainability of the role

Update on Connective merger:

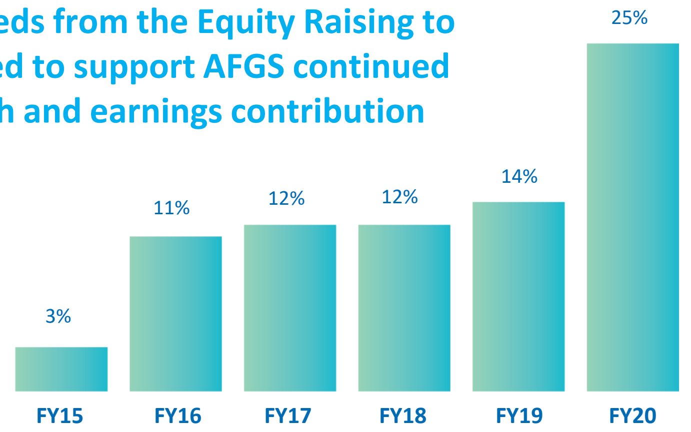
- AFG has provided its response to the ACCC's Statement of Issues
- Court case: Closing arguments complete. Judge retired to consider evidence

Earnings diversified across the business

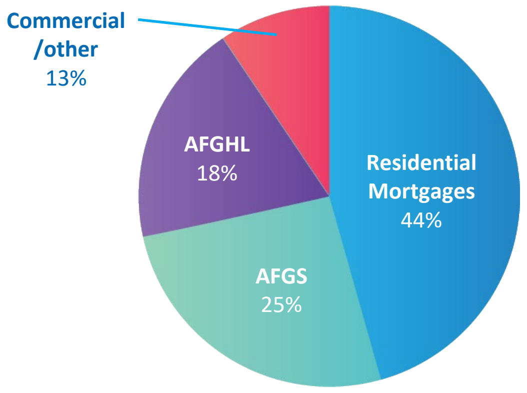
AFG has strong visibility of forward cashflow with 81% of 1HFY20 gross profit relating to annuity type income that is realised over time including trail commission, net interest income and fees

AFG Securities % of Gross Profit

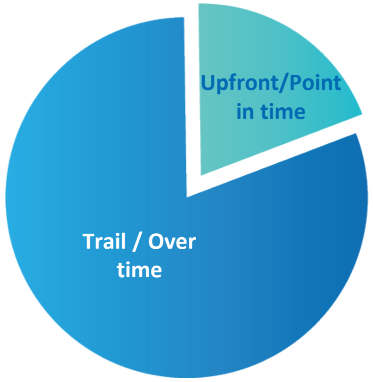
Proceeds from the Equity Raising to be used to support AFGS continued growth and earnings contribution



Gross Profit by Line of Business



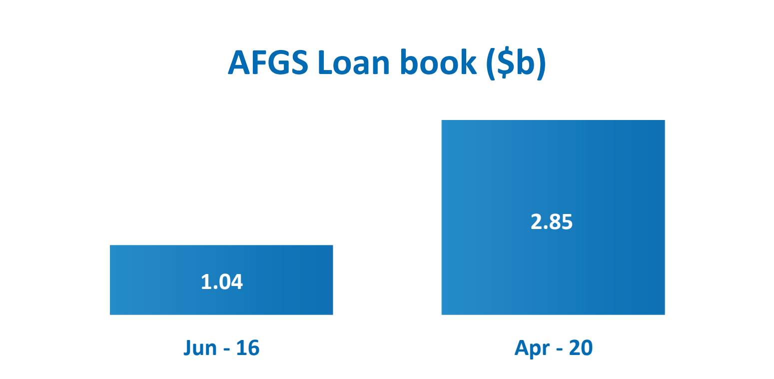
Gross Profit – Upfront v Over Time

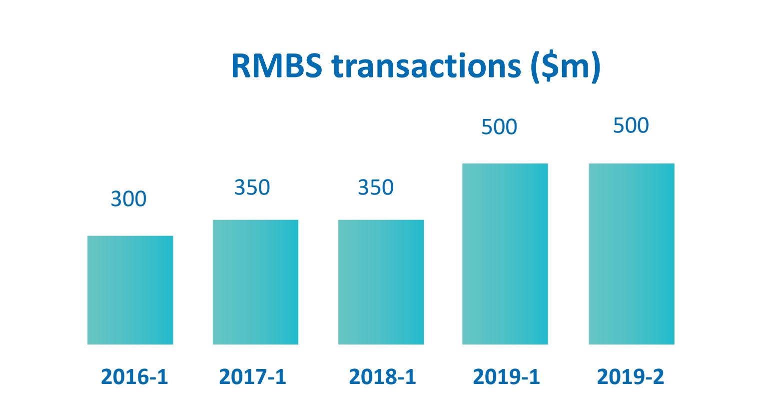


81% of Gross Profit generated from annuity type income realised over time

AFG Securities momentum

AFGS remains committed to delivering choice and competition to Australian borrowers. Additional capital to be deployed to enable growth in a considered manner whilst providing optionality surrounding the funding mix





AFG Securities loan book
- Strong momentum with book growth of 174% since June 2016
- Differentiated product in market and strong broker demand on the back of AFGS' consistent service proposition
- Provides AFG manufacturing margin, growth and earnings diversification
- Disciplined approach to credit, evidenced by minimal historical losses of $230k

Warehouse funding
- Warehouse providers have supported AFG's growth
  - Senior tranches: Well supported by bank lenders
  - Mezzanine tranches: Market for mezzanine financing currently dislocated. AOFM has provided AFG mezzanine funding to replace some of the existing providers and allow increased warehouse limits
- AFG has historically invested 1-2% into subordinated tranches as "first loss"
  - GFC experience suggests possible increases in "first loss" where severe deterioration in losses or hardship across the market is identified
- Current headroom of $546m in warehouses – Equity Raising provides support for additional limits to continue to grow the loan book

RMBS issuances
- AFGS has a history of successfully accessing RMBS markets - raising $2.88 billion since launching its securitisation program in 2007
- No near-term call dates
- Current market access remains limited, though early signs of market opening with two issues launched in May 2020 by other issuers
- AOFM has indicated support at market rates for term transactions in the near term
- AFGS may access markets subject to origination momentum, investor demand and pricing
- Potential for additional subordination requirements for any new term transaction depending upon collateral performance and investor sentiment

Pillars for growth

Whilst noting the uncertainty promoted by the COVID-19 crisis, AFG remains confident about the opportunities which may evolve because of this. Successful completion of the Equity Raising will ensure AFG is well positioned to deliver on its long term multi-tiered approach for growth

Investment in AFG Securities

- Delivers greater choice to customers in a complex market
- Investment since FY16 is now providing a strong platform for future earnings
- Ongoing investment required to fund new settlements and support growth of the loan book during a period of market disruption
- The development of a digital offering for AFG Securities is considered an important competitive advantage post COVID-19

Leading technology offering

- Critical component of AFG's value proposition to retain and attract brokers – particularly in a COVID-19 environment
- Ongoing development will provide brokers the ability to interact with customers in a digital environment, improve process efficiency, submission quality and compliance capability
- AFG has invested $2.3 million for FY20 YTD, with a further $9 - 10 million of project spend planned over the medium term to accelerate and enhance the broker platform and enhance the digital offering for AFG Securities customers

Diversification of business model

- Continued expansion of product offering, including scaling of Commercial Mortgages, Asset Finance and the AFG Business Platform
- Explore white label opportunities for other product verticals such as Asset Finance to access manufacturing margin
- AFG is helping brokers diversify their own businesses through the AFG Business platform, allowing residential mortgage brokers to help their customers with their SME needs as well as their home loans

Market and acquisition opportunities

- AFG continues to explore strategic opportunities to further diversify earnings and leverage the strength of its broker distribution network
- The Connective transaction as announced to the ASX in August 2019 remains subject to ACCC and Court approval
  - Completion timing remains uncertain due to the approval process.
  - Not expected until H1 FY21 at the earliest

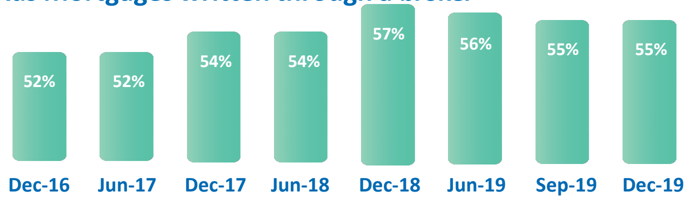
Strategic & market outlook

AFG is well positioned to capture future growth opportunities. Disruption from COVID-19 will likely result in some market disruption in the short term, with the government implementing a number of initiatives to support lenders through the pandemic

Well positioned for future growth opportunities

- Capital light, strong balance sheet with no debt
- Established distribution network with further opportunities for brokers as customers are not able to attend bank branches
- Strong cashflow generation including annuity type stream from organisations with strong credit ratings
- Ongoing investment in technology to grow scale efficiently
- Delivering on AFG's earnings diversification strategy
- Continuing to drive competition and choice in the Australian lending market

% of Aus Mortgages written through a broker



Market outlook

- RBA cash rate set at 0.25%
- Government funding initiatives to support bank and non-bank lenders
  - Term Funding Facility offered by the RBA to bank lenders and $15bn Structured Finance Support Fund managed by the AOFM
- Disruption from COVID-19 is expected to result in increased unemployment levels and a drop in house prices
- In response to the environment, some lenders are strengthening credit underwriting criteria which may impact conversion of lodgments to settlements
- We remain confident that the role brokers play for Australian consumers will continue to be critically important
- COVID-19 impacting AFG Securities with 4.98% of the book in hardship, with 4.58% entering into a payment arrangement, such as moving to interest only repayments
- Market outlook remains uncertain and dynamic

Key Risks

Key risks

Introduction

This section describes the key business risks of investing in AFG together with the risks relating to participation in the Offer which may affect the value of AFG shares. It does not describe all the risks of an investment. Investors should consult their own professional, financial, legal and tax advisers about those risks and the suitability of investing in light of their particular circumstances. Investors should also consider publicly available information on AFG (including information available on the ASX website) before making an investment decision. The risks are categorised as follows:

- Key Business Risks
- Offer and General Risks

References to "AFG" or "AFG group" in this key risks section of the presentation includes AFG and its related bodies corporate (as defined in the Corporations Act), where the context requires.

Key Business Risks

- Economy and the impact of the COVID-19 pandemic, including increasing hardship applications
- Legislative and regulatory requirements and changes
- Connective group transaction and other potential acquisitions
- Securitisation warehouse facilities (short term funding)
- Changes in the wholesale lending market
- Reliance on lenders pursuing third party distribution channels
- Reliance on relationships with lenders and white label partners
- Mortgage broker retention and attracting new mortgage brokers
- Competition and margin compression
- Conduct of brokers
- Reputation and governance
- IT risk and cyber-crime
- Interest rates
- Licences required for AFG's core business activities
- Investigations, disputes and litigation
- Reliance on external software providers
- Loan underwriting and credit risk
- Risk related to estimation of provisions
- Future cash receipts from trail commissions may be lower than expected
- Employee recruitment and retention and key management
- Operational risks
- Insurance

Offer and General Risks

- Investment in equity capital and the COVID-19 pandemic
- Equity raising risk
- Risks of dilution
- Non-renounceable entitlements
- Changes to legal, accounting and regulatory requirements
- Changes to tax rates or laws
- Payment of dividends
- Other risks

Key risks – key business risks

Economy and the impact of the COVID-19 pandemic, including increasing hardship applications

The events relating to the COVID-19 pandemic have recently resulted in significant market falls and volatility including in the prices of securities trading on the Australian Securities Exchange (ASX) (including the price of AFG shares) and on other foreign securities exchanges. There is continued uncertainty as to the further impact of the COVID-19 pandemic including in relation to governmental action, work stoppages, lockdown, quarantines, travel restrictions and the impact on the Australian economy, including levels of employment, housing prices and GDP, as well as share markets and debt funding markets. In light of recent Australian and global macroeconomic events, it is likely that Australia will experience an economic recession or downturn of uncertain severity and duration which could continue to impact on AFG's operating and financial performance and prospects and continue to interfere with AFG's business.

AFG is taking careful steps to mitigate the impact of the COVID-19 pandemic on its operations, including undertaking a cost reduction programme to minimise operating expenditure. AFG is currently monitoring the actual and potential impact of the COVID-19 pandemic on its operations and the broader economy. There is a risk that applications for hardship (loan repayment deferrals) and other COVID-19 arrangements (such as restructuring loan payments to interest only)in relation to AFG Securities Pty Ltd's (AFG Securities) loans will continue to increase, particularly as the Australian government withdraws its support packages such as JobSeeker and JobKeeper, and these customers may also transition into arrears post the hardship or arrangement period.

An increase in hardships, COVID-19 arrangements and/or arrears rates is likely to have a negative effect on the cashflow for the AFG Securities business. There is also a risk that some of the loans in arrears fall into default. AFG Securities would then foreclose on the secured property and be required to sell the property in what may be a declining property market. There is a risk that AFG Securities may not be able to recover the full outstanding monies in those circumstances. Further, whilst the vast majority of lenders are currently continuing to pay trail commission on loans that have hardship arrangements in place for the next 6 months, there is a risk that some or all of the lenders will discontinue paying trail commission payments on those loans if these loans transition off hardship arrangements into arrears. There is also a risk that some lenders (such as smaller non-bank lenders) on AFG's lender panel become insolvent and cannot continue to pay trail commission to AFG.

For AFG Securities' three warehouse facilities, the cost of funding may also increase, new loan originations may slow, there may be additional requirements for additional credit enhancement within these facilities and AFG may not be able to extend is facilities beyond their current expiry dates as a consequence of debt market uncertainties driven by the COVID-19 pandemic. In some circumstances, if the funding facilities are extended, the cost of funds may become sub economical for AFG. Arrears triggers or loss triggers in theses warehouse arrangements, which could result in an amortisation event which could subsequently trigger an event of default – refer to Key risks - Securitisation warehouse facilities (short term funding). In addition, AFG may not be able to access public term securitisation markets, or may only be able to access these markets at a significantly higher cost, to refresh warehouse capacity given disruptions currently facing these markets from the COVID-19 pandemic.

Given the high degree of uncertainty surrounding the extent and duration of the COVID-19 pandemic, it is not currently possible to assess the full impact of the pandemic on AFG's operations or the economy generally. If market conditions continue to deteriorate, AFG may need to take additional measures in order to respond.

Legislative and regulatory requirements and changes

The mortgage broking (and lending) industry in Australia is primarily regulated by ASIC and under the National Consumer Credit Protection Act 2009 (Cth) (NCCP Act). The industry is also subject to a variety of other laws including privacy, financial transaction reporting and money laundering laws. If AFG does not meet regulatory requirements, such as responsible lending obligations under the NCCP Act, it may suffer penalties (which may include fines, compensation and cancellation or suspension of authority to carry on business) or one of AFG's Australian credit licences granted under the NCCP Act (each an ACL) could be affected. This is likely to have a material impact on AFG's business and operating and financial performance.

The legislative and regulatory framework that is relevant to AFG's operations may change. Depending on the nature of these changes, this may adversely impact the mortgage broking industry or AFG's operations or future financial performance.

The final report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry that was issued on 4 February 2019 made a number of recommendations regarding proposed changes to the banking industry, including introducing a best interests duty for mortgage brokers, ban on conflicted remuneration and changes to mortgage broker remuneration. The changes include, for example, the removal of trail commission or a borrower upfront payment model, which may reduce the amount of loans originated through the broker channel, impacting AFG's operations and/or AFG's revenue. The Federal Government has announced that the mortgage broker remuneration model will be reviewed in 2022. Depending on the nature of these changes, this could have a significant impact on AFG's operations including its ability to compete and its future strategy. In response to the Royal Commission, on 6 February 2020, the Federal Government passed legislation to create a new duty for mortgage brokers to act in the best interests of consumers and where there is a conflict to prioritise consumers' interests when providing credit assistance (the 'best interests obligations') and also prohibiting conflicted remuneration. ASIC announced on 8 May 2020 the deferral of the commencement date of these new provisions to 1 January 2021. AFG is in the process of preparing its systems and affiliated mortgage brokers for the best interest obligations through education, auditing and compliance training. The introduction of the above changes adds additional compliance and reporting obligations to mortgage brokers. For some mortgage brokers, this may adversely impact their volume of originations. Breaches of the best interest obligations and ban on conflicted remuneration provisions can lead to penalties of up to $1,050,000 per breach.

Key risks – key business risks (continued)

In recent years, responsible lending practices have been scrutinised by ASIC. ASIC has been increasingly concerned with the extent to which lenders undertake independent verification of a potential customer's income, verification of customers living expenses (including use of benchmarks such as the Household Expenditure Method) and whether customers' requirements and objectives are being sufficiently inquired about and assessed. In December 2019, ASIC released Regulatory Guide RG209, which sets out ASIC's views on what the responsible lending obligations. There is a risk that ASIC may take issue with AFG's current or historical approach to responsible lending, which may result in AFG being required to change its current or proposed policies and processes and undertake remediation to customers that ASIC view as potentially disadvantaged from AFG's processes. In additional, tighter responsible lending practices could also result in lower levels of loan originations as less people are eligible for a loan a/or qualify for lower loan amounts.

AFG cannot accurately predict the impact of future legislative and regulatory changes on its business. However, as the amount and complexity of legislative and regulatory reforms in the industry increases, so may the cost of compliance and the risk of non-compliance.

Connective group transaction and other potential acquisitions

AFG's proposed merger with the Connective group is subject to a number of conditions, including ACCC approval and receipt of Court orders. There is a risk that these conditions precedent may be not be satisfied in which case the transaction may not be able to proceed. This may adversely affect AFG's future financial performance. AFG's long-term business strategy includes pursuing acquisitions. There can be no assurance that AFG will identify suitable acquisition or divestment opportunities or other projects at acceptable prices, or successfully execute those opportunities or projects. In addition, AFG's past and future acquisitions and divestments and other projects may expose AFG to unanticipated risks and liabilities, or may disrupt AFG's operations. Any acquisition, including the proposed merger with Connective group, may not deliver projected benefits or value, and integrations may not be successful, resulting in interruptions to the achievement of business strategy. This may divert management's attention and resources from AFG's day to day operations.

To the extent that acquisitions are not successfully completed and integrated within AFG's existing business, the financial performance of AFG could be materially adversely affected.

Securitisation warehouse facilities (short term funding)

Certain securitisation warehouse facilities entered into by AFG provide for short term funding (for example 364 days). The next facility due for renewal is a $126 million facility ($123 million drawn) which expires on 10 June 2020. That funding term may only be extended, if requested by AFG and at the absolute discretion of the relevant financier. If the relevant facility is not extended, and AFG is not able to otherwise refinance the facility before the expiry of the then current availability period, an amortisation event will occur. Each securitisation warehouse facility entitles the relevant financier to cancel any unutilised facility on the occurrence of an amortisation event. If this occurs, AFG Securities' may not be able to continue to settle loans in relation to that warehouse facility unless replacement facilities are put in place. In addition an amortisation event will result in diversion of generally of some or all of the excess spread to accelerate the repayment of principal to the financiers.

There is also the potential for enforcement action to be taken (which may include disposal of the underlying mortgage loan pool), on the occurrence of certain events (for example events of default, which may by triggered by arrears or default performance of the underlying mortgage loan pool). Any such enforcement may have a negative impact on AFG, including:

- loss of potential further excess margin over cost of funds on the underlying mortgage loan pool; and
- crystallising a principal loss, if the underlying mortgage loan pool is sold at a discount to par.

The occurrence of such events of default are not necessarily within the control of AFG or AFG Securities (for example, many of the events of default relate to performance by the third party trustee company).

Changes in the wholesale lending market

The capacity of lenders to continue providing lending products and services may be affected by a change in the wholesale lending market (including the market for residential mortgage backed securities (RMBS)). A change in the wholesale lending market may mean that lenders are no longer able or willing to provide these products or services, which may adversely affect both the volume of loans that AFG brokers originate through AFG and the volume of loans that AFG Securities can offer, and therefore the future financial performance of AFG. Additionally a significant proportion of AFG Securities' funding is reliant on the wholesale lending market. Any detrimental change to the underlying cost of funds of this funding market will impact the net interest margin being generated by the AFG Securities business. Further, so as to preserve net interest margins, AFG may decide to pass on some or all of the increase in cost of funds to the home loan customer and as such this may adversely impact the loan life and/or give rise to damage to AFG Securities' reputation in the market. See also Reputation and governance risk below

Key risks – key business risks (continued)

Reliance on lenders pursuing third party distribution channels

AFG's business depends on lenders originating loans through mortgage brokers rather than directly (for example, through a lender's own branches or other distribution platforms such as mobile lending services) and providing competitive products and service levels. AFG's business would be impacted by any significant changes in the business practices of lenders such as increased reliance on direct distribution methods including new technologies.

AFG, and the mortgage broking industry generally, is reliant on lenders' willingness to employ third party distribution channels as a means of marketing their loan products. Depending on the relative cost of other distribution methods, in the future lenders may also decide to decrease their reliance on (or not to use) third party channels, develop competing distribution channels or reduce current upfront or trail commission terms, any of which would have a significant adverse effect on the industry generally and on AFG.

AFG is also reliant on receiving access to competitive products from the AFG lending panel to enable AFG brokers to attract customers in an increasingly competitive mortgage market. There can be no assurance that AFG will continue to be able to access competitive products.

Reliance on relationships with lenders and white label partners

The success of AFG's business and its ability to grow relies on AFG's relationship with the lenders appointed to the AFG lending panel, including its white label partners. There are a number of risks associated with AFG's agreements with lenders. For example, lenders generally have an ability under the agreements to change the terms or rates of payments to AFG for future originations. Such a change may have a material adverse effect on AFG's financial performance.

Lenders also have the right to terminate their agreements with AFG for the lodgement of new loans, including without cause or by notice (depending on the termination event or circumstances). Notice periods for termination may be as short as 7 days. In circumstances where AFG has breached an agreement with a lender, in some cases the lender may cease paying trail commissions.

A loss of any of AFG's agreements with lenders on the AFG lending panel, or a reduction in the number of lenders on the AFG lending panel, could reduce AFG's competitive advantage and have an adverse impact on AFG's business, and operating and financial performance.

AFG relies on its ability to offer competitive white label solutions to its customers. Any loss of AFG's agreements with white label partners, changes to the remuneration and commission structure of these products or changes to the competitiveness of these products compared to other loan products available to consumers could have an adverse impact on AFG's business, and operating and financial performance.

Mortgage broker retention and attracting new mortgage brokers

AFG currently has in excess of 2,975 brokers originating mortgage products through AFG's platform. The success of AFG's business and its ability to grow relies on AFG's ability to retain existing brokers, and its ability to continue to attract productive mortgage brokers. If AFG is not able to retain the existing key brokers, or attract new productive mortgage brokers, this could have an adverse impact on AFG's business, and operating and financial performance.

If brokers do not continue their contracts with AFG, AFG's settlement volumes and subsequent financial performance would be adversely affected.

Competition and margin compression

AFG operates in a competitive market. AFG faces the risk that increasing levels of competition, including competition from business models using new technology platforms could result in, among other things, AFG foregoing a greater proportion of its profit margin to retain volumes of mortgages written, reduced upfront commissions and trail commissions paid by lenders, changes to the structure of upfront commissions and trail commissions by lenders (such as the replacement of trail commissions with up-front commissions) and increased payout ratio to brokers. This may result in reduced revenue, reduced operating margins and a loss of market share, which may have a material adverse effect on AFG's business, operating and financial performance, and position and future prospects.

Key risks – key business risks (continued)

Conduct of brokers

AFG faces a number of risks arising from the conduct of the brokers, including additional risks associated with brokers who are AFG credit representatives operating under AFG's Australian Credit Licence. AFG currently has over 1,360 AFG credit representatives. Under the NCCP Act, AFG is liable to customers for any loss or damage that they suffer as a result of an AFG credit representative's conduct. This applies to conduct that relates to a credit activity on which the customer could reasonably be expected to rely and in fact relied in good faith. Where AFG is responsible for the conduct of its credit representatives, the customer has the same remedies against AFG as it has against the credit representative. This means that customers can take action against AFG in respect of the AFG credit representative's conduct. AFG also has obligations in respect of its credit representatives as an ACL holder. These obligations include to:

- take reasonable steps to ensure that AFG credit representatives comply with the credit legislation; and
- ensure that AFG credit representatives are adequately trained, and are competent, to engage in the credit activities authorised by the ACL.

Failure by AFG to meet these requirements could result in penalties, more onerous ACL conditions, the imposition of restrictions on AFG's ACL, or the loss of AFG's ACL. In order to provide wholesale mortgage broking services AFG must either hold an ACL or be authorised to provide those services under a third party's ACL. Therefore, the loss of AFG's ACL could result in AFG being unable to continue its business as a wholesale mortgage broker.

Although AFG has professional indemnity insurance in place, AFG could nevertheless incur significant losses if there was widespread or systemic fraud or other breaches of the law by AFG brokers. Losses to AFG could result if the limits of the insurance policy were exhausted or if it did not adequately respond to the claims. Claims on AFG's professional indemnity insurance policy may also have an adverse effect on AFG's ability to negotiate competitive renewal terms as well as on AFG's reputation and brand name. As an ACL holder, AFG must have processes in place to resolve disputes with customers of AFG credit representatives, be a member of an approved dispute resolution scheme and have compensation arrangements in place. It may be costly for AFG to deal with customer complaints and AFG may be required to pay compensation to resolve complaints. There is also a risk that misconduct by an AFG broker relating to falsifying or misstating loan application information and documentation that is provided to lenders in relation to potential borrowers may go undetected by AFG. This is because application information and documentation is submitted to lenders without review by AFG. This could lead to significant reputational damage, regulatory action and financial loss to AFG.

Reputation and governance

The success of AFG is reliant on the maintenance of its reputation and brand name. Reputational damage could arise due to a number of circumstances, including improper conduct, human error, actions by third parties or adverse media coverage. In particular, illegal practices by AFG brokers such as fraud or non-compliance with regulatory requirements (for example, AFG brokers recommending unsuitable products to their customers) could adversely affect AFG's reputation. These actions could also lead to regulatory action including penalties which could materially affect AFG's business.

Any factors that damage AFG's reputation may potentially affect its ability to attract and retain productive AFG brokers and maintain relationships with its existing panel of lenders, as well as AFG's ability to attract and retain key employees. In such situations, AFG's business and operating and financial performance could be materially adversely affected.

Stakeholders of AFG have expectations regarding governance for an enterprise of AFG's scale which is operating as a publicly listed entity. A significant failure to meet expected standards of governance would impact the reputation and business outcomes of AFG, and therefore its financial position.

IT risk and cyber-crime

AFG's ability to service and pay AFG brokers is dependent on its information technology systems and relationships with service providers. AFG's core technologies and other systems and operations could be exposed to damage or interruption from system failures, computer viruses, cyber-attacks, power or telecommunication providers' failure, fire, natural disasters, terrorist acts, war, or human error.

These events may cause one or more of AFG's core technologies to become unavailable and could severely impact AFG's operations and AFG brokers, as well as damaging AFG's reputation. Any issue with AFG's information technology systems may also impact AFG's operational capabilities and financial performance.

There is an increase in cybercriminal activity on a global level. By exploiting information technology system vulnerabilities, successful cyber-attacks on AFG's systems can result in unavailability or loss of AFG's critical systems or third parties obtaining customer and corporate data.

Key risks – key business risks (continued)

Interest rates

Australian consumers and residential borrowers currently enjoy historically low interest rates which have contributed to the growth of AFG. In the event interest rates significantly increase, potential borrowers' willingness and ability to borrow may be greatly reduced and the volume of loans settled could significantly decrease, affecting the future upfront and trail commission income received by AFG and net interest income generated on AFG Securities' loan book and therefore the associated financial performance of AFG. AFG Securities' cost of funds is calculated based on the bank bill swap rate (BBSW). A sudden increase in the BBSW would increase AFG Securities' relative cost of funds and may adversely affect the financial performance of AFG.

Licences required for AFG's core business activities

The AFG group is required to hold certain licenses in order to conduct its business, including ACLs that authorise it to engage in certain credit activities and an Australian Financial Services Licence (AFSL) held by AFG Securities in order to deal or advise in securities (such as residential mortgage-backed securities). Compliance with the obligations of an ACL or an AFSL is the responsibility of the licensee. If any of the ACL holders (including AFG) do not comply with the conditions of that licence or meet regulatory requirements, that entity could be subject to penalties, more onerous licence conditions, the imposition of licence restrictions or the loss of that licence. If AFG or any AFG group company is unable to retain its ACL or AFSL, AFG may not be able to continue to operate its business, or aspects of its business, in the current form. This may have a material adverse impact on the financial performance and position of AFG. If AFG Securities is unable to retain its AFSL, this would impact AFG Securities' ability to offer securitisation services to provide funding for AFG Securities' loan products. If this occurred, AFG Securities would be required to seek funding from alternative sources. This would also lead to a loss of the net interest margin earned by AFG Securities and therefore may adversely affect the financial performance of AFG.

Investigations, disputes and litigation

AFG may, from time to time, be subject to regulatory reviews, audits and investigations which may divert management's attention away from AFG's operations and this may be costly. There is a risk that enforcement action may follow any such review and that such activities also adversely affect AFG's reputation. AFG may be subject to litigation, class actions and other claims and disputes in the course of its business, including contractual disputes. AFG relies on contractual arrangements with AFG brokers, the AFG panel lenders and AFG's product and services providers. From time to time, disputes may arise under those contracts and AFG may commence or be subject to litigation to resolve a dispute. Litigation has the potential to disrupt AFG's business, adversely affect AFG's financial performance and damage AFG's reputation.

Reliance on external software providers

AFG's business is currently reliant on one major software provider, Oracle, to provide the backbone of its FLEX and financial reporting systems. The ability to plan the future development of the information technology platform is affected by Oracle's own program and AFG's relationship with Oracle. AFG is currently reliant on Oracle for further technology changes and is therefore subject to the risk that Oracle will not continue to provide these services at a reasonable cost. AFG also accesses software and services from other providers. Although none of these other providers are as significant to AFG's operations as Oracle, any disruption in the provision of their respective software and services may cause delays and adversely impact the efficiency of AFG's operations.

Key risks – key business risks (continued)

Loan underwriting and credit risk

In relation to AFG Securities, in the event of a default and subsequent foreclosure, AFG would also bear the associated costs of the default and loss of interest revenue in addition to potential principal loss, after allowing for recoveries from sale proceeds from the sale of the underlying security and lenders' mortgage insurance claim payments (for mortgages covered by lenders mortgage insurance). The rate of principal recovery from sale proceeds of underlying security or an LMI claim is uncertain and depends on factors including housing market conditions and house prices, and in the case where lenders mortgage insurance is applicable, the lenders mortgage insurer's ability to fulfil its contractual obligations and assessment of the claim.

In relation to AFG Securities, in the event of a loan loss, AFG would also bear the associated costs of the default and loss of interest revenue in addition to potential principal loss, (after allowing for the sale of the underlying security), where lenders' mortgage insurance does not cover the loss on the loan. Due to the limited recourse nature of the financing arrangements, any costs to AFG are capped. As discussed in the Economy and the impact of the COVID-19 pandemic, including increasing hardship applications risk above, like other lenders, on the back of COVID-19 AFG Securities has experienced a significant increase in hardship applications (where the customer has deferred principal and interest payments) and COVID-19 arrangements (where the customer has deferred principal payments or requested other changes around reducing its interest and principal repayments or drawing on previous early repayments). It is still largely unknown how these loans will perform over the short to medium term, including if the impacted customers will be able to resume making loan payments following these arrangements. This could result in a meaningful increase in arrears and loan losses. In addition, this is likely to result in AFG requiring significant increase in resources to its arrears and collections management processes.

AFG Securities has also experienced significant growth in its loan book in recent years. As AFG's loan book continues to season, and as the composition of the loan book changes to include an increased percentage of near prime and low doc loans, there is potential for future arrears and credit performance to increase relative to AFG's historical performance.

In either situation, the financial performance and operating cash flow of AFG could be adversely affected.

Risk related to estimation of provisions

In accordance with accounting standards, AFG provides for expected losses on loans to its customers. Estimating losses is, by its very nature, uncertain. The accuracy of these estimates depends on many factors, including general economic conditions, forecasts and assumptions, and involves complex modelling and judgments. The uncertainty of expected loss assumptions has increased in the current market environment, refer to the Economy and the impact of the COVID-19 pandemic, including increasing hardship applications risk above. If the assumptions upon which these assessments are made prove to be inaccurate, the provision for credit losses may need to be revised and may adversely impact AFG's financial performance and position.

Future cash receipts from trail commissions may be lower than expected

Trail commission income is initially recognised at fair value and at amortised cost on an ongoing basis, based on the present value of expected future cash flows, using various financial and actuarial assumptions. The assumptions and model for valuing the trail commission receivable are subject to periodic review by actuaries and depend on many factors including general economic conditions, contract provisions with lenders, forecast discount rates, lapse rates and prepayment rates, and involves complex modelling and judgments. The uncertainty of trail commission assumptions has increased in the current market environment, refer to the Economy and the impact of the COVID-19 pandemic, including increasing hardship applications risk above. If the assumptions upon which these assessments are made prove to be inaccurate this may adversely impact AFG's financial performance, financial position (including potential write downs of the trail receivable asset) and future cash flow.

Employee recruitment and retention and key management

Employee retention and succession planning is critical to AFG's delivery of its strategy and competitive success. These individuals typically possess deep industry expertise and have well-established relationships with AFG brokers and the AFG lending panel. Failure to appropriately recruit and retain employees may adversely affect AFG's ability to develop and implement its business strategies, resulting in a material increase in the costs of obtaining experienced and high-performing employees. This may ultimately materially adversely affect AFG's business and operating and financial performance. AFG relies on a management team with significant mortgage broking industry knowledge and experience. If AFG is not able to retain key members of its management team, or if there is any delay in their replacement, AFG may not be able to operate its business to the current standard or implement its business strategies. These occurrences may adversely impact AFG's business and operating and financial performance, including its ability to grow.

Operational risks

AFG is exposed to operational risks present in the current business including risks arising from process error, fraud, system failure, failure of security and physical process systems, customer services, staff skills and performance, and product development and maintenance. Operational risk has the potential to have a material adverse effect on AFG's financial performance and position as well as reputation.

Insurance

AFG seeks to maintain appropriate policies of insurance consistent with those customarily carried by organisations in its industry sector. Any future increase in the cost of such insurance policies, or an inability to fully renew or claim against insurance policies as a result of the current economic environment, regulatory changes, and the impact of the COVID-19 pandemic, could adversely affect AFG's business, and operational and financial performance.

Key risks – offer and general risks

Investment in equity capital and the COVID-19 pandemic

There are general risks associated with investments in equity capital. The trading price of AFG's shares on ASX may fluctuate with movements in equity capital markets in Australia and internationally. This may result in the market price for the New Shares being less or more than the Offer Price. Generally applicable factors which may affect the market price of AFG's ordinary shares include:

- impact of the COVID-19 pandemic, including on public health, the banking industry, brokers and travel restrictions – see also Economy and the impact of the COVID-19 pandemic, including increasing hardship applications risk above;
- general movements in Australian and international stock markets, including market volatility;
- investor sentiment;
- Australian and international economic conditions and outlook (including in relation to the Australian housing market);
- changes in Australian and foreign government regulation and fiscal, monetary and regulatory policies;
- announcement of new technologies;
- operating results of AFG that may vary from expectations of securities analysts and investors;
- geo-political instability, including international hostilities, acts of terrorism, the response to the COVID-19 pandemic and travel restrictions; and
- future issues of AFG equity securities.

The share prices for many companies have in recent months been subject to significant fluctuations and volatility, which may reflect a diverse range of non-company specific influences referred to above, including the general state of the economy, the response to the COVID-19 pandemic, investor uncertainty, geo-political instability, and global hostilities and tensions. In particular, the events relating to the COVID-19 pandemic have recently resulted in significant market falls and volatility both in Australia and overseas, including in the prices of equity securities. There is continued uncertainty as to the further impact of the COVID-19 pandemic on the Australian economy and share markets including in relation to governmental action, work stoppages, university and school stoppages, lockdowns, quarantines and travel restrictions. Any of these events and resulting fluctuations may materially adversely impact the market price of AFG's ordinary shares.

No assurances can be given that the New Shares will trade at or above the Offer Price. None of AFG, its Board, the Lead Manager, or any other person guarantees the market performance of the New Shares.

Key risks – offer and general risks (continued)

Equity raising risk

AFG has entered into an underwriting agreement with the Lead Manager (Underwriting Agreement), pursuant to which the Lead Manager has agreed to fully underwrite the Offer on the terms and conditions of the Underwriting Agreement.

If certain conditions are not satisfied or certain events occur, the Lead Manager may terminate the Underwriting Agreement. Termination of the Underwriting Agreement would have an adverse impact on the total amount of proceeds that could be raised under the Offer. The Lead Manager's obligations under the Underwriting Agreement, including to manage and underwrite the Offer, are conditional on certain matters, including the timely delivery of due diligence process sign-offs and other documents. The events which may trigger termination of the Underwriting Agreement include (but are not limited to) the following:

- the S&P/ASX 200 Index being at a level that is 10% or more below the level of the index as at the close of trading on the day before the date of this presentation:
  - on the institutional opening date, being the date of this presentation; or
  - at market close on the business day immediately prior to the first settlement date, being Thursday, 21 May 2020;
  - at market close on two consecutive business days during the period from the date of this Agreement until the Second Settlement Date (inclusive), being Thursday, 4 June 2020.
  - at market close on the business day immediately prior to the Second Settlement Date, being Wednesday, 3 June 2020
- in the reasonable opinion of the Lead Manager, a statement contained in the Offer materials contain (whether by omission or otherwise) any statement which is false, misleading or deceptive or there is an omission from an Offer document of material required to be included by the Corporations Act or any other applicable law;
- any cleansing notice in connection with the Offer is or becomes defective, or any amendment or update to a cleansing notice is issued or is required to be issued under the Corporations Act and, in each case, that defective cleansing notice or amendment or update is adverse from the point of view of an investor;
- certain actions being taken by ASIC;
- certain delays in the timetable;
- certain insolvency events;
- certain changes in law, hostilities or disruptions in financial markets;
- changes in the directors or senior management of AFG, or if a director is charged with an indictable offense or a regulatory body publicly announces their intention to charge;
- breaches of certain representations or warranties;
- adverse changes in the assets or liabilities, financial position or performance, profits or losses or prospects of AFG or an AFG group company, including any adverse change in the assets or liabilities, financial position or performance, profits or losses or prospects of AFG from those disclosed to ASX in accordance with the Listing Rules prior to the date of this presentation; or
- AFG being prevented from allotting and issuing shares under the Offer or ASX indicating that it will not grant permission for the quotation of the shares to be issued under the Offer.
- AFG also gives certain representations, warranties and undertakings to the Lead Manager and an indemnity to the Lead Manager and its affiliates subject to certain carve-outs.

Risks of dilution

Shareholders who do not participate in the Placement for a pro rata share, and/or do not take up all of their entitlements under the Entitlement Offer, will have their percentage security holding in AFG diluted. Further capital raisings or equity-funded acquisitions by AFG may dilute the holdings of investors. This may have an adverse impact on the price of AFG shares.

Non-renounceable entitlements

Entitlements are non-renounceable and will not be tradeable on ASX or otherwise transferrable. Accordingly, if shareholders do not take up their entitlement, they will not receive any value for these entitlements.

Key risks – offer and general risks (continued)

Changes to legal, accounting and regulatory requirements

An investment in shares may be adversely affected by legal, accounting and regulatory changes or requirements, and actions pursuant to such requirements. Potential changes to existing laws or the introduction of new laws could increase AFG's compliance costs and obligations. If AFG fails to comply with applicable laws or regulations, it may be subject to fines, injunctions, penalties, remediation, total or partial suspension of regulatory approvals or other sanctions that may have an adverse effect on an investment in shares.

Changes in accounting or financial reporting standards (including the interpretation, implementation or enforcement of the standards) may adversely impact the reported financial performance of AFG.

Changes to tax rates or laws

Any change to the existing rate of company income tax may adversely impact shareholder returns, as may a change to the tax payable by shareholders. Any other changes to Australian tax law and practice (including the manner in which a tax law or tax regulation is applied or interpreted by a tax authority or court) that impacts AFG, or the mortgage broking industry generally, could also have an adverse effect on shareholder returns.

Payment of dividends

The payment of dividends (if any) by AFG will be determined by the Board from time to time at its discretion, and will be dependent upon factors including the profitability, cash flow and capital requirements of AFG's business and the economy at the relevant time. No assurance can be given in relation to the level of franking of future dividends. Franking capacity will depend on the amount of Australian tax paid in the future, the existing balance of franking credits and other factors.

Other risks

There may be other risks other than those set out above. Without limiting the generality of the preceding sentence, because of the current uncertain and rapidly changing macroeconomic environment caused by the COVID-19 pandemic and the actions being taken by Australian Federal and State Governments and governments of other countries, it is possible that new risks will emerge and the risks set out above may evolve in unforeseen ways that may have a material adverse impact on the AFG's operating and financial performance and on the value and price of AFG's shares.

International Offer Restrictions

International Offer Restrictions

This document does not constitute an offer of New Shares of the Company in any jurisdiction in which it would be unlawful. In particular, this document may not be distributed to any person, and the New Shares may not be offered or sold in the institutional entitlement offer, in any country outside Australia except to the extent permitted below.

European Union

This document has not been, and will not be, registered with or approved by any securities regulator in the European Union. Accordingly, this document may not be made available, nor may the New Shares be offered for sale, in the European Union except in circumstances that do not require a prospectus under Article 1(4) of Regulation (EU) 2017/1129 of the European Parliament and the Council of the European Union (the "Prospectus Regulation").

In accordance with Article 1(4)(a) of the Prospectus Regulation, an offer of New Shares in the European Union is limited to persons who are "qualified investors" (as defined in Article 2(e) of the Prospectus Regulation).

Hong Kong

WARNING: This document has not been, and will not be, registered as a prospectus under the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong, nor has it been authorised by the Securities and Futures Commission in Hong Kong pursuant to the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong (the "SFO"). No action has been taken in Hong Kong to authorise or register this document or to permit the distribution of this document or any documents issued in connection with it. Accordingly, the New Shares have not been and will not be offered or sold in Hong Kong other than to "professional investors" (as defined in the SFO and any rules made under that ordinance).

No advertisement, invitation or document relating to the New Shares has been or will be issued, or has been or will be in the possession of any person for the purpose of issue, in Hong Kong or elsewhere that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to New Shares that are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors. No person allotted New Shares may sell, or offer to sell, such securities in circumstances that amount to an offer to the public in Hong Kong within six months following the date of issue of such securities.

The contents of this document have not been reviewed by any Hong Kong regulatory authority. You are advised to exercise caution in relation to the offer. If you are in doubt about any contents of this document, you should obtain independent professional advice.

New Zealand

This document has not been registered, filed with or approved by any New Zealand regulatory authority under the Financial Markets Conduct Act 2013 (the "FMC Act").

The New Shares are not being offered to the public within New Zealand other than to existing shareholders of the Company with registered addresses in New Zealand to whom the offer of these securities is being made in reliance on the FMC Act and the Financial Markets Conduct (Incidental Offers) Exemption Notice 2016.

Other than in the entitlement offer, the New Shares may only be offered or sold in New Zealand (or allotted with a view to being offered for sale in New Zealand) to a person who:

- is an investment business within the meaning of clause 37 of Schedule 1 of the FMC Act;
- meets the investment activity criteria specified in clause 38 of Schedule 1 of the FMC Act;
- is large within the meaning of clause 39 of Schedule 1 of the FMC Act;
- is a government agency within the meaning of clause 40 of Schedule 1 of the FMC Act; or
- is an eligible investor within the meaning of clause 41 of Schedule 1 of the FMC Act.

International Offer Restrictions (continued)

Singapore

This document and any other materials relating to the New Shares have not been, and will not be, lodged or registered as a prospectus in Singapore with the Monetary Authority of Singapore. Accordingly, this document and any other document or materials in connection with the offer or sale, or invitation for subscription or purchase, of New Shares, may not be issued, circulated or distributed, nor may the New Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore except pursuant to and in accordance with exemptions in Subdivision (4) Division 1, Part XIII of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), or as otherwise pursuant to, and in accordance with the conditions of any other applicable provisions of the SFA.

This document has been given to you on the basis that you are (i) an existing holder of the Company's shares, (ii) an "institutional investor" (as defined in the SFA) or (iii) an "accredited investor" (as defined in the SFA). In the event that you are not an investor falling within any of the categories set out above, please return this document immediately. You may not forward or circulate this document to any other person in Singapore.

Any offer is not made to you with a view to the New Shares being subsequently offered for sale to any other party. There are on-sale restrictions in Singapore that may be applicable to investors who acquire New Shares. As such, investors are advised to acquaint themselves with the SFA provisions relating to resale restrictions in Singapore and comply accordingly.

Switzerland

The New Shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange or on any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the New Shares constitutes a prospectus or a similar notice, as such terms are understood under art. 35 of the Swiss Financial Services Act or the listing rules of any stock exchange or regulated trading facility in Switzerland.

Neither this document nor any other offering or marketing material relating to the New Shares may be publicly distributed or otherwise made publicly available in Switzerland. The New Shares will only be offered to investors who qualify as "professional clients" (as defined in the Swiss Financial Services Act). This document is personal to the recipient and not for general circulation in Switzerland.

No offering or marketing material relating to the New Shares has been, nor will be, filed with or approved by any Swiss regulatory authority or authorised review body. In particular, this document will not be filed with, and the offer of New Shares will not be supervised by, the Swiss Financial Market Supervisory Authority (FINMA).

United Kingdom

Neither this document nor any other document relating to the offer has been delivered for approval to the Financial Conduct Authority in the United Kingdom and no prospectus (within the meaning of section 85 of the Financial Services and Markets Act 2000, as amended ("FSMA")) has been published or is intended to be published in respect of the New Shares.

The New Shares may not be offered or sold in the United Kingdom by means of this document or any other document, except in circumstances that do not require the publication of a prospectus under section 86(1) of the FSMA. This document is issued on a confidential basis in the United Kingdom to "qualified investors" (within the meaning of Article 2(e) of the Prospectus Regulation (2017/1129/EU), replacing section 86(7) of the FSMA). This document may not be distributed or reproduced, in whole or in part, nor may its contents be disclosed by recipients, to any other person in the United Kingdom.

Any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received in connection with the issue or sale of the New Shares has only been communicated or caused to be communicated and will only be communicated or caused to be communicated in the United Kingdom in circumstances in which section 21(1) of the FSMA does not apply to the Company.

In the United Kingdom, this document is being distributed only to, and is directed at, persons (i) who have professional experience in matters relating to investments falling within Article 19(5) (investment professionals) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 ("FPO"), (ii) who fall within the categories of persons referred to in Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of the FPO or (iii) to whom it may otherwise be lawfully communicated (together "relevant persons"). The investment to which this document relates is available only to relevant persons. Any person who is not a relevant person should not act or rely on this document.